# Proposition 19

**THE HOME PROTECTION FOR SENIORS, SEVERELY DISABLED, FAMILIES, AND VICTIMS OF WILDFIRE OR NATURAL DISASTERS ACT.**

**APPROVED BY CALIFORNIA VOTERS NOVEMBER 3, 2020**

# The new law will make important changes to two existing statewide property tax saving programs:

Proposition 19 will replace Proposition 58(1986) and Proposition 193(1996) by limiting Parent-to-Child transfer and Grandparent-to-Grandchild transfer exclusions – Effective February 16, 2021.

Proposition 19 will replace Proposition 60 (1986) and Proposition 90 (1988) programs for home transfer by persons at least age 55 or severely disabled persons – Effective April 1, 2021.

# Inheriting Property Tax Base – Effective 2/16/2021

Under Proposition 19, a child or children may inherit the lower property tax base from the parent(s) **ONLY** if the property is the primary residence of the parent(s) and the child or children make it their primary residence within one year. This also applies to a family farm. On a family farm it does not need to have a primary residence.

What is a family farm?

A "Family Farm" means any real property which is under cultivation, or which is being used for pasture or grazing, or that is used to produce any agricultural commodity for commercial purposes.

A family farm applies separately to the transfer of each legal parcel that makes up a family farm. Each legal parcel that makes up a family farm is considered to be a separate family farm, except for a legal parcel containing a family home – this could qualify for the exclusion for a family home.

# Under Proposition 19, in order to inherit the lower property assessment of the parent(s) or Grandparent(s), the following conditions must be met:

- 1. The property must be the primary residence of the parent(s) or Grandparent(s)
- 2. The property must become the primary residence of the child(ren) or Grandchild(ren) within one year.
- 3. Only the primary residence of a parent(s) or Grandparent(s) qualifies for a base year value transfer. Other property, residential,commercial, or  industrial no longer qualify for this benefit.
- 4. Grandparent to Grandchild qualify only if the parents are deceased.

*This provision applies to transfers starting February 16, 2021.*

# Parent–Child and Grandparent-Grandchild Exclusion

| | Proposition 58/193 (Prior Law) | Proposition 19 (Current Law) |
|---|---|---|
| **Principal Residence** | ➢ Principal residence of Transferor<br>➢ No value limit.<br>➢ Residence and homesite (excess land may be excluded as “other property”) | ➢ Principal residence of transferor and transferee.<br>➢ Value limit of current taxable value plus $1,000,000 as biennially adjusted.<br>➢ Family homes and family farms. |
| **Other Real Property** | ➢ Transferor lifetime limit of $1,000,000 of factored base year value. | ➢ Eliminates exclusion for other real property other than the principal residence. |
| **Grandparent-Grandchild Middle Generation Limit** | ➢ Parents of Grandchild, who qualifies as child(ren) of Grandparent, must be deceased on date of transfer | ➢ No change: Parent(s) of Grandchild, who qualifies as Child(ren) of Grandparent, must be deceased on date of transfer. |
| **Filing Period** | ➢ File claim within 3 years or before transfer to third party. | ➢ File for homeowners’ exemption within 1 year of transfer.<br>➢ File claim for exclusion within 3 years or before transfer to a third party. |
| **Implementing Statute** | ➢ Revenue and Taxation Code section 63.1 (implements Proposition 58/193) | ➢ Revenue and Taxation Code section 63.2 (implements Proposition 19) |
| **Important Dates** | ➢ Through February 15, 2021 | ➢ Effective February 16, 2021 |

# Transfer of Property Tax Base – Effective 4/1/2021

- Must be 55 years old or older or severely disabled or victims of a wildfire/natural disaster
- Base year transfer expands from some counties to **ALL** counties.
- Replacement property can cost more than sales price of original.
- Base year transfer can be taken 3 times.
- Need to transfer base year to replacement residence within 2 years of the sale of the original residence.
- Have 3 years to file to go retroactive to the date of transfer.
- If the replacement costs more than the original property sold for, the difference between those market values is added to the base year value of original property for transfer purposes.

