

SACRAMENTO COUNTY ASSESSOR



CHRISTINA WYNN

MISSION

**WE PROVIDE EQUITABLE, TIMELY AND ACCURATE PROPERTY TAX ASSESSMENTS AND
INFORMATION**

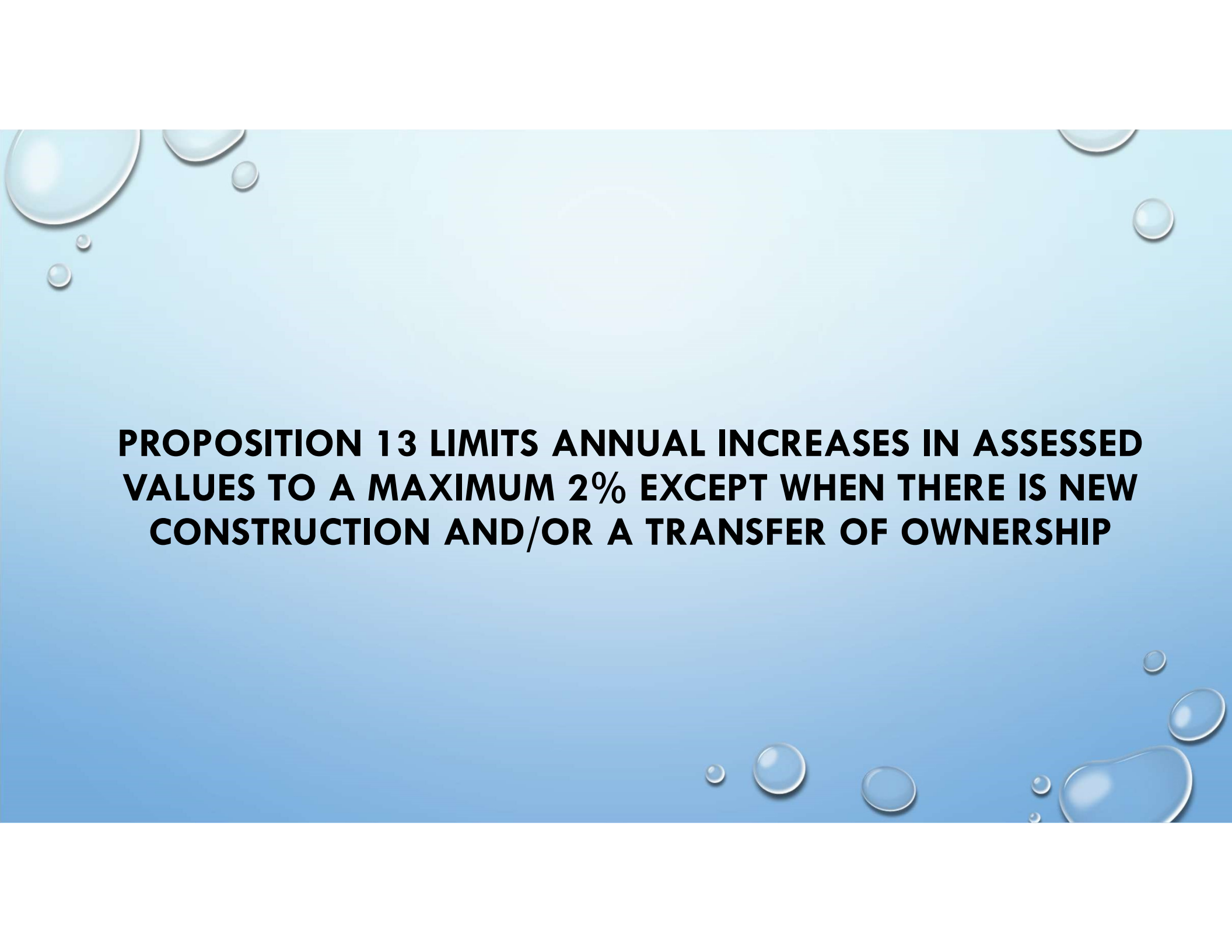
VALUES

PROFESSIONALISM, INTEGRITY, EFFICIENCY

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PROPOSITION 19 BRINGS SIGNIFICANT CHANGES TO PROPERTY TAX RULES FOR INTER- COUNTY & INHERITANCE TRANSFERS

IN NOVEMBER 2020, CALIFORNIA VOTERS PASSED PROPOSITION 19, WHICH MODIFIES ARTICLE XIII A (PROPOSITION 13) OF THE CALIFORNIA CONSTITUTION AND SIGNIFICANTLY AFFECTS CERTAIN TYPES OF REAL PROPERTY TRANSFERS.

