Prop 19's Tax Increase on Family-Business Properties

Elimination of Parent-Child Property-Tax Reassessment Exemption for Transferred Business (Nonfarm) Real Estate

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"California Proposition 19, Property Tax Transfers, Exemptions, and Revenue for Wildfire Agencies and Counties Amendment (2020)" passed in the November 2020 state general election by a 51.1% to 48.9%. vote. Proposition 19 eliminates the parent-child property-tax exemption for *most commercial/business property owners who inherit business real estate from a parent or child* after 2/16/2021. Until then, families with business-related real estate may want to do some business planning to possibly limit or defer property-tax increases for gifted or inherited real property.

Proposition 19 Eliminates the Parent-Child Property-Tax Reassessment Exemption on all Business Real Estate. Owners of business real estate in California may need to rethink how or if they plan on their children continuing in the family business. After 2/16/2021, Proposition 19 eliminates the parent-child exemption from property-tax reassessment for business real estate (including residential rentals) that Proposition 58 created in 1986. Children who inherit or are gifted from their parents (or from children to parents) business-related real estate likely will be faced with significant property-tax increases based on the business property's new fair market value (market price) upon deemed transfer.

Parent-Child Property-Tax Exemption from Reassessment is Limited to Family Residence or Farm Up to $1 Million in Current Fair Market Value Plus the Assessed Tax-Base Value. The only remaining parent-child reassessment exemption after 2/16/2021 is for a *family home residence or farm* up to a $1 million in *reassessed value* (inflation adjusted after 2/16/2023) **plus** the assessed tax-base value.[1] A parent or child receiving such property must use the home as the parent's or child's primary residence within one year of it being inherited or gifted. Thus, any nonprimary-residential property that is gifted/inherited to or from a parent or child will be reassessed to the *current market price* at transfer. Prop 19's property-tax treatment of certain inherited or gifted farms without a primary residence has some answered questions.

Careful Business Planning Remains Available for Some Families to Delay Future Property-Tax Reassessments. Some owners of business, commercial and high-value residential properties are creating properly structured and implemented business entities to own the family-owned real estate that may delay property-tax reassessments until ownership changes more than 50%.

For more information on Proposition 19, see:

1. California Board of Equalization's helpful tables summarizing key elements of new law: https://www.boe.ca.gov/prop19/ and assessor letter at https://www.boe.ca.gov/proptaxes/pdf/lta20061.pdf.
2. Legislature Analyst's Office's description of Proposition 19: https://lao.ca.gov/ballot/2020/Prop19-110320.pdf.
3. Voter disclosure: https://ballotpedia.org/California_Proposition_19,_Property_Tax_Transfers,_Exemptions,_and_Revenue_for_Wildfire_Agencies_and_Counties_Amendment_(2020).
4. Perspective of California Association of Realtors (CAR) that spent $35.7 million on Proposition 19 in 2020: https://www.car.org/en/knowledge/pubs/newsletters/Newsline/Prop19 . In 2018, CAR's Issues Mobilization PAC contributed 77% of $13.22 million supporting a similar measure, which was defeated 40.22% to 59.78%. See https://ballotpedia.org/California_Proposition_5,_Property_Tax_Transfer_Initiative_(2018).
5.

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[1] State Board of Equalization examples add $1 million to the prior primary residence's assessed base-year value for the value exempted from property-tax reassessment on the new primary residence. Examples from "Yes Prop 19" proponents and some tax professionals in 2020 limited a total reassessment exemption value to $1 million and did not add a transferred assessed base-year value.