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FOR IMMEDIATE RELEASE 12/11/2020

CHANGES RESULTING FROM THE PASSAGE OF PROPOSITION 19

In California, when properties sell or transfer, they are reassessed at their current market value and property taxes are based on that new value. Proposition 58 went into effect in 1986, allowing parents to transfer their residential property and up to \$1 million in other properties to their children without reassessment. Almost 10-years later, Proposition 193 followed, allowing similar transfers between grandparents and grandchildren when the parents to the grandchildren are deceased. The intent of these propositions was to prevent families from losing properties because of increased property taxes.

Last month, Californians passed Proposition 19, changing the provisions in Propositions 58/193 effective February 16, 2021. Under Proposition 19, parents (or grandparents in the situation described above) may transfer their principal residence or family farm as long as it becomes the principal residence of the child/children after the transfer. If the child/children do not move into the former residence of their parents, the property will be reassessed to market value. Consequently, if the parents' former home is rented, or if another family member (other than the child/children) is allowed to move into the home, it will be reassessed to market value. Also, although the \$1 million exclusion for other property has been eliminated, the assessed value plus \$1 million will be the new exclusion amount for residential properties transferred from parents to children.

A home that has an assessed value of \$200,000 but would currently sell for \$600,000 would transfer the \$200,000 property tax base to the children, because it is under the new exclusion limit.

Stay with me on this: If the home instead has a market value of \$2 million, the assessed value of \$200,000 would carry to the first \$1.2 million and the difference of \$800,000 would be added creating a new total assessed value of \$1 million (\$200,000 + \$800,000). The result would increase property taxes by about \$8,000 per year from what the parents had been paying.

Proposition 19 also allows a base year value transfer for persons who are over 55 years of age, severely disabled, or victims of disaster, who move to another residence. This provision is effective April 1, 2021. The change from the current law is that the base year value of a person's current residence may be transferred to another residence anywhere within the State of California up to three times. There is no limit to the purchase price of the new residence; however, any amount over 100% of the "old" property's market value will be added to the base year value. For example, you have a house worth \$500,000, but assessed at \$200,000. You buy or build a home worth \$900,000. The



assessment would be \$600,000 (\$200,000 plus \$400,000), saving about \$3,000 per year in property taxes.

Although Proposition 19 creates a lot of questions, the California Assessors' Association is currently working to gain clarification. It is anticipated that additional legislation will be required to resolve some of the issues.

Kings County Assessor, Kristine Lee, is advising property owners to consider the upcoming changes and their individual situations. There may be benefits to property owners who plan to transfer properties to their children if the transfer is done before February 16, 2021. Furthermore, benefits may be seen by waiting until April to purchase or build a new home if you are over 55 or disabled. Since there are often federal and state consequences for transferring properties, owners are encouraged to seek legal advice prior to making a transfer.