Proposition 19

Parent/Child and Grandparent/Grandchild Transfer Exclusions

What is Proposition 19?

On November 3, 2020, California voters approved Proposition 19, the "Home Protection for Seniors, Severely Disabled, Families and Victims of Wildfire or Natural Disasters Act".

This constitutional amendment limits the base year transfer exclusion on property transferred between parents and children.

Effective February 16, 2021.

Proposition 19 Impact

Under Proposition 19, in order to qualify for the reassessment exclusion, all of the following conditions must be met:

- The property must be the primary residence of the parents or grandparents OR a family farm
- The property must become the primary residence of the child or grandchild within one year of the date of the transfer
- No exclusion exists for transfers of property other than the primary residence or family farm
- Must meet the value test to receive a full exclusion

These provisions apply to transfers that occur after February 16, 2021.

Parent/Child and Grandparent/Grandchild Exclusion

Source: California State Board of Equalization	Proposition 19
Principal Residence	• Principal residence of transferor and transferee • Value limit of current taxable value plus $1,000,000 (as annually adjusted) • Family homes and farms
Other Real Property	• Eliminates exclusion for other real property other than the principal residence
Grandparent-Grandchild Middle Generation Limit	• No change: parent(s) of grandchild, who qualifies as child(ren) of grandparent, must be deceased on date of transfer
Filing Period	• File for homeowners' exemption within 1 year of transfer
Implementing Statute	• To be determined
Important Dates	• Effective February 16, 2021

Who qualifies for a Parent/Child or Grandparent/Grandchild Exclusion?

- A child is defined as:
  - A child born of the parent(s)
  - A stepchild or spouse of that stepchild while the relationship of stepparent and stepchild exists
  - A son-in-law or daughter-in-law of the parent(s)
  - A statutorily adopted child who was adopted by the age of 18
  - A foster child of a state-licensed foster parent
- Grandchildren are defined as any children of a child of the grandparent
  - In order to qualify for a grandparent/grandchild exclusion, as of the date of the transfer, all parents of the grandchild or grandchildren who qualify as children of the grandparents, as defined above, must be deceased

Filing requirements under Prop. 19

- A Homeowners Exemption or Disabled Veterans Exemption must be filed within 1 year of the date of the transfer
- The appropriate claim form for exclusion must still be filed prior to the following dates:
  - Within three years of the date of transfer, or before a transfer to a third party
  - Within six months of the date of a notice of supplemental or escaped assessment is mailed, if said notice is mailed after either of the above deadlines
  - If the notice of supplemental or escaped assessment is mailed before the end of the three year period, the transferee still has until the end of the three year period to file a timely claim
- If all of the above deadlines have expired and the transferee still owns the property, they may still file a claim and receive prospective relief only

What we know about Parent/Child Exclusions

- The Parent to child and grandparent to grandchild exclusion only applies to a family home of the transferor
  - Family home is the principal residence OR family farm
  - Family farm is any real property that is under cultivation or which is being used for pasture or grazing
- The transferee must claim the homeowner's or disabled veteran's exemption on the property subject to the exclusion within one year of the transfer.
  - For family farm transfers, the transferee must maintain the property as a family farm.
- There is now a value test that must be met in order to receive a full exclusion from reassessment
- Effective February 16, 2021 there is no longer a parent to child exclusion for properties other than the principal residence or family farm

What we know about Parent/Child Exclusions, continued…

- The definition of "family farm" contains no requirement that it be the principal residence of the transferor or transferee, or that the family farm have a family home on the property
- Multiple parcels can be considered the family home or family farm if the parcels make up a single appraisal unit
- If multiple children receive a family home, only one must reside in the residence in order to qualify for the exclusion
- The family home only qualifies for the exclusion as long as it is the family home of an eligible transferee, and will be subject to reassessment when it no longer qualifies for a homeowner's or disabled veterans exemption

Value Test Example 1

Fair Market Value of Family Home is less than the sum of FBYV plus $1,000,000

- Fair Market Value (FMV) of the principal residence on the day of the transfer is $600,000. The Factored Base Year Value (FBYV) is $200,000.
- Exclusion Amount = $200,000 + $1,000,000 = $1,200,000, which is greater than FMV.
- FBYV of $200,000 is enrolled, saving approximately $4,000 pear year in property taxes.

Factored Base Year Value:	$ 200,000
$1,000,000 Exclusion:	$1,000,000
Total Exclusion Amount:	$1,200,000
Fair Market Value:	$ 600,000
Base Year Value Enrolled:	$ 200,000

Tax Savings: Approximately $4,000 per year

Value Test Example 2

FMV of Family Home is equal to or greater than the sum of FBYV plus $1,000,000

- Fair Market Value (FMV) of the principal residence on the day of the transfer is $2,000,000. The Factored Base Year Value (FBYV) is $200,000.
- Exclusion Amount = $200,000 + $1,000,000 = $1,200,000 which is less than FMV.
- $2,000,000 FMV minus $1,200,000 equals $800,000, which is added to the existing $200,000 FBYV for a new enrolled value of $1,000,000.

Factored Base Year Value:	$ 200,000
$1,000,000 Exclusion:	<u>$1,000,000</u>
Total Exclusion Value:	$1,200,000
Fair Market Value:	$2,000,000
Minus Exclusion Amount:	<u>$1,200,000</u>
Value Difference:	$ 800,000
New Adjusted Base Year Value:	$1,000,000

($200,000 FBYV + $800,000 Value Difference)

While this represents an increase in taxes of approximately $8,000 per year from what the parents had been paying, it is still approximately $10,000 per year <u>less</u> than if the property was reassessed at its FMV with no exclusion.

For More information

- For more information regarding Prop. 19 and it's impact on Parent/Child and Grandparent/Grandchild exclusions, please visit the following resources:
  - California State Board of Equalization's Frequently Asked Questions
    - https://www.boe.ca.gov/prop19/
  - California State Board of Equalization Letter to Assessors No. 2020-61
    - https://www.boe.ca.gov/proptaxes/pdf/lta20061.pdf
  - California State Board of Equalization Letter to Assessors No. 2021/008
    - https://www.boe.ca.gov/proptaxes/pdf/lta21008.pdf

- For the full text of Proposition 19:
  - https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200ACA11

Disclaimer: The information provided herein is intended to provide general and summary information about Proposition 19. It is not intended to be a legal interpretation or official guidance. Proposition 19 is a constitutional amendment, and additional legislation and regulations, along with guidance from the State Board of Equalization are expected to clarify its implementation. We encourage you to visit the website of the State Board of Equalization for more information, and recommend you consult an attorney for advice on your specific situation. If you have any questions about the information presented here, you may also contact our office at (559) 852-2486 during normal business hours.