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**PROPOSITION 13 LIMITS ANNUAL INCREASES IN ASSESSED
VALUES TO A MAXIMUM 2% EXCEPT WHEN THERE IS NEW
CONSTRUCTION AND/OR A TRANSFER OF OWNERSHIP**

OVER THE YEARS, CALIFORNIA VOTERS PASSED SEVERAL PROPOSITIONS EXCLUDING CERTAIN TRANSFERS OF OWNERSHIP FROM REASSESSMENT UNDER PROPOSITION 13

PROPOSITIONS 58 AND 193

EXCLUDES TRANSFERS BETWEEN PARENT AND CHILD (58) OR GRANDPARENT AND GRANDCHILD (193) FROM REASSESSMENT.

PROPOSITIONS 60 AND 90

HOMEOWNERS 55+ YEARS OF AGE CAN SELL THEIR PRIMARY RESIDENCE AND TRANSFER THE BASE YEAR VALUE OF THAT PROPERTY TO A REPLACEMENT RESIDENCE IF CERTAIN CONDITIONS ARE MET. PROPOSITION 60 APPLIES TO INTRA-COUNTY TRANSFERS, WHILE PROPOSITION 90 APPLIES TO INTER-COUNTY TRANSFERS UNDER CERTAIN CONDITIONS.

PROPOSITION 110

SEVERELY DISABLED PERSONS CAN TRANSFER THE BASE YEAR VALUE OF THEIR PRIMARY RESIDENCE TO A REPLACEMENT RESIDENCE IF CERTAIN CONDITIONS ARE MET.

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**PROPOSITION 19 EXPANDS CERTAIN
TRANSFER BENEFITS**

HOMEOWNERS WHO ARE 55 OR OLDER, OR WHO ARE SEVERELY DISABLED, OR WHO ARE VICTIMS OF A GOVERNOR DECLARED DISASTER, WISHING TO TRANSFER THEIR PROPERTY TAX BENEFITS TO ANOTHER HOME IN CALIFORNIA WILL HAVE MORE OPTIONS

NO VALUE LIMIT

A HOMEOWNER CAN PURCHASE A HIGHER VALUE PROPERTY. THE TRANSFER NO LONGER WILL HAVE TO BE A PROPERTY OF EQUAL OR LESSER VALUE. THE PRIOR BENEFIT CAN BE TRANSFERRED AND AN UPWARD ADJUSTMENT IS ADDED FOR THE DIFFERENCE

NO LOCATION LIMIT

AN INTER-COUNTY TRANSFER CAN OCCUR BETWEEN ANY TWO COUNTIES, NOT JUST COUNTIES WITH LOCAL ORDINANCES.

MORE THAN 1 TIME

A QUALIFYING TRANSFER CAN BE MADE UP TO 3 TIMES, NOT JUST ONCE AND FOR GOVERNOR DECLARED DISASTER VICTIMS, THERE IS NO LIMIT ON THE NUMBER OF TIMES THE BENEFIT CAN BE USED

BASE YEAR TRANSFER BENEFITS EXAMPLE

ORIGINAL SELLS FOR \$500,000

REPLACEMENT COSTS \$700,000

BASE YEAR VALUE OF ORIGINAL = \$250,000

TRANSFERRED BASE YEAR WILL BE $\$250,000 + (\$700,000 - \$500,000) = \$450,000$

TAXES \$700,000 = \$8,400

TAXES \$450,000 = \$5,400

TAX SAVING = \$3,000/YR

PROPOSITION 19 ELIMINATES AND REDUCES CERTAIN INHERITANCE BENEFITS

- Children/Grandchildren who inherit their parents'/grandparents' principal residence who choose **not** to make the home their principal residence will now have the property re-assessed.
- Except in the case of a “Family Farm”, heirs must now file and qualify to receive the Homeowner’s Exemption or Disabled Veterans’ Exemption within one year of transfer of ownership.
- The maximum total allowable tax benefit for inherited principal residence or family farm is \$1,000,000.
- Parents/Grandparents can no longer transfer up to \$1,000,000 of other property, such a vacation home, residential rental property or commercial property, in addition to their principal residence.

