New Rules Threaten Inherited Property, but a Golden Ticket for 55+ Buyers

PROPOSITION 19

Transferring your Property Taxes to a New Property

Proposition 19 allows an owner of a primary residence who is over 55 years of age, severely disabled, a victim of a wildfire or natural disaster to transfer the taxable value of the primary residence to a replacement residence.

- anywhere in California:
- purchased or new constructed within 2 years;
- of any value with an **upward adjustment** for a more expensive replacement: and
- the property tax base can be transferred up to three times for people over 55 years old or with severe disabilities and once for for wildfire or disaster victims.

Inherited Primary Residence

Proposition 19 narrows the rules for parent-to-child or Grandparent-to-Grandchild exemption for inherited properties. The Child or Grandchild can transfer the taxable value of the inherited property IF:

- the property was the principal residence of the Parents or Grandparents or is the family farm.
- the Child or Grandchild moves into the property as their primary residence within one year of the transfer
- the first $1 million of increased value is exempt for reassessment. For values over $1 million, property taxes would be adjusted upward.

Inherited Investment Property:

Property taxes on inherited investment property are automatically reassessed at current market value. Proposition 19 removed the exemption from reassessment on inherited investment property.

PARENT-CHILD & GRANDPARENT-GRANDCHILD EXCLUSION

Principal Residence	• Principal residence of transferor and transferee • Value limit of current taxable value plus $1,000,000 • Family homes and farms
Other Real Property	• Eliminates exclusion for other real property other than principal residence
Grandparent-Grandchild Middle Generation Limit	• Parent(s) of grandchild, who qualify as child(ren) of grandparent, must be deceased on date of transfer
Filing Period	• File for homeowners' exemption within 1 year of transfer • File claim for exclusion within 3 years or before transfer to third party

BASE YEAR VALUE TRANSFER - PERSONS AT LEAST AGE 55/DISABLED

Type of Property	• Principal Residence
Timing	• Purchase or newly constructed residence within 2 years of sale
Location of Replacement Home	• Anywhere in California

Value Limit	• Any value
	• 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:
	  • *100% if replacement purchased/newly constructed prior to sale*
	  • *105% if replacement purchased/newly constructed in first year after sale*
	  • *110% if replacement purchased/newly constructed in second year after sale*
	• Amount above "equal or lesser value" is added to transferred value.

Home many Transfers?	• Three Times

At the time of the transfer, a single-family **primary residence** has a taxable value or factored base year value (FBYV) of $300,000 and a fair market value of $1,500,000.

Prop. 19 example calculation
for parent-to-child or Grandparent-to-Grandchild Transfer
(primary residence only)

1. Calculate the sum of the FBYV plus $1 million

$300,000 FBYV/Taxable	+	$1,000,000 Prop. 19 Allowance	=	$1,300,000 Excluded Amount

If the home had a market value equal to or less than $1,300,000, the child would not have to pay additional property taxes.

2. Since the fair market value is greater than the excluded amount, calculate the difference between the fair market value and the excluded amount

$1,500,000 Fair Market Value	-	$1,300,000 Excluded Amount	=	$200,000 Difference

3. Thus, the adjusted base year value is $500,000

$300,000 FBYV/Taxable	+	$200,000 Difference	=	$500,000 New Taxable Value

Note: The information provided is intended to provide only a partial summary of Proposition 19. It is not intended to be used for legal interpretation. Please consult an attorney for advice specific to your situation.