Proposition 19 – Property Tax Info for Homeowners 55 or Older

Ordinarily, when the ownership of California real property changes, the property is reassessed at its current fair market value and the new owner pays property tax based on the reassessment.

On November 3, 2020, California voters approved Proposition 19. Proposition 19. This is a brief summary of the changes made which adds new provisions for a base year value transfer of a primary residence for persons at least age 55 or severely disabled or for victims of wildfires or natural disasters. In addition, it also changes provisions of the parent-child and grandparent-grandchild exclusions.

Base Year Value Transfer
An owner of a primary residence who is over 55 years of age, severely disabled, or a victim of a wildfire or natural disaster may transfer the base year value of their primary residence to a replacement primary residence located anywhere in California that is purchased or newly constructed as that person's principal residence within two years of the sale of the original primary residence, regardless of the value of the replacement residence.

If the replacement residence is of equal or lesser value than the original primary residence, the taxable value of the original primary residence may be transferred to the replacement residence.

If the replacement residence is of greater value than the original primary residence, partial relief is available. The new base year value of the replacement residence is the sum of the factored base year value of the original primary residence plus the difference between the full cash values of the original primary residence and the replacement residence.

Example: Homeowner, who is over age 55, sells a primary residence on June 28, 2021 for a full cash value of $1,175,000. At the time of sale, the single-family residence has a factored base year value of $825,000. On July 22, 2021, a replacement primary residence is purchased for a full cash value of $1,500,000.

Since the full cash value of the replacement primary residence exceeds the full cash value of the original primary residence, the difference in full cash values must be calculated and added to the transferred factored base year value.

- $1,500,000 - $1,175,000 = $325,000 (difference in full cash values)
- $825,000 + $325,000 = $1,150,000 (add difference to factored base year value)
- New base year value of replacement primary residence is $1,150,000.

For purposes of this base year value transfer:

- A "primary residence" is a residence that is eligible for either the homeowner's or disabled veteran's exemption.
- A "victim of a wildfire or natural disaster" is an owner of a primary residence that has been substantially damaged as a result of a wildfire or natural disaster that amounts to more than 50 percent of the improvement value of the primary residence immediately before the wildfire or natural disaster. "Damage" includes a diminution in the value of the primary residence as a result of restricted access caused by the wildfire or natural disaster.
- A "natural disaster" is a condition of disaster or peril, as declared by the Governor, caused by conditions such as fire, flood, drought, storm, mudslide, earthquake, civil disorder, foreign invasion, or volcanic eruption.
- A "wildfire" means an unplanned, unwanted wildland fire, including unauthorized human-caused fires, escaped wildland fire use events, escaped prescribed fire projects, and all other wildland fires where the objective is to extinguish the fire.

Under Proposition 19, a person who is over 55 years of age or severely disabled may transfer the base year value of a primary residence three times. However, the language in Proposition 19 is not clear as to whether the "three times" would include a previously transferred base year value or if the "three times" would be in addition to this.

These provisions are subject to "applicable procedures and definitions as provided by statute," and are anticipated that the Legislature will clarify these procedures and definitions through future legislation.

Parent-Child and Grandparent-Grandchild Exclusion
The terms "purchased" and "change in ownership" do not include the purchase or transfer of a family home of the transferor in the case of a transfer between parents and their children, if the property continues as the family home of the transferee. Partial relief is available if the value of the family home exceeds a specified value test.

These provisions also apply to a purchase or transfer of a family home between grandparents and their grandchildren, as long as all of the parents of those grandchildren, who qualify as children of the grandparents, are deceased as of the date of the purchase or transfer.

Family Home
A "family home" means a principal residence that must be eligible for the homeowner's or disabled veteran's exemption. This allows the purchase or transfer of a "family home of the transferor" to be excluded from reassessment, if the property "continues as the family home of the transferee." Thus, the family home must be the principal residence of both the transferor and the transferee.

