Understanding Proposition 19: Property Tax Planning for California Homeowners

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Start Here: Prop 19 (aka, Assembly Constitutional Amendment No. 11) allows certain California homeowners to transfer the taxable value of their principal residence to a replacement principal residence anywhere in the state. It also provides a limited property tax exclusion for qualifying transfers of a family home or family farm between generations. Read this SWC singlette to determine whether taking advantage of Prop 19 might reduce the property tax impact of moving within California or transferring qualifying property to a child or grandchild. Timing, occupancy, property value, and filing requirements can affect the available property tax relief.

California property laws continue to evolve, creating both opportunities and tax planning considerations for homeowners and families alike. Proposition "Prop" 19, for instance, changed the rules governing certain property tax transfers, affecting homeowners who relocate within California as well as families planning to transfer real estate from one generation to the next.

As one of California's premier tax planning and financial strategy firms, we closely monitor changes to federal tax law and the state's property tax rules. That ongoing attention allows us to incorporate new planning opportunities into each client's personalized tax-saving and approach to wealth-building while helping them avoid costly surprises.

In this SWC singlette, we discuss two parts of Prop. 19 that may affect your property taxes:

- Base year value transfers for qualifying homeowners who relocate within California
- Intergenerational transfer exclusions for qualifying family homes or family farms

Understanding California Prop 19

California voters approved Prop 19 on Nov. 3, 2020. Senate Bill 539 later established procedures for its intergenerational exclusions and base-year value transfers, which is just a fancy way of saying a set the rules for property tax transfer and family inheritance provisions.

As a result of the new law, beginning April 1, 2021, qualifying California homeowners could sell their principal residence and transfer its *taxable value* to a replacement principal residence anywhere in California. A homeowner may also qualify based on age or a severe and permanent disability. Separate rules cover qualifying victims of wildfire or a governor-declared disaster.

> **Understanding Taxable Value:** *Taxable value simply means the property's base year value plus inflationary adjustments. You may also see this amount called the factored base year value.*

For example, suppose you've owned a home in San Diego for the last 20 years and its taxable value has reached $400,000. Assume the County Assessor determines that the home's current market value equals $1 million.

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If you sell that home and buy another principal residence anywhere in California with an equal or lower market value, you may transfer the $400,000 taxable value to the home you bought. In other words, your property tax would generally begin with the transferred $400,000 taxable value rather than the replacement home's full market value.

A higher-priced home may also qualify.

Suppose the replacement home has a market value of $1.3 million and you purchase it before selling the original home. The difference in market value equals $300,000:

- $1.3 million minus $1 million equals $300,000.
- Add the $300,000 difference to the original home's $400,000 taxable value. The replacement home's taxable value would equal $700,000.
- That amount exceeds the original home's $400,000 taxable value, although it remains well below the replacement home's $1.3 million market value.

Different thresholds apply when you purchase the replacement home after selling the original home. A replacement purchased during the first year may have a market value of up to 105 percent of the original home's market value without an adjustment. The threshold increases to 110 percent during the second year. Only the amount above the applicable threshold gets added to the transferred taxable value.

Prop 19 allows a qualifying homeowner to carry the taxable value from one principal residence to another anywhere in California. Homeowners age 55 or older may qualify. Homeowners with a severe and permanent disability may also qualify. Separate rules cover qualifying disaster victims.

Eligibility and Rules

Eligibility for a Prop 19 base year value transfer requires meeting the applicable conditions, which include:

- Both properties must qualify for the homeowners' exemption or disabled veterans' exemption.
- Both properties must be located in California.
- The homeowner must own and occupy the original property as a principal residence within the required period.
- The homeowner must own and occupy the replacement property as a principal residence when filing the claim.
- A homeowner qualifying based on age must have reached age 55 when the original property sells.
- A homeowner qualifying based on disability must have a severe and permanent disability.
- The original property must be sold.
- The replacement property must be purchased or newly constructed within two years of the sale.
- The original sale and replacement purchase must involve consideration, which may include cash, the creation or cancellation of debt, or an exchange of property.
- At least one qualifying transaction must occur on or after April 1, 2021.

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- An age-based or disability-based homeowner may transfer the taxable value up to three times.
- A replacement residence may have a higher market value, subject to an adjustment.

For disaster victims, which California increasingly sees these days, no age requirement applies. The original residence must have suffered substantial damage or destruction from a wildfire or governor-declared disaster. More than half of the property's market value or improvement value must have been diminished for the damage to qualify as substantial.

If you buy a replacement principal residence with a higher market value, part of the difference may be added to the transferred taxable value. The calculation depends on market value and when you purchase the replacement residence.

Prop 19 Base Year Value Transfer Benefits

Prop 19 provides several benefits for qualifying homeowners, including:

- The taxable value transfer may take place between any California counties.
- The replacement home may have a higher market value.
- An age-based or disability-based claimant may use the transfer up to three times.
- A qualifying disaster victim may transfer the taxable value without meeting an age requirement.

Potential Drawbacks of Prop 19

While Prop 19 offers property tax relief for qualifying homeowners who relocate, its intergenerational transfer rules place limits on certain gifts and inheritances.

If you plan to leave California real estate to your children, your ability to pass the property's taxable value to them depends on the following requirements:

- A transferred family home must have served as the parent's principal residence.
- The child must use the property as a principal residence within one (1) year of the transfer.
- The child must file for the homeowners' exemption or disabled veterans' exemption.
- Filing the exemption claim within one year allows the exclusion to begin as of the transfer date.
- Filing after one year generally provides relief beginning with the year of filing.
- The exclusion applies only to a qualifying family home or family farm.
- Each legal parcel of a family farm remains subject to the value limitation.
- A grandparent-to-grandchild transfer qualifies only under limited conditions.

Prop 19 also limits the amount of market value that can pass without an adjustment. The limit equals the property's taxable value at the time of transfer plus an inflation-adjusted allowance.

For transfers occurring from Feb. 16, 2025, through Feb. 15, 2027, the allowance equals $1,044,586. When the property's fair market value exceeds the combined limit, the excess gets added to the transferred taxable value.

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A rental property does not qualify as a family home when the child continues to use it solely as a rental. A qualifying family farm follows separate rules and does not need to contain a residence occupied by the child.

If you'd like help reviewing the Prop 19 requirements before selling a longtime residence, purchasing a replacement home, or transferring California real estate to a family member, we're here to help. Similarly, if the 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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