# Base Year Value Transfer-Persons at Least Age 55/Disabled.



| | Prop 60/90/110 (Prior Law) | Proposition 19 (Current Law) |
|---|---|---|
| **Type of Property** | ➢ Principal residence | ➢ Principal residence |
| **Timing** | ➢ Purchase or newly construct residence within 2 years of sale. | ➢ Purchase or newly construct residence within 2 years of sale. |
| **Location of Replacement Home** | ➢ Same County<br>➢ County with intercounty ordinance (10 Counties) | ➢ Anywhere in California |
| **Value Limit** | ➢ Equal or lesser value<br>➢ 100% if replacement purchased/new construction prior to sale.<br>➢ 105% if replacement/new construction in first year after sale.<br>➢ 110% if replacement/new construction in second year after sale | ➢ Any value<br>➢ No adjustment to transferred base year value if the replacement property is of equal or lesser value than the original property's market value. "Equal or lesser value" means:<br>➢ 100% if replacement purchased/new construction prior to sale.<br>➢ 105% if replacement/new construction in first year after sale.<br>➢ 110% if replacement/new construction in second year after sale.<br>Amount above "equal or lesser value" is added to the transferred value (resulting in a "blended" value) |
| **How Many Transfers** | ➢ One Time<br>➢ Exception: After using once for age, second time for subsequent disability. | ➢ Three times |
| **Implementing Statute** | ➢ Revenue and Taxation code section 69.5 (implements Propositions 60/90/110) | ➢ Revenue and Taxation code section 69.6 (implements Proposition 19) |
| **Important Dates** | ➢ Through March 31, 2021 | ➢ Effective April 1, 2021 |

# Base Year Value Transfer - Intra-county Disaster Relief (within the same county)



| | Proposition 50 (Prior Law) | Proposition 19 (Current Law) |
|---|---|---|
| **Type of Property** | ➢ Any type of property | ➢ Principal residence |
| **Timing** | ➢ Purchase or newly construct property within 5 years of disaster. | ➢ Purchase or newly construct residence within 2 years of sale. |
| **Location of Replacement Home** | ➢ Within same county | ➢ Anywhere in California |
| **Value Limit** | ➢ Any value<br>➢ Amount above 120% is added to transferred value. | ➢ Any value<br>➢ No adjustment to transferred base year value if the replacement property is of equal or lesser value than the original property's market value.<br>    ➢ 100% if replacement purchased/new construction prior to sale.<br>    ➢ 105% if replacement/new construction in first year after sale.<br>    ➢ 110% if replacement/new construction in second year after sale<br>➢ Amount above "equal or lesser value" is added to transferred value. |
| **Type of Disaster** | ➢ Disaster for which the Governor proclaims a state of emergency. | ➢ Wildfire, as defined, or natural disaster as declared by the Governor. |
| **Implementing Statute** | ➢ Revenue and taxation code section 69 (implements Proposition 50) | ➢ Revenue and Taxation Code 69.6 (implements Proposition 19) |
| **Important Dates** | ➢ Through March 31, 2021 | ➢ Effective April 1, 2021 |

