

Palisadian-Post

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THURSDAY, NOVEMBER 8, 2018 ♦ PACIFIC PALISADES, CALIFORNIA

\$1.50

Proposition 5: What It Means and How It May Affect You

By JAMES THRASHER
Special to the Palisadian-Post

In the run-up to Tuesday's election, you have likely been bombarded with advertisements advocating for or against one of several ballot measures on which the voters will decide come Election Day. One lesser-known but rather important 2018 proposition is Proposition 5, the Property Tax Transfer Initiative.

Understanding Proposition 5 first requires an understanding of Proposition 13, a 1978 law that placed limits on how much homeowners could be charged in real estate taxes. Prop 5 is designed to supplement Prop 13 in three ways.

First, eligible homeowners (anyone over the age of 55, the severely disabled or residents in areas affected by natural disasters) would be allowed to continue paying property taxes based on the assessed value of their current home when they sell and purchase a new home. Previously, the tax basis transfer was only allowable on a purchase of equal or lesser value.

Under prop 5, if the new home is worth more than the previous home, the tax on the new home would remain at the same rate up to the amount the old home sold for and at market rate for the difference. If an eligible homeowner sold their home for \$1 million and purchased a new home for \$1.3 million, their tax basis would remain the same for the first \$1 million and would adjust to current market-rate on the

remaining \$300,000.

The second and third aspects of Proposition 5 deal with location and frequency. Current law states that in order to benefit, not only does the homeowner have to buy a property of equal or lesser value, but it also has to be within the same county.

Prop 5 does away with this restriction and would allow eligible homeowners to transfer their current tax basis to a new home anywhere in the state of California. Prop 5 would also allow homeowners to make this transfer multiple times, as opposed to just once under current law.

Proposition 5 was drafted and introduced by the California Association of Realtors, and has support from the California Chamber of Commerce and the Howard Jarvis Taxpayers Association.

Arguments in favor include mainly the point that many older homeowners are trapped in their homes, unable to move to a new home because they would be subject to a burdensome increase in property tax, sometimes referred to as a "moving penalty." Proponents theorize that if passed, it will free up more housing inventory and potentially stabilize a market plagued by low inventory levels.

Opponents of Prop 5 include the California Democratic Party, the California Teachers Association and the Southern California Association of Nonprofit Housing.

Arguments against Prop 5 state that if passed, schools and local governments

will lose a significant amount of tax revenue. Opponents also argue that given the fact that since the law only benefits homeowners, Prop 5 would exclusively benefit the wealthy while depriving less-affluent communities of much-needed tax revenue.

Each side has valid arguments. It does appear unfair to older homeowners who may be living on fixed incomes to force them to pay significantly more in property taxes just to move closer to family or medical care.

It also appears the measure would deprive cities and schools of much needed tax revenue, however one fact not regularly pointed out in defense of Prop 5 is that while the older homeowners would continue to pay lower tax rates, it would incentivize them to sell their homes to new buyers who would then be paying full market rate in taxes on homes that have not been fully reassessed since the '60s and '70s, thus increasing revenue generated on that home.

James Thrasher is a sales partner with Amalfi Estates, Pacific Palisades' No. 1 real estate brokerage. His core business strategy is serving the needs and interests of his clients, and achieving fantastic results for everyone he works for. For more information on helpful household tips, or if you are thinking of buying a home or selling your own, contact James Thrasher at 818-624-8661 or stop by Amalfi Estates at 984 Monument Street.