

## Change in Property Taxes

On November 3, 2020 California voters approved Proposition 19 (Home Protection for Seniors, Severely Disabled, Families and Victims of Wildfire or Natural Disasters Act) to change the state constitution, which makes major changes to a property owner's ability to transfer their Proposition 13 assessed value property. The measure generally expands a qualifying homeowners ability to transfer the assessed value and tax base price of their home while simultaneously narrowing the property tax benefits provided to inheritors of commercial and residential properties- including children and grandchildren. These significant property tax changes went into effect on February 16, 2021.

**We would like to draw your attention to the opportunities available with the portability of your assessed value and tax base should you be considering relocation or downsizing within California.**



## The Existing Law: Proposition 13

Passed by voters in 1978, Proposition 13 ("Prop. 13") taxes California properties based on their assessed value (also known as the base year value or taxable value) rather than their fair market value. Assessed value is generally determined by including the purchase price and cost of improvements, plus an increase of no more than 2% per year unless and until there is a change in ownership.

On average, California real estate has appreciated in value at a rate higher than 2% per year, so the longer a property is held, the greater the difference is between its assessed value and its fair market value. This equates to a greater difference in the taxes paid on said property versus what they could be potentially.

**Proposition 13 will remain the current law even after Proposition 19 goes into effect. The impact will be to these the exceptions called the "parent-child exclusion" ("Prop 58") and "grandparent-grandchild exclusion" ("Prop 193") and the significant tax benefits they provided.**

## Notable Changes: CA Prop 19

The two main takeaways we'd like to highlight for our California clients are (1) the benefit for homeowners who are age 55 or older being able to transfer the assessed value of their primary residence and (2) the changes to property transfers between parents and children (and grandparents and grandchildren).

## #1 Transfer of Assessed Value

- **What this means:** Homeowners aged 55 or older have the possibility of replacing their primary residence (relocation within California, downsizing; extended also to those needing home replacement after a natural disaster) and transferring the tax basis from their current primary residence to the new home.

The value limit for the new property is the sum of the factored base year (or assessed) value plus \$1 million.

- **The takeaway:** Review your retirement plans. If you've been considering a change for your Retirement Life By Design this could present a interesting tax opportunity for you.

## #2 Generational Transfers

If a property is sold or transferred, the property taxes can sometimes increase dramatically as a result. Proposition 19 changes the previously established generational exclusions. However, under limited circumstances, the sale or transfer of property to children/grandchildren will not be reassessed if certain conditions are met and properly submitted.

- **What this means:** *The ability to transfer a primary residence between parents/grandparents and a child/grandchild without reassessment will no longer apply unless two conditions are met: the parent's/grandparent's primary residence becomes the child's/grandchild's primary residence within one year AND the fair market value of that same property does not exceed the assessed value by more than \$1 million.*

In those situations where the fair market value is \$1 million more than the current assessed value, then the new assessed value will be the fair market value less \$1 million.

This means any property that is not the primary residence will be reassessed upon sale or transfer to anyone.

- **The takeaway:** Review your legacy plan. If you are planning on leaving/transferring property to a child/grandchild, be certain that they are aware of the conditions of tax basis. This could create problems if you have property you wish to sell, gift, or bequest in your will or trust such vacation homes, second homes, rental properties, and/or commercial properties.

Prop 19 provides interesting opportunities for California residents. It also creates potential complications to legacy plans you may currently hold. **The team at Life By Design Investment Advisory Services is ready to assist you in navigating changes or opportunities this legislation creates for your retirement and/or legacy plans. Schedule your telephone appointment to discuss solutions and opportunities for your individual circumstances.**

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*This information is intended to provide a general summary of Proposition 19. It is not intended to be a legal interpretation or official guidance, or relied upon for any purpose, but is instead a presentation of summary information. Proposition 19 is a constitutional amendment, so additional legislation, regulations, and statewide guidance are expected to clarify its implementation. If there is a conflict between the information provided here and the proposition or any legal authorities implementing or interpreting the proposition, the text of the proposition and the other implementing or interpretive authorities will prevail. Please continue to visit our website or the website of the State Board of Equalization for more information.*