

Assessor

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Decline in Market Value (Prop 8) Background and Overview

Proposition 8, passed in November 1978, amended Proposition 13 to recognize declines in value for property tax purposes. As a result, Revenue & Taxation Code Section 51 requires the Assessor to annually enroll either a property's Proposition 13 base year value factored for inflation, or its market value as of January 1st, whichever is less.

Properties suffering a decline in market value may be discovered by an owner notifying the Assessor. Also, the Assessor may initiate the Prop 8 process without a request from an owner if the problem is discovered independently. The Assessor's Office constantly monitors real estate market conditions and, when practical, lowers assessed values on a mass basis.

Decline in market value, Prop 8 assessments, are **TEMPORARY** reductions that recognize the fact that the market value as of the January 1st lien date of a property has fallen below its current Prop 13 factored value. Once a Prop 8 reduced value has been enrolled, that property's value must be reviewed each year as of the January 1st lien date, to determine whether its market value is less than its Prop 13 factored value.

It is important to note that although the market values of all properties may suffer a significant decline during a recession, not all will qualify for a Prop 8 reduction. The current market value must fall below the Prop 13 factored base year value (assessed value) before the Assessor can recognize the decline.

Prop 8 values can change from year to year as the market fluctuates. When a property is in Prop 8 status, its assessed value may decrease or increase more than 2% per year. The Prop 13 base year values suspended by Prop 8 values continue to increase by an annual inflation factor of no more than 2% per year.

When the market value of the Prop 8 property increases above its Prop 13 factored value, the Assessor will once again enroll its Prop 13 factored value. In no case may a value higher than a property's Prop 13 factored value be enrolled.

Chart: How Property Values Are Assessed

The Prop 8 Process is as follows:

Property owner provides Assessor with facts they feel justify a reduction in value and requests a review of the property's value. (The Assessor may initiate the review if the problem is discovered independently*.)

Appraisal staff reviews market data, estimates the property's market value as of January 1st and then compares this market value to the property's current Prop 13 factored base year value.

If the January 1 market value is below factored Prop 13 value, then:

- Assessed value is lowered to market value for next fiscal year.
- Owner is notified of reduced value.
- New tax bill is based on lower value for next fiscal year.
- The following year, Assessor repeats process and enrolls the January 1 market value at that time or Prop 13 factored value, whichever is lower.

If the January 1 market value is higher than factored Prop 13 value, then:

- No change in assessed value is made, and
- Owner is notified that value will not be reduced.
- If owner still feels value should be reduced, then owner may file an assessment appeal with the Assessment Appeals Board, from July 2nd - Nov 30th each year.
- Appeals Board hears evidence from owner and Assessor, the Board then determines proper assessed value.

*The Assessor may also initiate the Prop 8 process without a request from an owner.

The office constantly monitors market conditions and, when practical, lowers assessed values on a mass basis. Owners are notified and may file an assessment appeal if they feel the value was not lowered sufficiently. Visit the Assessment Appeals Board web site to find out more about the Assessment Appeals process and deadlines.

Although the market values of all properties may suffer a significant decline during a recession, not all will qualify for a Prop 8 reduction. The current market value must fall below the Prop 13 factored base year value (assessed value) before the Assessor can recognize the decline. Following are examples of how the Assessor processes declines in value.

Examples of Assessments Involving Properties Declining in Value:

Example 1

Home purchased January 2005, for \$400,000 and assessed with \$400,000 base year value.

On January 1, 2006, factored base year (assessed) value is \$408,000 (\$400,000 +2% inflation) but market value has declined to \$300,000.

Action: Assessor reduces assessed value to \$300,000 for 2006-2007 assessment roll.

On January 1, 2007, the home's value continues to decline and is now \$280,000, while its factored base year value has risen to \$416,160 (\$400,000 +2% inflation compounded for 2 years).

Action: Assessor reduces assessed value to \$280,000 for 2007-2008 assessment roll.

On January 1, 2008, the home's market value increases to \$350,000 while its factored base year value rises to \$424,483 (\$400,000 +2% inflation compounded for 3 years).

Action: Assessor raises assessed value to \$350,000 in 2008-2009 assessment roll.

On January 1, 2009, the home's market value increases to \$450,000 while its factored base year value rises to \$432,972 (\$400,000 + 2% inflation compounded for 4 years).

Action: Assessor reinstates factored base year value of \$432,972 for the 2009-10 assessment roll.

Example 2

Home is purchased in 1986 for \$130,000

On January 1, 2005, the current market value of the home has risen to \$300,000 well above its Prop 13 factored base year value of \$185,713 (\$130,000 + 2% inflation compounded for 19 years).

For January 1, 2006, the market value falls to \$200,000. This is still above the Prop 13 factored base year value of \$189,427 (\$130,000 + 2% inflation compounded for 20 years).

No Prop 8 reduction is granted for the 2006-2007 assessment year, even though the property has lost \$100,000 in value over the last year. The factored base year value (\$189,427) is still less than the market value (\$200,000).

It is important to understand that Prop 8 reductions are not permanent and may decrease or increase more than 2% from year to year. Also, Prop 13 base year values suspended by Prop 8 values continue to increase by an annual inflation factor of no more than 2% per year.

If you have other questions about the Decline in Value Prop 8 process, you may direct them to the Assessor's Real Property Duty Appraiser at (916) 875-0700, between 8 A.M. and 4 P.M., Monday through Friday. You may also visit the Duty Appraiser in person at 3701 Power Inn Rd, Suite 3000, Sacramento, CA 95826-4329, between 8 A.M. and 5 P.M., Monday through Friday.

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