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RESET OF THE ASSESSED VALUE TO FAIR MARKET VALUE CAN SIGNIFICANTLY INCREASE THE ASSESSED VALUES

For example, a family property currently assessed for \$50,000 with an annual property tax of approximately \$600 is inherited by heirs that do not live in the property would now be re-assessed to current market value at \$750,000 resulting in an annual property tax of approximately \$9,000.

This significant property tax increase could affect the feasibility of continued ownership of inherited family properties.

PARENT-CHILD PROPOSITION 19 - EXAMPLE 1

Full cash value (FCV) of principal residence at inheritance = \$750,000

Existing factored base year value of principal residence = \$300,000

Value test: $\$300,000 + \$1,000,000 = \$1,300,000 > \text{FCV of } \$750,000$

Heir's new base year value of principal residence = \$300,000

Tax savings = \$5,400

The same savings would have resulted under pre-Prop 19 parent-child tax rules, however under Prop 19 the heir must maintain the property as their principal residence in perpetuity to retain the tax savings

PARENT-CHILD PROPOSITION 19 - EXAMPLE 2

Full cash value (FCV) of principal residence at inheritance = \$1,500,000

Factored base year value = \$250,000

Value test: $\$250,000 + \$1,000,000$ limit = $\$1,250,000$ which is $<$ FCV

Heir's new base year value = $(\$1,500,000 - \$1,250,000) + \$250,000 = \$500,000$

Tax savings = \$6,000

Under pre-Prop 19 parent-child tax rules, there is no \$1,000,000 maximum benefit and the tax savings would be \$12,000 because the heir would retain the \$250,000 base without adjustment.

COMMON ESTATE PLANNING TRUSTS

Proposition 19 may impact common estate planning trusts like qualified personal residence trusts which allows the transfer of a residence to a trust while that residence can still be occupied for a fixed number of years. The parent continues to live in the residence as their primary residence, and at the end of the fixed number of years, the residence transfers to their child.

Under pre-Prop 19 law, when the child becomes the owner, they would qualify for the parent-child exclusion. For property transfers to heirs dated February 16, 2021 or later, the child must make the residence their primary residence or the property would be reassessed.

Those with a trust that holds a residence in the name of their child as a remainder beneficiary or those in the process of estate planning should contact a tax and estate planning professional to discuss potential impacts.

TIMING – INHERITANCE TRANSFERS

Proposition 19 applies to parent-child/grandparent-grandchild transfers completed **after February 16, 2021***

Those who are concerned with re-assessment under proposition 19 had to complete a parent/child or grandparent/grandchild transfer **no later than February 16, 2021** and if so can apply for exclusion from re-assessment under pre-Prop 19 (Proposition 58 and 193) requirements.

It is important to note that such transfers may trigger a gift tax and it is recommended that you consult an income tax professional in advance.

****Although Proposition 19 specified February 15, 2021, this date is legal holiday, therefore the deadline is extended to the next regular business day for transactions except in the case of death. The death date is the legal date of the change in ownership and there is no provision to extend the date of death due to a legal holiday.***

TIMING – BASE YEAR VALUE TRANSFERS

Proposition 19 applies to base value transfers of principal residences involving people over 55 or severely disabled or disaster victims completed **after March 31, 2021**.

Qualified individuals wishing to transfer their property tax benefits to a more expensive home and/or to a county not previously listed under current Proposition 90 may elect to **delay closing the transfer of the second transaction until April 1, 2021 or later**.

Only the second transaction, in other words the transaction that triggers the ability to apply to transfer the base year value of the original property to the replacement property, must occur April 1, 2021 or later.

The second transaction must occur within 2 years of the first transaction.

FAMILY FARMS

Proposition 19 allows for heirs to retain the base year value of a property identified as a family farm for properties inherited up to the \$1,000,000 benefit limit (same limit as principal residence).

There is no residency requirement for the family farms to obtain the benefit.

Family farms must generally meet the same conditions as parent-child/grandparent-grandchild principal residence transactions in that the transaction must be between individuals and not legal entities.

Q & A - 1

Q: On what date is the value of the original and replacement primary residences determined for purposes of calculating the transferrable taxable value?

A: The value of the original and replacement primary residences are determined for purposes of calculating the transferrable taxable value as of the date of sale or the date of purchase or completion of new construction, respectively.

Q & A - 2

Q: Prop 19 requires that a family home continue as the family home of the heir. Must the family home continue as the family home of *all* heirs?

A: No, only one qualified heir needs to maintain the family home as their principal residence.

