

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: Original
POSITION: Oppose
SPONSOR: Equality California

BILL NUMBER: AB 2735
AUTHOR: K. De Leon
RELATED BILLS: AB 153 - 2007-08, AB 103 - 2008-09

BILL SUMMARY: Property Taxation: Change in Ownership: Exclusion

Existing law generally requires that real property be reappraised for property tax purposes when there is a change in ownership. Exemptions to this requirement include property transfers between spouses, parents and children, grandparents and grandchildren, and registered domestic partners.

This bill would, effective January 1, 2011, expand the exemptions to include a transfer in property interests between two co-tenants, provided title is held as joint tenants or tenants in common, and that the transfer is occasioned by the death of one of the co-tenants, that the co-tenants hold full ownership of the property, and that the property has been their principal residence for at least one year prior to the date of death.

This exemption would sunset January 1, 2021.

FISCAL SUMMARY

According to the Board of Equalization (BOE), each year there are between 100 and 700 transfers of ownership interests between co-tenants that would meet the reappraisal exemption created by this bill. The Department of Finance concurs with the BOE's estimate that these reappraisals generate annual property tax revenues ranging from \$175,000 to \$1.2 million. BOE's administrative costs arising from this bill would be minor and absorbable.

Assuming a mid-point of 400 annual property transfers that would be exempt from reappraisal pursuant to this bill, with a value of \$1,750 each, Finance estimates this bill would result in annual property tax revenue losses for local government of approximately \$700,000 (\$1,750 x 400).

Assuming that 36 percent of property tax revenues accrue to K-14 schools, enactment of this bill would reduce K-14 property tax revenues by \$252,000 per year (\$700,000 x .36). This would result in a proportionate increase in the state's Proposition 98 General Fund obligation in non-Test One years.

COMMENTS

Finance is opposed to this bill for the following reasons:

- The bill would create a situation where property could be indefinitely transferred without being reassessed. For example, a person could receive property pursuant to the bill, assume co-tenancy with another person, and then transfer it to that person, who could repeat the process in turn. Such a situation is not possible with transfers between parents and children, grandparents and grandchildren, spouses, or registered domestic partners, since these relationships are finite in nature. A co-tenancy relationship is not similarly finite.
The bill would increase the state's Proposition 98 General Fund obligation by approximately \$252,000 per year in non-Test One years.
The Governor vetoed similar legislation, AB 153 of 2007-08, asserting that it was unnecessary.

Analyst/Principal Date Program Budget Manager Date
(0762) C. Hill Mark Hill

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)

AUTHOR

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP							
	RV	98	FC	2009-2010	FC	2010-2011	FC	2011-2012	
0001/Major Rev	SO	Yes		-----	See Fiscal Summary	-----			0001