

Taxation and Government Finance

C.A.R. Meeting – Winter 2024

Podcast:

C.A.R.'s Senior Vice President of Government Affairs, Sanjay Wagle, is joined by Jim DeBoo, founder of DeBoo Strategic Affairs and manager of the Proposition 1 campaign, to discuss Proposition 1 and how it seeks to address the issues of homelessness and the unhoused, which are top priorities for Californians.

[Podcast: Proposition 1 - Issues of Homelessness](#)

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PROPERTY TAX

- **SB 726 (Archuleta) Property Tax Exemption: Disabled Veterans** - Existing law allows a homeowner to submit a claim with an assessor if they qualify for a disabled veterans' exemption to receive tax relief on their principal place of residence. For a ten year period beginning January 1, 2024, SB 726 creates a new disabled veterans' exemption in lieu of the existing exemption by proposing to increase the amount of the existing exemption to \$863,790. C.A.R. supports SB 726, which allows an exemption from taxation on that part of the full value of the principal place of residence that does not exceed \$863,790 for a veteran who is 100% disabled or their spouse.

Position: Support

Status: Assembly Revenue and Taxation Committee (Two-Year Bill)

- **SCA 6 (Archuleta) Property Tax Exemptions** - This bill allows a property owner to receive the homeowners' exemption in addition to the veterans' exemption or the disabled veterans' exemption.

C.A.R. supports SCA 6, which seeks to make homeownership more affordable.

Position: Support

Status: Senate Appropriations Committee Suspense File (Two-Year Bill)

- **Board of Equalization: Veterans' and Homeowners' Exemption Work Group** – The Board will be convening a working group comprised of state and local agencies, state legislators, veterans and disabled veterans' organizations, taxpayer organizations, and other stakeholders. The focus of this

group is to assess how to best maximize exemptions for veterans who own homes and how to allow them to couple exemptions, such as the veterans' exemption and homeowners' exemption, so that they qualify for both and don't face the situation where they must pick one over the other. It is likely that a constitutional amendment may be proposed in order to move these proposals forward. The recommendations from this working group will be presented on February 21, 2024 at the next Board of Equalization meeting.

Position: Support

Status: Next Board meeting is scheduled for February 21, 2024

- **AB 1865 (Patterson) Homeownership Savings Account** – Beginning January 1, 2024, this bill seeks to permit prospective homebuyers to create a Homeownership Savings Account. This account

excludes from a person's gross income any income earned on the monies contributed to a homeownership savings account up to \$20,000 for those filing a joint, head of household, or

surviving spouse return and \$10,000 for all other taxpayers. C.A.R. supports this measure as it provides a cost-effective way to help reduce financial barriers to new homebuyers while facilitating the ability of more of the state's middle-class families to enjoy the security of home ownership.

Position: Support

Status: Assembly Desk

GOVERNMENT FINANCE

- **AB 362 (Lee) Land Value Taxation Study** - This measure sought to study an alternative method of property taxation that would upend the protections afforded to homeowners under Proposition 13. Under existing law, homeowners greatly benefit from Proposition 13 as it sets limits on ad valorem taxes on real property to 1% of the full cash value of that property. AB 362 sought to direct the Department of Tax and Fee Administration to conduct or commission a study on a new property taxation system known as a land value tax. This new tax system would assess taxes based on the value of land without regard to buildings, property, or other improvements, effectively seeking to eliminate Proposition 13 protections. C.A.R. opposed this measure.

Position: Oppose

Status: Died in the Assembly Revenue and Taxation Committee

- **AB 582 (Connolly) Tax Credits: Fire-Resistant Home Improvements** - This bill would have allowed taxpayers, who are at least 65 years old, make \$125,000 or less, and whose primary residence is located in a high or very high fire hazard severity zone, to take a tax credit in an amount equal to 40% of expenses associated with home hardening, the creation of defensible space, and other fuel reduction activities. C.A.R. supported AB 582 as it makes home hardening more affordable for senior homeowners.

