

February 1, 2006

**FCCMA Draft**  
**RECOMMENDATION FOR REFORM OF THE PROPERTY TAX**  
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This document is intended to summarize the recommendations regarding property tax reform presented at the FCCMA meeting in November. Attached is a spreadsheet using estimates from the Department of Revenue that outlines the fiscal effects of each component of the recommendation. The recommendations are presented in light of the intense legislative focus on amending the Florida Constitution to reform the property tax. Several bills have been filed proposing various types of reform, including extending the Save Our Homes cap to all types of property and allowing Save Our Homes savings to be ported to new homes purchased by home owners upsizing or downsizing. A copy of a chart prepared by the staff of the Florida Association of Counties comparing the legislative proposals is attached for your information.

**Recommendations**

It is recommended that the best mechanism for reforming the property tax is a combination of the following:

1. **Tax the First \$10,000 of Homesteads.** The recommendation proposes imposing the ad valorem tax on the first \$10,000 of just value. The \$25,000 homestead exemption would apply to exempt from taxation the just value of homestead of \$10,000 to \$35,000.
2. **Double the Homestead Exemption.** Phase-in an additional \$25,000 homestead exemption over five years. This provision would protect from taxation the first \$50,000 of just value after taxing the first \$10,000.
3. **No change in Save Our Homes ("SOH") valuation cap for homes \$250,000 and less.** Eighty-one percent of homesteads are valued at less than \$250,000. The effect of SOH protection to homes valued less than \$250,000 would not be changed.

4. **Limit SOH Impact on High Valued Houses.** The proposal provides that the taxable value of homes valued over \$250,000 will increase by the same dollar amount as just value. What this means is that the SOH differential will stay constant despite the increase in just value.
5. **Portability for Downsizing.** The proposal allows portability for homesteaders purchasing homes of a lesser just value. If a new homestead is purchased that is cheaper than the previous one, twenty percent of the percentage difference in the SOH differential is applied to the new homestead.
6. **Portability for Upsizing.** If a new homestead is purchased that is more expensive than the previous one, twenty percent of the difference of the previous home's just and the assessed value in terms of dollar amounts is applied to reduce the assessed value of the new home.
  - The Legislature may impose additional age or income limitations.

#### ***Summary of Fiscal Impact of the Recommendations***

Attached is a spreadsheet that details the fiscal effects of each component of the recommendation. As reflected on the summary page of the spreadsheet, the fiscal impact of the recommendation over the five year period of 2007 to 2012 is virtually revenue neutral. The sum of the aggregate change in taxable value over the five year period is about \$50 billion, or less than one-half of one percent of the sum of the ad valorem tax base of \$10 trillion over the same period.

The estimates in the attached spreadsheet are from the Florida Department of Revenue. The DOR estimates rely on certain assumptions-such as the rate of sales of homestead property-that have not yet been adopted by the Revenue Estimating Conference. The REC is a statutory body created by the Legislature to provide a variety of consensus estimates for the Governor and Legislature to use in determining fiscal impact of legislative proposals. The REC is in the process of analyzing the fiscal impacts of the various proposals that have been filed in the Legislature for consideration during the 2006 Session. The REC will adopt assumptions that will be uniformly applied to all proposals. If the FCCMA decides to go forward with the recommendation, the estimates should be updated to reflect the REC assumptions which are anticipated to be adopted later this week.

### ***Discussion of Recommendation***

The following is a brief discussion of each element of the recommendation.

**Tax the first \$10,000 of just value.** Every homeowner should contribute to ad valorem revenues, as every homeowner receives public services from their local governments. At the average millage rate, taxing the first \$10,000 in value cost \$200 to the homeowner not currently paying property taxes.

**Phase-in an additional \$25,000 homestead exemption over five years.** In 2004, the Florida Supreme Court declared unconstitutional a proposed amendment to double the existing homestead exemption. The sponsor of this citizen initiative, Jeffrey Saulls, did not gather enough signatures to put the same amendment on the 2006 ballot. However, allowing an additional \$25,000 exemption and phasing it in over five years, makes the fiscal impact easier for local governments.<sup>1</sup> This element may have a disproportionate fiscal impact on small rural counties, necessitating alternative support for these counties, although the recommendation taxing the first \$10,000 of value may ameliorate the impact on rural counties.

**Reform SOH.** Future SOH protection to homes is limited to those valued less than \$250,000. The taxable value of homes valued over \$250,000 is increased by the same amount as the increase in just value. This element will limit the SOH differential growth in the future and, over time, will offset the tax base losses due to the doubling of the homestead exemption.

**Make SOH portable.** The Department of Revenue data show that in 2004 seventy percent of people, who previously owned a homesteaded house in Florida, were purchasing a more expensive home, while the remainder settled for cheaper homes. However, both the Florida Realtors Association and the Florida Home Builders Association have argued that the current law which requires assessments of a new home at just value (minus exemptions) has had a very significant dampening effect on moving up or down from people's current homes. For instance, families whose children have moved out may want to downsize, but may feel they cannot afford the property taxes that may be higher, even though the home is smaller and

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<sup>1</sup>After year four, this could be replaced by taxing 50 percent of the first \$100,000 – which somewhat reduces the impact on local government.

cheaper. This portion of the proposal would allow for a limited portability of the previous home's SOH differential. The impact could be further reduced by allowing portability only once during the homeowner's lifetime.

The recommendation proposes different portability provisions for the purchase of more valuable homes and for the purchase of less valuable homes.