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NEW PROPERTY TAX LEGISLATION SUMMARY January 29, 2008

12-17-7

Pending approval of the Florida Supreme Court, the following property tax amendments will be on the January 29th, 2008 ballot. If the ballot is approved by a 60% margin, these provisions will become law.

- **Doubling the Homestead** - Doubles the homestead exemption, allowing an additional exemption of \$25,000 to apply to the value between \$50,000 and \$75,000. For instance: for a home valued at \$72,000, the first \$25,000 is tax exempt; taxes are due on the second \$25,000. Then, \$22,000 would be tax exempt as that's the amount that's more than \$50,000. If approved by voters in January 2008, the additional \$25,000 exemption would be applied to all levies with the exception of school districts for the 2008 tax roll.

- **Portability** - Allows homeowners to transfer the Save Our Homes benefit to a new homestead (up to \$500,000). If the new homestead is more valuable than the old homestead, a taxpayer can transfer the entire old CAP dollar amount (up to \$500,000 CAP transfer). If a taxpayer downsizes, the percentage of protection will transfer to the new homestead. In other words, if they had 50% protection before, they will have 50% protection in the new downsized home (up to \$500,000 CAP transfer).

Homeowners that sold their homestead during 2007 and apply for homestead for 2008 can transfer their old CAP to the new residence. However, homesteads sold during 2006 or prior years do not qualify for portability.

Starting from 2007, property owners who sell their homestead, have up to two years to transfer the CAP to a new homestead.

The portability provision would be applied to all levies for the 2008 tax roll.

- **Non-Homestead 10% CAP** - If approved by voters in January 2008, non-homesteaded properties will be capped at 10%. This non-homestead CAP would have a base year of 2008 and the CAP would apply in 2009. The 10% CAP on non-homesteads would be applied to all levies with the exception of school districts.

- **TPP \$25,000 Exemption** - Grants a new \$25,000 exemption for tangible personal property. All TPP taxpayers must still file a Tangible Personal Property Return. If approved by taxpayers in January 2008, the \$25,000 TPP exemption would be applied to all levies for the 2008 tax roll.

- **Rollback Rate - Already law** - Requires cities, counties, and independent special districts to adopt the "Rolled Back" millage rate each tax year. In other words, millage rates are set to ensure that tax revenue for the current year must be equal to tax revenue for prior year, excluding new construction and an adjustment for a statewide income growth rate. This is already law and unchanged with this new bill.

The Positive Outcomes of Save Our Homes Portability

In its most recent special session of 2007, the Florida Legislature has proposed changes to the state constitution affecting property tax laws. One of those changes is what has become known as Portability. This refers to homestead property owners' ability to retain the benefits of a reduced assessed value when changing permanent residences. Under current Florida law, a property receiving the Homestead Exemption has its future annual Assessed Value increases limited to no more than 3% or the change in the Consumer Price Index, whichever is less, as long as the Homestead Exemption is retained. Any interruption in the exemption results in a reassessment to the property's current Market Value. The difference between the property's constrained Assessed Value and its Market Value is called a differential, or Cap. The proposed law would permit a homestead property owner to move to another residence, and if granted the Homestead Exemption on that property, reduce its Assessed Value by the Cap from the prior residence. The maximum amount that could be ported is \$500,000. If downsizing to a home of lower market value the ratio of Market Value to Assessed Value can be no more than the ratio from the previous residence. Two brief examples can demonstrate the effects of this proposed law. Example A is the common occurrence of a growing family moving to a more valuable home. Example B is representative of empty nesters moving from the large family home to a smaller retirement residence.

In example "A" an owner has a homestead property with a Market Value of \$400,000 and because of the benefits associated with the exemption its Assessed Value is \$250,000 resulting in a Cap of \$150,000 ($\$400,000 - \$250,000$). The owners upsize to another property with a Market Value of \$575,000 and are granted the Homestead Exemption. The Assessed Value of this property would be reduced to \$425,000 ($\$575,000 - \$150,000$) which is \$175,000 more than their prior homestead.

Example "B" the owners' homestead residence has a current Market Value of \$500,000 and an Assessed Value of \$380,000. Therefore the Cap is \$120,000. However they downsize to a property with a Market Value of \$350,000. The proposed law would not permit porting the entire Cap. Rather the Assessed Value of the new homestead is established by the ratio of Market Value of the new homestead and the Market Value of the prior homestead multiplied by the Assessed Value of the prior homestead ($\$350,000/\$500,000 \times \$380,000$). Therefore, the Assessed Value of the new homestead property will be \$266,000. But, only \$84,000 ($\$350,000 - \$266,000$) is removed from the tax roll rather than the current \$120,000.

Arguments have been made that Portability will suppress the tax base, further shift the tax burden from homestead property owners and have a negative effect on tax revenues. When in fact the results of Portability will likely increase the tax base, more favorably share the burden and should have no effect on taxing district revenues. I have the opportunity to speak with a large number of taxpayers. As a result of those conversations, I am convinced it is not the insistence for lower property taxes that are keeping homestead property owners from moving but rather the fear of significantly higher taxes on the new property. The pace of real estate transactions has significantly slowed over the past couple of years. Portability could help stimulate the market and provide a win-win situation. In Sarasota County approximately 116,000 properties enjoy the Homestead Exemption benefits. The total Taxable Value of these properties is about \$22.7 billion. Given the current market conditions and the fear of increased taxes mentioned earlier, the homestead taxable value will likely grow at little more than the limitations permitted under the current law. However, if Portability were enacted owners might be stimulated to acquire new properties thus increasing Assessed Values. In examples A and B above if the owners remain in their current properties their Assessed Values will grow by no more than 3%. However, if they acquire new homestead properties the Assessed Values of each will reset thus increasing the tax base. These greater values will more equitably distribute the tax burden. Florida's property tax system is "budget drive" not "rate driven." In other words, once the budget is set, the amount of revenue required from property tax is divided by the taxable value of the district and the tax millage rate results, not the other-way-around. In fact, under the new law, the increase in city,

county and special district revenues are limited to the change in personal per capita income, regardless of the amount of taxable value, excluding new construction. This should dispel the notion that a reduction in the tax base will reduce taxes and vice versa.

The economic advantages of Portability far outweigh the disadvantages. Given the choice of lumbering under a stagnant tax base versus providing an opportunity for growth at the owners' option; the answer seems clear.