Position: Support

Status: Died in the Assembly Appropriations Committee

- **SB 952 (Dahle) Personal income taxes: Fire Safe Home Tax Credits Act** - Beginning January 1, 2025 through January 1, 2030 a taxpayer is eligible to receive a credit for home hardening improvements per calendar year of up to \$2,500 if for a qualified property that is located in a moderate fire hazard severity zone, \$5,000 for a qualified property that is located in a high fire hazard severity zone, and \$10,000 for a qualified property that is located in a very high fire hazard severity zone. The qualified property must be a home located in the designated wildfire prone areas and where the taxpayer receives a homeowners' exemption. The credit will only be eligible for one taxpayer regardless of filing status. A total of \$500,000,000 will be reserved for these tax credits.

Position: Support

Status: Senate Desk

- **AB 1476 (Alvarez) Community Redevelopment Law of 2023** - This bill would have authorized a city or county, or two or more cities acting jointly, to propose the formation of a community and affordable housing reinvestment agency (i.e., a redevelopment agency). AB 1476 is seemingly

identical to AB 11 (Chiu, 2019). C.A.R. would have supported AB 1476 if it had been amended to require a 20% set aside for down-payment assistance programs and to remove the deed-restricted language that allows the units to be deed restricted in perpetuity.

Position: Support if Amended

Status: Died in the Assembly Appropriations Committee

- **SB 834 (Portantino) Homeownership Housing Bond** - This bill would enact the California Family Home Construction and Homeownership Bond Act of 2023 to be placed on the next statewide general election ballot. If approved by voters, it would authorize the issuance of \$25 billion in state general obligation bonds to finance the California Family Home Construction and Homeownership Program. The bill would authorize the California Housing Finance Agency to award \$18 billion to eligible applicants to use as a down payment or to pay closing costs on the purchase of a new home (i.e., never owner occupied, 5 years old or newer) and \$7 billion for predevelopment infrastructure improvements and other upfront costs typically incurred in connection with new home construction.

C.A.R. will support SB 834 if it is amended to: 1) require adaptive reuse projects reserve 50% of each project funded for homeownership housing; 2) require a minimum two-thirds vote of the Legislature to change the provisions established by the measure; and 3) require buyers complete homebuyer education counseling and obtain a certificate of completion through an eligible homebuyer counseling organization.

Position: Support if Amended

Status: Assembly Housing and Community Development Committee – (Two-Year Bill)

COMMERCIAL INVESTMENT

- **AB 1000 (Reyes) Warehouse & Logistic Center Ban** - This bill sought to prohibit a local agency from approving the development or expansion of a qualifying logistics use project (e.g., a warehouse) of 100,000 square feet or more within 1,000 feet of residences, schools, and other “sensitive receptors.” However, a local agency may approve a qualifying logistics use project that is greater than 750 feet from, and within 1,000 feet of, a “sensitive receptor” if the local agency conducts an air pollution analysis and imposes specified measures to reduce air pollution. By conditioning local agency approval of these projects on their proximity to “sensitive receptors,” the bill diminishes a local jurisdiction’s ability to locate housing near job sites, which could stymie many mixed-use development projects from moving forward. This is the third version of the bill in three years, and it is once again being met with opposition from the California Chamber of Commerce, the California Business Roundtable, the California Business Properties Association, and the California Building Industry Association, as well as various other business groups and the County of San Bernadino. Not only will this bill likely negatively impact middle-class jobs, but it could also further reduce the amount of sites available for housing development. This bill was pulled by the author and a working group has been created by Speaker Rivas in coordination with Assembly Member Juan Carrillo, Chair of the

Assembly Local Government Committee, to bring stakeholders together to discuss balanced solutions to this proposal.

