

CA Proposition 19 Passed – What you need to know...

With the passing of Proposition 19, the parent-children exclusions for most real property transfer have been eliminated. Under current California law, a transfer of ownership in real property generally results in a reassessment for property tax purposes. Such reassessment typically means an increase in real property taxes. However, there are two exclusions from reassessment that retain the property tax base on parent to child transfers:

Principal residence exclusion: Proposition 58 allows a principal residence to transfer from parent to child for an unlimited value. There is not a \$1 million limit, and the child does not need to use the home as his or her principal residence.

The \$1 million exclusion: This exclusion permits the transfer over one's lifetime between parents and child of up to \$1 million of assessed value for all other types of property (such as second homes or rental property) without triggering a reassessment. The \$1 million exclusion is based on the current assessed value allowing the transfer of property without reassessment. For a married couple there is a \$2 million lifetime exclusion.

With the passage of Proposition 19 inherited homes not used as a principal residence, such as second homes or rentals, will be reassessed at market value when transferred. In order to qualify for the principal residence exclusion, the new law requires a child to use the residence as his or her own principal residence, and the exclusion amount would not be unlimited. Instead, it would only exclude the first \$1 million of the assessed value. Additionally, the \$1 million dollar exclusion for second homes, rental homes and commercial properties has been eliminated.

Due to the changes enacted by the passage of Proposition 19, and essentially the elimination of the parent - child exclusion for most real property, families may consider gifting and transferring real property to their children. Doing so, while the current rules are in effect, will help preserve the benefits of Proposition 13 along with the parent - child exclusion, under the current laws. Additionally, while the current estate and gift tax exemption is \$11,580,000 in 2020, coupled with the threat of reduction of the estate and gift exemption, time may be of the essence to make these transfers. Taking action as soon as possible will make the transfer both timely and economical for the remainder of 2020 and early 2021, before Proposition 19 takes effect on February 16, 2021.

As always, please contact us if you would like to discuss your personal situation.