A "family home" also includes a family farm that contains a principal residence. A "family farm" is real property that is under cultivation or which is being used for pasture or grazing, or that is used to produce any agricultural commodity. "Agricultural commodity" means any and all plant and animal products produced for commercial purposes, including, but not limited to, plant products used for producing biofuels and cultivated industrial hemp.

Value Test
This requires adjustment of the taxable value if the assessed value of the family home exceeds the sum of the taxable value plus $1,000,000. "Assessed value" is defined as 100 percent of full value. "Full value" is defined as fair market value. "Taxable value" means the base year value plus inflationary factoring (i.e., factored base year value).

If the fair market value of the family home is less than the sum of the factored base year value plus $1,000,000, then the factored base year value need not be adjusted.

If the fair market value of the family home is equal to or more than the sum of the factored base year value plus $1 million, an amount equal to the fair market value of the family home upon purchase by, or transfer to, the transferee, minus the sum of the factored base year value plus $1,000,000, is added to the factored base year value.

Example: A single family residence has a factored base year value of $250,000. Parent dies on March 1, 2021, and property is inherited by parent's only child. The residence was the principal residence of both parent and child. On parent's date of death, property has a fair market value of $1,300,000.

- Calculate the sum of factored base year value plus $1,000,000. $250,000 + $1,000,000 = $1,250,000
- Determine whether the assessed value exceeds the sum of the factored base year value plus $1,000,000. $1,300,000 is greater than $1,250,000
- Calculate the difference. $1,300,000 - $1,250,000 = $50,000
- Add difference to factored base year value, $250,000 + $50,000 = $300,000
- New combined base year value = $300,000

Please be aware that beginning February 16, 2023, and every other February 16 after that, the $1,000,000 will be adjusted by the percentage change in the House Price Index for California for the prior calendar year, as determined by the Federal Housing Finance Agency. The California State Board of Equalization will release this information biennially via a “Letter to Assessors”.

Filing Requirements. In order to receive this property tax benefit, the transferee must claim the homeowner's or disabled veteran's exemption at the time of the purchase or transfer of the family home. If the claim is not filed at the time of the purchase or transfer, the transferee has one year from the date of purchase or transfer to file the claim for the homeowner's or disabled veteran's exemption and shall be entitled to a refund of taxes previously owed or paid between the date of the transfer and the date the transferee claimed the homeowner's or disabled veteran's exemption.

Propositions 58/193 Sunset Date. Effective November 5, 1986, Proposition 58 excludes transfers of real property between parents and their children. On March 27, 1996, Proposition 193 amended this section to extend this exclusion to transfers from grandparents to grandchildren, under limited circumstances.

This exclusion applies to two types of property:

- Principal residence (no value limit)
- The first $1 million of all other real property

Each person can transfer up to $1 million of real property (other than a principal residence) to any combination of parents or children. The $1 million limit is cumulative over a lifetime. The value that counts towards the $1 million limit is a property's factored base year value, not its current market value.

Proposition 19 now applies to any transfers. Proposition 19 limits the parent-child and grandparent-grandchild exclusion to a family home or farm that is the principal residence of both the transferor and transferee, and eliminates the exclusion for any other type of property.

Conclusion
At this time, there are still many uncertainties surrounding the implementation of Proposition 19, as the language does not address all issues. These issues will need to be resolved through future legislation. Once this implementing legislation has been enacted, the County-Assessed Properties Division of the California State Board of Equalization will issue future guidance on the matter. Until that time, all State County Assessors will be tracking possible qualifying transfers, since it is likely that the implementing legislation will be retroactive to the applicable operative dates.

If you have any questions regarding the change in ownership provisions of Proposition 19, please contact the California State Board of Equalization, County-Assessed Properties Division (https://www.boe.ca.gov/prop19) at 1-916-274-3350.

If you have any interest or would like to speak with us directly, please do not hesitate to contact us at any time. We thank you for your time and we look forward to hearing from you!

Sincerely,

PreviewOC Real Estate
Direct: 949.400.1072