

## 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 (*Base Transfer*) the benefit for homeowners who are age 55 or older being able to transfer the assessed value of their primary residence to a new home and (*Inherited Transfer*) the changes to generational property transfers.

	<b>Base Transfer</b>	<b>Inherited Transfer</b>
<i>What this means:</i>	Transfers the tax base from current primary residence to a new home (anywhere in California)	The sale or transfer of property to children/grandchildren will not be reassessed if certain conditions are met and properly submitted
<i>Who this applies to:</i>	<ul style="list-style-type: none"> <li>Homeowners aged 55+</li> <li>Those needing home replacement after a natural disaster</li> </ul>	<ul style="list-style-type: none"> <li>Parents to child</li> <li>Grandparents to grandchild (if parents are deceased)</li> </ul>
<i>Qualifications:</i>	<ul style="list-style-type: none"> <li>Replacement property must be purchased or constructed within <b>2 years</b> of selling the original home</li> <li>Limit: Eligible homeowners can transfer tax base <b>3 times</b> in their lifetime</li> <li>If the new home's market value exceeds the original, the difference is added to the transferred tax base value</li> <li>The calculation is based on gross sale price, not net proceeds</li> </ul>	<ul style="list-style-type: none"> <li>The transferred property must become the primary residence of the child/grandchild who is inheriting within <b>1 year</b></li> <li>Fair market value of the property must not exceed the original assessed value by more than the specified exclusion amount</li> <li>Exclusion Amount: Adjusted every two years by the California House Price Index. For transfers occurring now through February 15, 2027, the exclusion amount is \$1,044,586.</li> </ul>
<i>Example:</i>	<p><i>Your Property Transition Scenario:</i>            Current Home Market Value: \$1,500,000            Current Home Assessed Tax Base: \$350,000            New Home Market Value: \$2,300,000</p> <p>\$350,000 (original tax base) + \$800,000 (market value difference) = \$1,150,000 (new property tax base- instead of being based on \$2.3 million)</p>	<p><i>Your Property Transition Scenario:</i>  <b>Max Transfer Value: \$1,544,586</b> = \$500,000 (original tax base) + \$1,044,586 (exclusion)</p> <p>Excess Value: \$55,414 = \$1,600,000 (current market value) - \$1,544,586 (max transfer value)</p> <p><b>New Tax Base: \$555,414</b> = \$500,000 (original tax base) + \$55,414 (excess value)</p>
<i>The takeaway:</i>	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.	Any property that is not the primary residence will be reassessed upon sale or transfer to anyone. Keep this in mind if gifting vacation homes, rental properties, etc.

**Schedule an appointment to discuss solutions & opportunities for your circumstances.**

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