Prop 19: Limitation on Parent-Child Property-Tax Reassessment Exemption

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The CAR-supported[1] and legislatively crafted "California Proposition 19, Property Tax Transfers, Exemptions, and Revenue for Wildfire Agencies and Counties Amendment (2020)" passed 11/3/2020.[2] Prop 19 radically alters rules on inheritance and limits parent-child property-tax exemptions to ***primary residences***[3] and ***family farms***[4] transferred between parents and children (grandchildren in rare instances) after 2/16/2021. The exemption is a maximum $1 million benefit plus the transferred assessment value (based on the adjusted tax-base value). If the transferred property's fair market value (FMV) is higher than that sum, then that assessor-determined excess amount will be added to the transferred taxed and taxed at the FMV.

Proposition 19 is supplanting Proposition 58 (from 1986) and Proposition 193 (from 1996).

Parent-Child & Grandparent-Grandchild Property-Tax Re-Assessment Exclusion Summary Chart*		
	Current Law – up through 2/16/2021[5]	**Proposition 19 – after 2/16/2021**
Primary Residence	➢ Transferor's primary residence ➢ No value limit ➢ Residence and homesite (assessor-determined excess land may be excluded as "other property")	➢ Transferor's and then transferee's primary residence ➢ Value limit of current taxable value **plus** $1,000,000 (as annually adjusted)[6] ➢ Only primary residences & family farms
Other Real Property	➢ Transferor's lifetime $1,000,000 limit of factored base-year value	➢ No parent-child exclusion for non-personal-residence real property
Grandparent-Grandchild "Mid-Gen" Limit	➢ Grandchild's parent(s) must be deceased on transfer date	➢ No change
Filing Period	➢ File claim within 3 years or before transfer to unrelated party	➢ File homeowners' exemption within 1 year of transfer date (e.g. death date)
Statute	➢ RTC § 63.1 (implements Props 58 & 193)	➢ TBD
Based on California Board of Equalization Information at https://www.boe.ca.gov/prop19/		

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[1] California Board of California Association of Realtors (CAR) spent $35.7M and NAR spent $4.8M on Proposition 19 that passed 51.1% to 48.9%. https://www.car.org/en/knowledge/pubs/newsletters/Newsline/Prop19. In 2018, CAR's Issues Mobilization PAC contributed 77% of $13.22M supporting a similar measure, which was defeated 40.2% to 59.8%. For general descriptions, see https://ballotpedia.org/California_Proposition_19,_Property_Tax_Transfers,_Exemptions,_and_Revenue_for_Wildfire_Agencies_and_Counties_Amendment_(2020) and https://ballotpedia.org/California_Proposition_5,_Property_Tax_Transfer_Initiative_(2018).

[2] Legislature Analyst's Office's description of Proposition 19: https://lao.ca.gov/ballot/2020/Prop19-110320.pdf. California Board of Equalization's (SBOE's) letter to assessor summarizes the new law at https://www.boe.ca.gov/proptaxes/pdf/lta20061.pdf.

[3] Proposition 19's proposed Constitution Article XIIIA, Sec. 2.1(e)(7) defines "primary residence" as a residence eligible for either the homeowner's exemption or the disabled veteran's exemption. Synonyms are "principal residence" and "family home".

[4] Further guidance is required for Prop 19's property-tax treatment of inherited or gifted farms. A, question remains on whether a family's primary residence and farm each receive a $1M exclusion or a maximum $1M exclusion is shared between them.

[5]Because 2/15/2021 is a state holiday, transfers (except by inheritance) that occur on 2/16/2021 are eligible for parent-child exclusion under the previous parent-child exclusion law. GC sections 6706 and 6707 provide that an act to be performed or a last day for filing falls on a holiday, it may be performed or filed with same effect on the next business day.

[6] Calculations are consistent with the SBOE's examples in https://www.boe.ca.gov/proptaxes/pdf/lta20061.pdf.

Parent-Child Property Tax Reassessment Exclusion Three Property-Tax Calculation Examples*				
Line	**Calculation Steps**	**Seaside Home**	**Carmel Cottage**	**Oceanfront Estate**
1.	What is the residence's adjusted property-tax-based assessed value (on latest property tax bill)?	$80,000	$ 80,000	$500,000
2.	What is the exemption amount? ($1 million exemption amount starts being adjusted for inflation on 2/16/2023 starts being adjusted for inflation.)	$1,000,000	$1,000,000	$1,000,000
3.	What is the residence's fair market value on transfer date?	$700,000	$2,000,000	$21,500,000
4.	Sum Lines 1 and 2.	$1,080,000	$1,080,000	$1,500,000
5.	Is Line 3 (FMV) greater than Line 4?	No99s for trust	Yes	Yes
5a.	If yes, subtract Line 4 from Line 3. This is the new adjusted assessed value.		$ 920,000	$20,000,000
5b.	If no, give Line 1 amount. This is the adjusted property-tax base, which remains unchanged after property transfer.	$80,000		
6.	**Annual property tax under new law**: Multiply given figure in Lines 5a or 5b by 0.0125 (1.25%**).	$1,000	$11,500	$250,000
7.	**Annual property tax under expiring law**: Multiply the figure given in Line 1 by 0.0125 (1.25%**).	$1,000	$1,000	$6,250
8.	Property Tax Percentage Increase	0%	1,050%	3,900%
*Algorithm and examples based on CA Board of Equalization and some assessor's preliminary findings. **1.25% is used for calculations. Exact percentage (1% state + local taxes/fees) varies by jurisdiction.				

Careful Business Planning Remains Available for Some Families to Defer Future Property-Tax Reassessments. Some owners of business, commercial and high-value residential properties are creating family-owned business entities to own their real estate. If properly structured and implemented, these entities may delay reassessment during the lifetimes of the transferee child(ren).