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Contact: Stephen Duckels (530) 749-7820; sduckels@co.yuba.ca.us

CALIFORNIA VOTES TO LIMIT INHERITANCE PROPERTY TAX BREAK

MARYSVILLE, CA - Proposition 19, which was marketed as a provision to benefit homeowners who are over 55, the disabled, and wildfire/disaster victims, will also take away a major property tax benefit that has allowed parents (Proposition 58) and grandparents (Proposition 193) to transfer residential and commercial properties to their children and grandchildren without reassessment. "The recent voter approved Constitutional Amendment goes into effect on February 16, 2021," stated Yuba County Assessor, Stephen Duckels.

Under current law, there are currently two exclusions from reassessment that can apply for transfers between parents and their children or between grandparents and their grandchildren if all the parents of those grandchildren are deceased:

- **Principal residence exclusion** - *this permits the transfer of a principal residence of unlimited value without being subject to reassessment; and*
- **The \$1 million lifetime non-principal residence exclusion** - *this permits the transfer of up to \$1 million of assessed value of all other types of property (e.g., second homes, rental properties, commercial properties) without triggering a reassessment. The \$1 million exclusion is based on the current assessed value, which can often be lower than the current fair market value allowing the transfer of a higher percentage of the property without reassessment.*

Under Proposition 19 only the principal residence or family farm is eligible for exclusion from reassessment. Prior to transferring, the home must be the parent's principal residence and become the principal residence of the children after the transfer.

Unlike Propositions 58 and 193, the benefits in Proposition 19 appear to be limited to the first \$1 million of value that would be added upon reassessment of the residence. For example, if the Assessed Value (AV) were \$250,000 and the market value when transferred was \$1 million, the children would retain the \$250,000 AV.

However, if the market value exceeds this limit (\$1 million plus the prior Assessed Value), partial relief is available. For example, a family home that has an Assessed Value of \$250,000 with a market value of \$1.5 million when transferred will result in a new Assessed Value to the children of \$500,000. The Proposition 19 benefit methodology is as follows: \$250,000 AV + \$1 million (Proposition 19 benefit) = \$1.25 million. The difference between the market value of \$1.5 million compared to \$1.25 million is \$250,000. This amount is added to the \$250,000 AV. Thus, the adjusted Assessed Value is \$500,000.

Assessors are working with state leaders to confirm this methodology for determining the Proposition 19 benefits.

“Since Proposition 19 will severely limit the principal residence exclusion and entirely eliminate the non-principal residence exclusion, families may wish to consider transferring real properties to children now while current rules are still in effect,” stated Duckels. Property owners are encouraged to seek legal advice before transferring, as property transfers frequently trigger unintended consequences on federal and state taxes.

Specific questions about how Proposition 19 will be administered will be posted on the Assessor and State Board of Equalization websites as soon as more information becomes available. It is anticipated that additional legislation will be required to resolve some of the outstanding issues.

Proposition 19 also expands benefits allowed for homeowners over 55, the disabled, and wildfire/disaster victims wishing to transfer their assessed value to another home anywhere in California. This aspect of Proposition 19 takes effect on April 1, 2021.

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