# Base Year Value Transfer
# Inter-county Disaster Relief (between counties)



| | Proposition 171 (Prior Law) | Proposition 19 (Current Law) |
|---|---|---|
| **Type of Property** | ➢ Principal residence | ➢ Principal residence |
| **Timing** | ➢ Purchase or newly construct principal residence within 3 years of disaster. | ➢ Purchase or newly construct principal residence within 2 years of sale. |
| **Location of Replacement Home** | ➢ County with inter-county ordinance (14 counties) | ➢ Anywhere in California |
| **Value Limit** | ➢ Equal or lesser value<br>➢ 105% if purchased/new construction in first year after disaster.<br>➢ 110% if purchased/new construction in second year after disaster.<br>➢ 115% if purchased/new construction in third year after disaster. | ➢ Any value<br>➢ No adjustment to transferred base year value if the replacement property is of equal or lesser value than the original property's market value.<br>➢ See prior slides for definition of "Equal or lesser value"<br>➢ Amount above "equal or lesser value" is added to transferred value |
| **Type of Disaster** | ➢ Disaster for which the Governor proclaims a state of emergency. | ➢ Wildfire, as defined, or natural disaster as declared by the Governor. |
| **Implementing Statute** | ➢ Revenue and taxation code section 69.3 (implements Proposition 171) | ➢ To be determined |
| **Important Dates** | ➢ Through March 31, 2021 | ➢ Effective April 1, 2021 |

*There is no limit on number of times for base year value transfers for disaster relief*

# Principal Residence Base Year Value Transfer



Replacement Residence is of greater value than Original Residence
Partial Adjustment made to Base Year Value.

- Example: Original residence sells for $700,000. The replacement residence costs $725,000. The base year value of the original residence is $152,000. The transferred base year will be $152,000 + $25,000 (difference between the sales price of the original residence and the purchase price of the replacement residence) for a new base year value of $177,000 saving $5,480 in taxes. (Partial Relief is Available).

| | |
|---|---|
| Replacement Residence Costs (FMV) | $725,000 |
| Original Residence Sales Price | -$700,000 |
| Value Difference | $25,000 |
| Transferred Base Year Value | +$152,000 |
| Base Year Value Enrolled | $177,000 |
| Approximately Tax Savings | **$5,480** |

# Principal Residence Base Year Value Transfer

Replacement Residence is of greater value than Original Residence
(Adjustment made for differences greater than 5%)
Partial Adjustment made to Base Year Value.

- Example: Original residence sells for $1,250,000 on June 1, 2021. The replacement residence is purchased for $1,900,000 on August 1, 2021. The base year value of the original residence is $500,000. Since the full cash value of the replacement primary residence ($1,900,000) is greater than 105 percent of the full cash value of the original primary original residence, ($1,250,000 x 1.05 = $1,312,500), the new base year value of the replacement primary residence is $1,087,500 ($500,000 + $587,500 (difference between the sale price of the original residence + 5%, and the purchase price of the replacement residence) for a new base year value of $1,087,500 saving $8,125 in taxes. (Partial Relief is Available).

| | | |
|---|---|---|
| Replacement Residence Costs (FMV) | $1,900,000 | |
| Original Residence Sales Price | $1,250,000 | |
| Greater than 5% rule (adjusted sale price) | -$1,312,500 | ($1,250,000 x 1.05) |
| Value Difference | $587,500 | |
| Transferred Base Year Value | +$500,000 | |
| New Base Year Value | $1,087,500 | |
| Approximate Tax Savings | **$8,125** | |

# Principal Residence Base Year Value Transfer

## Replacement Residence is of equal or lesser value than Original Residence
## No adjustment made to Base Year Value

- Example: Original residence sells for $1,950,000. The replacement residence costs $1,580,000. The base year value of the original residence is $154,078. The transferred base year will be $154,078 with no adjustment since the replacement residence is of lesser value than the original residence. Tax savings of approximately $14,259. (Full Relief is Available).

| | |
|---|---|
| Replacement Residence Costs (FMV) | $1,580,000 |
| Original Residence Sales Price | - $1,950,000 |
| Value Difference | -0- |
| Transferred Base Year Value | + $154,078 |
| Base Year Value Enrolled | $154,078 |
| Approximately Tax Savings | **$14,259** |

# Principal Residence Base Year Value Transfer

## Applying the Equal or Lesser Value Comparison Test



- Example: Original residence sells on January 17, 2020, for a full cash value of $1,000,000. At the time of sale, the original property had a factored base year value of $457,426. On December 2, 2021, a replacement property was purchased for a full cash value of $1,100,000.

