

From the Assessor's Office

Proposition 19
Family Inheritance Tax Benefits Reduced
By Jeff Prang
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Proposition 19 was approved by the voters last November by a slim margin and it is creating tremendous uncertainty and confusion among taxpayers and assessors statewide.

Proposition 19 is a Constitutional amendment to Proposition 13 that allows seniors and the disabled to sell their home and buy a new one without experiencing an increase in property taxes. However, it is also a regressive policy that disproportionately impacts the ability of working-class and middle-income families to leave their homes to their children (and in some cases grandchildren) without them having to pay an increase in property taxes.

Since November 2020, my office has received scores of inquiries about this challenging new law and it's important to understand the issues.

To not put too fine a point on it, Proposition 19 may actually result in some working-class median-income families of modest means having to selling their homes, family farms as well as other property to avoid a new property tax burden because the property now faces reassessment.

To make matters worse, some of the most challenging provisions are already in effect as of February 16 before many property owners really understood its impacts. Many scrambled to address estate planning and family inheritance concerns before the February 16th deadline.

Let's review: Under the pre-Proposition 19 law, parents (Proposition 58) and grandparents (Proposition 193) were able to transfer residential and commercial properties to their children and grandchildren without a tax hike because the homes would not be reassessed, allowing the original tax base to be carried over.

Between 60,000 to 80,000 property owners statewide had been embracing this tax savings annually, avoiding as much as \$10 billion in assessed property value from reassessment, according to data from the Legislative Analyst's Office.

In 2018, a Los Angeles Times investigation revealed that Hollywood celebrities Beau and Jeff Bridges inherited a palatial Malibu home with access to a semi-private beach and panoramic views of the Pacific Ocean from their famous father, actor Lloyd Bridges of Sea Hunt fame. The Times investigation revealed the brothers rented the home for \$16,000 a month, but retained their father's annual tax property tax payment of about \$5,000. This was possible because they inherited their parent's home under Proposition 58 which has been informally referred to as the "Lebowski loophole," named for a character that actor Jeff Bridges played in a movie, 1998's The Big Lebowski. Many believe that this was an unfair use of Proposition 58 - the family inheritance law.

To address this legal "loophole," under Proposition 19, only a parent's principal residence may be transferred to their children, and that home must then become and remain the principal residence of

the child/children within one-year of the transfer. This was intended to eliminate the “Lebowski” loophole that allowed the home to be used as a rental property.

Although it certainly appears the intent of the measure was to eliminate this legal loophole for the wealthy, the measure does not just impact “*the 1%*” who benefitted from huge financial windfalls, it also impacts a broader range of the public and includes working-class and middle-income families whose family assets are often in the family home and perhaps other modest real estate investments. This places new stress on the ability to pass along new found generational wealth.

It’s now estimated that Proposition 19 will impact 40,000 to 60,000 families each year with higher property taxes and, according to the Legislative Analyst’s Office, will result in hundreds of millions of dollars a year from taxpayers. Proposition 19, in effect, repeals Propositions 58 and 193.

Unfortunately, Proposition 19 was rushed on to the ballot at the end of the legislative session and would have benefited greatly by further study and deliberation. Because of this rush to the ballot box, the measure is deficient, confusing and at times, seemingly, in conflict with its intent.

The campaign for Proposition 19 stressed that the initiative that would give much-needed assistance to seniors, the severely disabled and victims of fires and natural disasters, while simultaneously providing revenue for wildfire protection agencies and counties. Indeed, it was titled “The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act.” And it does have some positive aspects for seniors and the disabled.

However, as I previously mentioned, as of February 16th, parents and grandparents are no longer able to transfer property to their children or grandchildren without the possibility of an increase in property taxes.

There is a solution to this regressive tax, and that is to encourage the Legislature to draft legislation that will serve as a corrective Constitutional amendment to Proposition 19. Such a corrective Constitutional amendment should aim restore the ability of families to leave their homes and other property to their children that was previously available under Proposition 58 since 1986.

In the meantime, I am working with the California Assessors’ Association and with state Legislators to enact legislation that will address the numerous deficiencies and ambiguities in Proposition 19.

I must emphasize that absent legislative clarification, the implementation of Proposition 19 will be a significant challenge and create a great deal of confusion and uncertainty for both the public and administrators.

For more information on Proposition 19 or other tax savings programs, visit assessor.lacounty.gov or call 213-974-3211.

Los Angeles County Assessor Jeff Prang has been in office since 2014. Upon taking office, Prang implemented sweeping reforms to ensure that the strictest ethical guidelines rooted in fairness, accuracy and integrity would be adhered to in his office, which is the largest office of its kind in the nation with 1,200 employees. It provides the foundation for a property tax system that generates over \$17 billion annually.