

The latest version of property tax reform: How it works

TALLAHASSEE, Fla. – Nov. 1, 2007 – The Florida Legislature, caught in a game of “chicken,” approved a measure that will appear before voters on the Jan. 29, 2008, ballot. With time working against them, lawmakers agreed on a measure that scaled back earlier initiatives, and even current reforms pushed by the House.

What the current amendment includes:

Homestead exemption

The homestead exemption increases. The current \$25,000 homestead exemption remains; but a second \$25,000 exemption is added for home values between \$50,000 and \$75,000. The second \$25,000 exemption does not apply to school taxes, however, which translates into a lower-than-expected savings of about \$240 per homesteaded owner. The portion of a home valued between \$25,000 and \$50,000 will still be taxed at all levels. FAR fought to include this taxable portion in order to maintain fairness for smaller cities and counties with lower median home values.

Portability – Moving up

Property tax savings portability (money saved over time on property taxes because of yearly increase limits through Florida’s Save Our Homes amendment) applies to homesteaders (homeowners with a homestead exemption) moving anywhere within Florida. Up to \$500,000 of accumulated savings, applied to taxable value, may be transferred when one home is sold and another is purchased, with the transfer applying to all taxes, including the school portion. Homeowners have two years after they sell a home to buy a new one and transfer the savings.

If buying a more expensive home, a homesteader calculates savings by subtracting the assessed value (taxable value) from the just value (market value). The amount (savings over time) is then subtracted from the just value on the new home purchased. In most cases, the \$50,000 homestead exemption will also be subtracted.

Example: Susie currently owns a home and has lived there for a long time. The house’s just value is \$500,000, but because of Save Our Homes, the assessed value is only \$200,000. Susie buys a new house for \$700,000. The following year, she’ll pay taxes on only \$400,000, however, because she’s “porting” \$300,000 in value to her new home. After factoring in the new homestead exemption of \$50,000, her total assessed value would be \$350,000.

If buying a less-expensive home, the calculation changes and is based on the percentage of tax savings rather than a dollar amount. If the assessed value on the original home was 50 percent of the just value, for example, the homesteader would transfer that percentage to the new home, or have a new assessed value that is 50 percent of the new home’s just value. The percentage system was created to keep homesteaders from effectively eliminating their property taxes altogether by moving from a high-cost area of Florida to a low-cost area – a change that could severely hurt smaller rural economies.

Example: Susie currently owns a home and has lived there for a long time. The house’s just value is \$500,000, but because of Save Our Homes, the assessed value is only \$200,000. Susie buys a new town home for \$300,000. She’ll pay taxes only on \$120,000 because when buying down in value, she’ll keep the same ratio (40 percent) of assessed value to just value that she enjoyed in her old home. After factoring in the new homestead exemption of \$50,000, her total assessed value would be \$70,000.

Also, portability is retroactive to Jan. 1, 2007 – so everyone who bought this year and moved from an established homestead will be able to “port” their savings for next year. Since yearly tax values are based on ownership as of Jan. 1 each year, portability would not affect this year’s tax bills, which most homeowners have already received; but the savings will be applicable to next year’s tax bill.

Non-homesteaded property tax cap

A win for FAR and an important piece of the amendment is a 10 percent annual assessment cap on non-homestead property. Similar to Save Our Homes, this cap limits the assessed increases of commercial, rental and second home property taxes to a maximum amount of 10 percent per year starting in 2009, protecting against high spikes in taxes from year-to-year.

While property values will not rise 10 percent every year, FAR believes the cap offers some relief and protection to properties in high-value markets and waterfronts from unpredictable tax increases. The Constitution mandates a tax reassessment to just value upon transfer for non-homestead residential properties of nine units or less, but allows the Florida Legislature to determine how reassessment will occur for commercial and higher-unit residential properties. However, implementing legislation passed during the Special Session provides for reassessment of these properties upon a change in ownership or use.

Tangible personal property exemption

Under the amendment, the Tangible Personal Property (TPP) exemption for businesses is \$25,000. The Legislature estimates that this tax – paid to local governments on items such as shelving, desks, computers, and other office equipment – will exempt about 1 million of Florida’s 1.2 million businesses that currently pay it.

The amendment also drops the requirement to file for the TPP tax.

Work not done

While the proposed amendment will save property owners as much as \$12 billion (depending on the portability amount used), FAR will work for greater relief measures. The association also has serious concerns about a challenge to the constitutionality of portability.

Earlier versions of property tax reform included provisions to help first-time homebuyers, a move missing in the current version. With that protection gone, FAR considers it possible that it will be challenged under the U.S. Constitution along with the entire Save Our Homes property tax system. If that happens, it could bring everyone back to the table yet again.

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