Position: Watch

Status: Died in the Assembly Local Government Committee

FEDERAL TAXATION ISSUES

- **H.R. 7024 (Smith) The Tax Relief for American Families and Workers Act** - This measure is a bipartisan bill, which is comprised of \$80 billion that will extend the expiring business tax provisions of the research and development tax credit, bonus depreciation, and business interest expense, and expand the child-tax-credit. Additional provisions of the bill include an extension of the Low-Income Housing Tax Credit. Further, the measure provides tax relief for victims of qualifying wildfires after 2014. H.R. passed out of the Ways and Means Committee with a vote of 43-0 and is headed to the House floor for a full floor vote.

Position: Watch

Status: U.S. House Floor

- **H.R. 1321 (Panetta) More Homes on the Market Act** - On March 1, 2023, Congressman Jimmy Panetta (D-CA) introduced H.R. 1321, the More Homes on the Market Act. C.A.R. and NAR support

H.R. 1321, which would double the current capital gains exclusion on the primary residence of a home, increasing it from \$250,000 to \$500,000 for single tax filers and \$500,000 to \$1,000,000 for joint filers. Additionally, the bill would index these limits for inflation on a go-forward basis.

Position: Support

Status: U.S. House Ways and Means Committee

- **H.R. 7160 State and Local Tax Deduction Cap** - Since the beginning of the current 118th Session of Congress, over a dozen bills have been introduced to address the current \$10,000 limit on state and local tax deductions (SALT) on federal tax returns. A bipartisan SALT Caucus has been created by members of Congress who have made this a priority issue and both Democrats and Republicans have stated they will not vote for a large tax package without a provision that increases the current SALT cap.

Position: Support

Status: Pending

- **H.R. 419 (Gomez) Revitalizing Downtowns Act** - This bill would create a tax credit for owners of office buildings to incentivize and/or offset the cost of converting their buildings to residential or commercial space. While corporate America is slowly returning to the office in the aftermath COVID-19, office space usage is still only at 50 to 60 percent of the usage seen before COVID-19 in many major cities throughout the country. NAR is working with the author to improve the bill and expand it for commercial and industrial conversion as well.

Position: Support

Status: U.S. House Ways and Means Committee

RECENTLY ADOPTED NAR TAXATION MOTIONS

1. That NAR support policies that provide a temporary tax credit to long-tenured owners of single- family homes to encourage them to sell them to an owner-occupant.

Rationale: The national shortage of housing is a top problem in most real estate markets in America today. This shortage has many causes, but one is that long-tenured homeowners are no longer selling their homes at the volume they did in the past. Recent data show that the lifecycle flow of housing needs has been disrupted for older homeowners as to downsizing or moving into retirement facilities. The median age of homeowners has increased markedly as has the proportion of owners who have lived in the same home for more than two decades. As older owners stay in their homes longer, these residences do not turn over to a younger generation of prospective homeowners, thus limiting an important and traditional source of supply. One study shows a temporary credit could bring as many as 640,000 homes to the market.

2. That NAR reaffirm its support for repealing the federal estate and gift tax regime and retaining the step-up in basis to fair market value for all inherited assets, with the following clarifications:

○ **If repeal of the estate and gift tax regime is not possible, NAR supports an estate and gift tax regime that:**

- **provides for the step-up in basis for all inherited assets.**
- **taxes all assets in an estate at the same rate, which rate is as low as possible but no higher than the tax rate for long-term capital gains.**
- **provides an estate tax exemption no lower than that provided in the Tax Cuts and Jobs Act of 2017 (for 2023, \$12.92 million for individuals and \$25.84 million for married couples) and is indexed for inflation.**
- **does not include a tax on unrealized gains upon a decedent's death.**