| | |
|---|---|
| Replacement Residence Cost (FMV) | $1,100,000 |
| Original Residence Sales Price | $1,000,000 |
| Inflationary factor applied to Replacement Residence* | $1,010,360 |
| 110% Rule applied (purchased within 2nd year after sale) | $1,111,396 |
| Transferred Base Year Value Enrolled | $457,426 |
| Approximately Tax Savings | **$5,530** |

*Since the replacement dwelling was purchased within the second year after the sale of the original property, then 110% of the full cash value of the original property would be compared to the full cash value of the replacement dwelling. In addition, an inflationary adjustment must also be added since a lien date occurred between the date of the original property and the purchase of the replacement dwelling.*

** 2021 Inflationary factor of 1.01036 applied to the original Residence.*

# Parent to Child Exclusion FMV of Family Home is less than sum of FBYV plus $1,000,000

- **Example 1**: Fair market value (FMV) of principal residence on day before transfer is $900,000. Factored Base Year Value (FBYV) is $500,000. $500,000 plus $1,000,000 equals $1,500,000 which is greater than FMV. Therefore $500,000 is enrolled saving approximately $4,000 in property taxes. (No adjustment is made to the Base Year Value).

| | |
|---|---|
| Base Year Value | $500,000 |
| $1 Million Exclusion | <u>$1,000,000</u> |
| Total Sum | <u>$1,500,000</u> |
| Fair Market Value | $900,000 |
| Base Year Value Enrolled | $500,000 |

(Saving Approximately $4,000 in property taxes)

# "Parent to Child Exclusion"

## (Example 2) – Value Test

## FMV of Family Home is equal to or more than sum of FBYV + $1,000,000

- **Example 2**: Full market value (FMV) of principal residence on day before transfer is $1,600,000. Factored Base Year Value (FBYV) is $450,000. $450,000 plus $1,000,000 is less than the FMV. $1,600,000 FMV minus $1,450,000 equals $150,000 which is added to the $450,000 base year value for a new enrolled value of $600,000, saving approx. $10,000 in property taxes. (Partial adjustment is made to the Base Year Value).

| | |
|---|---|
| Factored Base Year Value | $450,000 |
| $1 Million Exclusion | + $1,000,000 |
| Total Sum | $1,450,000 |
| Fair Market Value | $1,600,000 |
| Minus Total Sum | $1,450,000 |
| Value Difference | $150,000 |
| New Adjusted Base Year Value | $600,000 |

(450K + 150K) Saving $10,000 in property taxes

# FREQUENTLY ASKED QUESTIONS
## Base Year Value Transfers

**1. Under Proposition 19, will I qualify for the base year value transfer if I purchased my replacement home prior to April 1, 2021 and sell my original home on or after April 1, 2021?**

Yes, Proposition 19 requires the transfer of the base year value to occur on or after April 1, 2021. It does not require that both the primary residence be sold, and the replacement residence be purchased on or after April 1, 2021. Therefore, in most cases as long as either the primary residence is sold or the replacement primary residence is purchased on or after April 1, 2021, the base year value can be transferred.

**2. If I used my one-time base year value transfer under Proposition 60/90, can I transfer that base year value three more times under Proposition 19?**

Yes, three transfers will be allowed regardless of whether a property owner transferred a base year value in the past under Proposition 60/90.

# FREQUENTLY ASKED QUESTIONS cont….

**3. If I sell my original residence at age 54, and purchase my replacement residence once I am 55 or older, would I be able to transfer my tax base?**

No, you must be 55 or older when you sell your original primary residence. Your age when you purchase your replacement residence is not relevant.

**4. Do I have to have a Homeowner's or Disabled Veteran's Exemption on file from the County I am transferring my tax base from?**

No, however proof of residency will be required.

