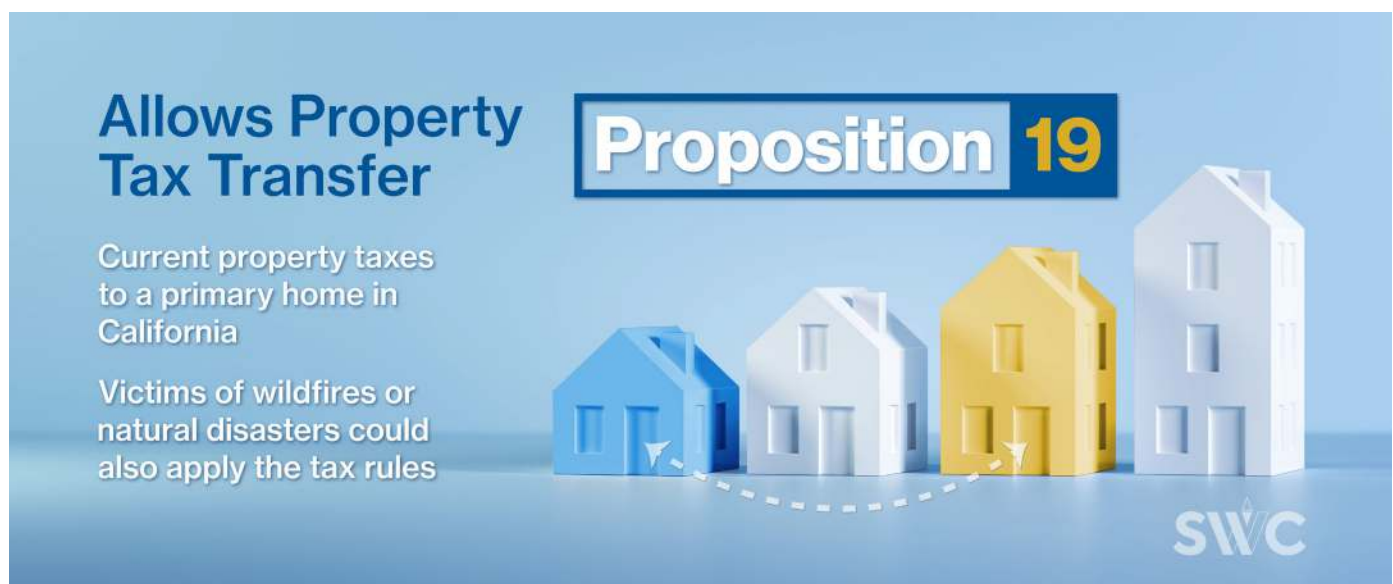


# Keeping Pace with California Tax Law — Understanding Prop 19

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**N**obody can accuse California legislators of being lazy when it comes to tax legislation. They're constantly introducing new legislation, which often presents opportunities for taxpayers to reduce their tax liability. And whether you agree with their approach or feel such relief is a poor use of taxpayer funds, staying on top of these relief measures only benefits you and the things you care about.

As one of California's premier tax and financial strategy firms, we keep a close eye on changes to federal, state, and local tax code, so that we can fine-tune each of our client's personalized tax-savings and wealth-building plans.



**Allows Property Tax Transfer**

Current property taxes to a primary home in California

Victims of wildfires or natural disasters could also apply the tax rules

**Proposition 19**

SWC

In this singlette, we discuss the first of three recent changes to California tax code that may impact your taxes (hopefully in a good way):

- Prop 19, which makes it more affordable for older homeowners to relocate in California
- The Parent-Child Exclusion, which applies to the purchase or transfer of a principal residence between parents and children
- Property tax relief for the elderly and disabled

## Understanding Prop 19

Prop 19 – The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act – is intended to help retirees and older homeowners sell their primary

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residence and relocate within California more affordably. Starting April 1, 2021, eligible California homeowners could sell their primary residence and transfer the tax base from their previous home to their next home of equal or lesser value.

For example, suppose you've owned a home in San Diego for the last 20 years and its assessed value is \$400,000. If you sell that home for \$1 million and buy another home anywhere in California for \$1 million or less, you can transfer the \$400,000 assessed value to the home you bought. In other words, your property tax will be calculated based on the \$400,000 assessed value, not on the \$1 million you paid for the home.

However, if you buy a higher-priced home, the taxable value of the new home is the difference in value between the two homes plus the taxable value of the previous home. For example, if you buy a home for \$1.3 million, the difference in increased taxable value between the two homes is \$300,000 (\$1.3 million – \$1 million). Add to that the \$400,000 taxable value of the previous home to get \$700,000 – your new home's taxable value. That's substantially more than the \$400,000 taxable value of the previous home but substantially less than the \$1.3 million you paid for the new property.

Prop 19 enables eligible California homeowners – including those who are 55 years or older, disabled, or lost their home in a natural disaster – to carry the same property tax basis from their primary residence to a new primary residence of equal or lesser value when they move within the state.

## Eligibility

Eligibility for Prop 19 requires meeting all the following conditions:

- Both homes must be primary residences. Rental properties and vacation homes are not eligible.
- Both homes must be in California (any county)
- Homeowners must be 55 years or older, disabled, or have lost their home in a natural disaster.
- Homeowners can transfer their property tax basis (subject to certain restrictions), up to three times.
- The next primary residence must be purchased within two years of the previous primary residence being sold (or lost due to a natural disaster).

If you buy a new primary residence that's more expensive than your previous primary residence, you're eligible for a *blended property tax assessment*. The tax base formula subtracts the value of the previous home from the value of the new home, and then adds the tax base from the previous home.

## Prop 58 versus Prop 19

Prop 19 is an expansion of Prop 58. The following list highlights the benefits of Prop 19 over Prop 58, a constitutional amendment approved by the voters of California that excludes from reassessment transfers of real property between parents and children:

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- With Prop 58, eligible homeowners could take advantage of the tax basis transfer only when selling and buying *in the same county*. Some counties had intercounty ordinances in place that allowed for the assessment transfer to occur across counties, but that was limited to a total of 10 counties in and around Los Angeles. Prop 19 allows for the transfer across any counties in California.
- With Prop 58, eligibility was limited to buying a home with an equal or lesser value. With Prop 19, you can buy a more expensive home and use a blended property tax assessment, as explained in the previous section.
- With Prop 58, you could transfer your property tax assessment only once. With Prop 19, you can transfer it up to three times.

## Potential Drawbacks of Prop 19

Prop 19 includes several provisions, some that help older California homeowners and some that hurt them – especially in relation to estate planning. Prop 19 has stricter limits on inheriting property in California. If you plan to leave real estate to your children, your ability to pass your lower property tax basis on to them is limited in the following ways:

- To avoid triggering a property tax reassessment, your child (or children) must use the property as their principal residence immediately after receiving it (as a gift or inheritance).
- The assessed property tax value exclusion is capped at \$1 million.
- Commercial and rental properties are now completely excluded from this provision.

If these limitations concern you, contact our San Diego tax planning and financial strategy firm. We're here to help make sense of The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act, and make its provisions to work for you and your family.

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