Rationale: The Federal estate and gift tax regime has varied wildly over the past decades. As recently as 1997, the estate tax exemption was just \$600,000 per person and the top estate tax rate was 55 percent. The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 increased the exemption to \$3.5 million, reduced the rate to 45%, and put the estate tax on a path to repeal, which occurred, but only for the year 2010. From 2011 through 2017, the exemption was set at \$5 million per person and indexed for future inflation and the rate was set at 40%. The Tax Cuts and Jobs Act of 2017 temporarily doubled the exemption to an inflation-adjusted amount of almost \$11.2 million and subsequent adjustments have brought it to nearly \$13 million in 2023. However, current law provides for the exemption to revert to the \$5 million level (plus inflation adjustments) in 2026. Recently, the White House and some in Congress considered tax increases on higher-income and wealthier Americans, which included proposals to increase the estate tax, end the step-up in basis of inherited assets and/or tax unrealized capital gains at death. The estate tax negatively impacts real estate ownership, as would the loss of the step-up in basis of inherited real property. If the estate tax cannot be repealed, it should have as small an impact as possible. Further, the step-up in basis should not be changed nor should capital or other unrealized gains be taxed at death. NAR's Board of Directors approved nine separate policy motions on the topic of estate and gift taxes from 1925 through 2021. Two of these policy motions were deemed to represent current policy by the Federal Taxation Committee (with the remaining ones deemed antiquated or superseded). However, the details of these two motions are confusing, overlapping, and include antiquated and unneeded references. This motion attempts to simplify and clarify the capital gains policy into one statement that is easier to understand.

3. That NAR clarify its support for a federal capital gains tax regime which recognizes that a significant portion of capital gains are due to inflationary increases in assets values, and thus should not be taxed and that encourages the formation and turnover of capital. Further, NAR supports:

- **A differential between the tax rate on ordinary income and the tax rate on long-term capital gains, the rate of which should be substantially lower than the rate on ordinary income.**
- **The recapture of depreciation upon the sale of real property at ordinary income rates, but only to the extent that depreciation claimed on the sold property exceeded straight-line depreciation.**
- **A rate of tax on the amount of "unrecaptured section 1250 gain," (which is the portion of the gain on the sale of real property that represents the amount of straight-line depreciation taken over the life of the asset) that does not exceed the current rate of 25 percent.**
- **Indexing the tax bases of capital assets to reduce the unfair taxation of inflationary gains and to better reflect true economic increases in the value of the assets.**

Rationale: NAR's Board of Directors approved more than two dozen separate policy motions on the topic of capital gains taxation and recapture of depreciation from 1920 through 1996. Nine of these policy motions were deemed to represent current policy by the Federal Taxation Committee (with the remaining ones deemed antiquated or superseded). However, the details of these nine motions are confusing and overlapping. This motion attempts to simplify and clarify the capital gains policy into one statement that is easier to understand.

4. That NAR reaffirm its support for removing a principal deterrent to the acquisition of property for voluntary demolition of obsolete structures by permitting the costs of demolition to be added to the basis of any new building constructed upon such land.

Rationale: NAR's Board of Directors approved a motion in 1961 that provided that NAR urges "Congress to remove a principal deterrent to the acquisition of property for voluntary demolition of obsolete structures by permitting the costs of demolition to be added to the basis of the improvements placed upon such land. The Federal Taxation Committee deemed this policy to be current but somewhat confusing. The change of the wording of the portion of the motion in italics above to "of any new building constructed" should clarify any confusion from the original motion.

INFORMATION ONLY

Circulating Initiative (23-0005): Repeals Voter-enacted Changes to Property Tax Rules For Transfers Between Family Members. Initiative Constitutional Amendment - This proposed initiative, among other provisions, seeks to reinstitute the intergenerational provisions that were changed by Proposition 19. Proposition 19 was sponsored by the California Association of REALTORS® and the California Professional Firefighters. It was supported by a bipartisan coalition of organizations and legislators and was approved by the voters in 2020.

The proposed initiative is currently in the signature-gathering phase. The number of signatures required in order to be placed on the upcoming 2024 General Election ballot in November is technically 874,641, but due to the inevitable false, incomplete, damaged, or duplicate signatures, successful signature-gathering efforts for initiatives must actually collect well over 1 million signatures in order to ensure they qualify. The 1 million-plus signatures needed for this initiative have not been submitted and are due on February 20, 2024.

This is the second attempt to obtain signatures for a measure like this. A similar signature-gathering effort on a similar measure was attempted in 2022 but was unsuccessful. Staff will provide an update to this Committee on the qualification status of this initiative once available.