Q & A - 3

Q: Prop 19 requires that a family home continue as the family home of the heir. By what date must an heir establish the family home as their family home?

A: The heir must establish the family home as their family home within one year of the purchase or transfer of the family home.

Q & A - 4

Q: Prop 19 requires that a family home continue as the family home of the heir. How long must an heir maintain the property as their family home to maintain the tax benefit?

A: The benefit applies only as long as the heir or another qualified heir keeps the family home as their primary residence.

Q & A - 5

Q: We sold our home in February 2020. Subsequently, due to pre-existing medical conditions of both me and my wife, along with stay-at-home orders etc. the process of finding, touring, meeting with realtors, and inspecting a replacement home is very dangerous for us – possibly life and death. Is there any consideration for a covid hardship extension of the two-year window to buy our replacement home?

A: No, as a result of Prop 19, the 2-year time frame is a constitutional requirement and any change would require a revision to the constitution (new ballot measure).

Q & A - 6

Q: We plan to take advantage of Proposition 19 in the spring or summer of this year. We will sell our Dublin, Alameda County home and purchase a home in the Sacramento area. Can we first purchase our Sacramento area home and then sell our Dublin home after the Sacramento area home closes escrow?

A: Yes, the only concern is timing. If you purchase the Sacramento home first, the sale of the Dublin home must be completed April 1, 2021 or later.

Q & A - 7

Q: I recently inherited property and the grant deed was recorded a couple months ago. Are there any additional documents I need to submit or is the recording of the grant deed enough to avoid the new Prop.19 regulations?

A: You must submit a Parent-Child Exclusion application to the Assessor of the county where the property is located to receive the benefit, it is not automatic.

Q & A - 8

Q: My parents sold their primary residence in June 2019 and my dad is over 55 years old. They're now living with me at my home until they find a home that suits them. Given Proposition 19 passed **after** they sold their home but **before** they've purchased a new home, would they qualify for the property tax transfer if they purchase a house before June 2021?

A: They must purchase the replacement home April 1, 2021 or later because of the effective date of the new rules but before June 2021 which is within the 2-year limit.

Q & A - 9

Q: I met with a potential client yesterday about listing their home and purchasing a new one. they are both over 55 and disabled and they immediately asked me about Prop 19. They would like to sell their childhood home in which they reside for approximately \$469,000 and purchase another for \$600,000-\$700,000. Do they need to close escrow on both transactions after April 1st in order to get the lower tax rate?

Also, if they move into a higher price point there's an upward adjustment. What is that upward adjustment amount?

A: Only one of the transactions must occur April 1st or later. The adjustment is the difference between the price (value) of the original home as of the date of the sale and the price (value) of the replacement home. The difference is added to the tax base of the original home as of the date of the sale. In this case the new tax base would be the tax base of the original home plus \$131,000-\$231,000.

Q & A - 10

Q: How does Proposition 19 effect rental properties, vacation homes or commercial properties?

A: Rental properties will no longer be eligible for the inheritance tax benefit, only primary residences and family farms. Proposition 19 eliminates the current benefit of transferring up to \$1,000,000 in assessed value of property in addition to the primary residence to their children as of February 16, 2021.

Q & A - 11

Q: How is a property held in a trust affected by Proposition 19?

A: The administration of a trust is governed by the trust instrument itself. For properties held in trusts, a change in ownership occurs when any interests in real property vest in persons other than the trustor or the trustor's spouse or registered domestic partner when a revocable trust becomes irrevocable. This typically occurs upon the death of the trustor. Thus, the date of death is considered to be the date of change in ownership. Ownership interests are always determined first and then exclusions applied to the ownership interest.

Proposition 19 is clear that pre-Prop 19 inheritance benefits (Prop 58) apply to transfers that occur on or before February 15, 2021, and Proposition 19 benefits apply to transfers that occur February 16, 2021 or later.

Proposition 19 can affect properties in multiple counties and some implementation aspects still require clarification. It is recommended that property owners contact the assessor in the county where they will be applying for the tax benefit to get official responses to their unique situations. Complex situations could take more time and it is recommended to contact the assessor as soon as possible.

Assessor Christina Wynn
February 17, 2021

QUESTIONS ABOUT PROP 19?

Send us an email: Prop19@saccounty.net

or

Call our Property Transfer Staff @ (916) 875-0750

Our website has been updated to include the latest on Prop 19

WWW.ASSESSOR.SACCOUNTY.NET

Contact me: wynnc@saccounty.net

(916) 876-5467