**5. If one spouse is over 55, but the other spouse is not, do they still qualify for the base year value transfer?**

Yes, as long as the spouse who is at least age 55 is on title to both the primary residence on its date of sale *and* the replacement primary residence on its date of purchase, then the spouse who is at least 55 will qualify to transfer the base year value, as long as all other requirements have been met.

# FREQUENTLY ASKED QUESTIONS cont….

**6. Can I have a co-owner on title and still qualify to transfer my base year value?**

Yes, there is no requirement that the homeowner who is over 55, or severely disabled, or a victim of a wildfire be the sole owner of either the original primary residence or the replacement primary residence.

**7. If my original primary residence is a multi-unit property, am I still eligible to transfer the base year value to a replacement primary residence?**

Yes. However, you will only be eligible for that portion of the value attributable to the unit that is your original primary residence. Section 2(a) of article XIII A of the California Constitution provides that "a two-dwelling unit shall be considered as two separate single-family dwellings." Thus, the base year value attributable to the unit that is occupied as your primary residence may be transferred to a replacement primary residence. In determining the new taxable value of the replacement primary residence, the full cash value attributable to the unit that was the original primary residence will be compared to the full cash value of the replacement primary residence.

# FREQUENTLY ASKED QUESTIONS
## Intergenerational Transfers

**1. Will the non-principal residence $1 million exclusion allowance still be available after February 16, 2021?**

No. Upon implementation of Prop. 19, the non-principal residence $1 million exclusion will no longer be available.

**2. If my parents transfer their non-principal residence to me prior to February 16, 2021, would it still qualify for the Parent to Child exclusion under previous provisions (Prop. 58)?**

Yes, the property would be eligible for exclusion if all other requirements are met. The limitation of family home or family farm only becomes effective for transfers occurring after February 16, 2021.

**3. Do I have to claim the homeowners' exemption to qualify for the Parent to Child and Grandparent to Grandchild exclusion?**

Yes, in order to receive the property tax benefit of the exclusion, Prop. 19 requires that the transferee claim the homeowners' exemption or the disabled veterans' exemption within one year of the transfer.

# FREQUENTLY ASKED QUESTIONS
# Intergenerational Transfers cont.…

**4. If I inherit my parent's family home, must I live continually in the home to receive the parent-child exclusion? What happens if I move somewhere else?**

One eligible transferee must continually live in the home as his/her family home for the property to maintain the exclusion. If the property is no longer your family home, it will receive a new taxable value which would be the fair market value of the home on the date you inherited it, adjusted each year for the inflation factor, which is published by the BOE annually.

**5. How many family homes or family farms can be transferred by an eligible transferor?**

There is no limit to the number of family homes or family farms that may be transferred under the intergenerational transfer exclusion. For example, Parent sells the family home to his oldest child and purchases a smaller home, which becomes Parent's family home. After a few years, this home is too large, and Parent sells this smaller home to Parent's middle child. Subsequently, Parent buys a condominium, which becomes Parent's new family home. As long as both children meet all qualifications, both transfers qualify for the intergenerational transfer exclusion. If some years later, Parent transfers the condominium to Parent's granddaughter, who is the daughter of their youngest child who passed away prior to the transfer, that transfer can also qualify for the intergenerational exclusion.

# Contact information

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- *Disclaimer: The information provided is intended to provide general and summary information about Proposition 19. It is not intended to be a legal interpretation or official guidance, or relied upon for any purpose, but is instead a presentation of summary information. Proposition 19 is a constitutional amendment, so additional legislation, regulations, and statewide guidance are expected to clarify its implementation. If there is a conflict between the information provided here and the proposition or any legal authorities implementing or interpreting the proposition, the text of the proposition and the other implementing or interpretive authorities will prevail. We encourage you to visit the website of the State Board of Equalization for more information. We would also encourage you to consult an attorney for advice on your specific situation.*