

MEDIA RELEASE

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After February 15, new law goes into effect

Voters End 35-year Inheritance Property Tax Break

For the first time since Proposition 13 passed in 1978, Californians voted to take away a major property tax benefit that allowed parents (Proposition 58) and grandparents (Proposition 193) to transfer residential and commercial properties to their children and grandchildren without reassessment. Over the last ten years 32,405 property owners in Santa Clara County have utilized and benefited from Proposition 58/193.

According to the Legislative Analyst's Office, an estimated 60,000 to 80,000 property owners statewide have benefited annually avoiding as much as \$10 billion in assessed value from reassessment. "Personally, I have always felt it is simply unfair that a parent can transfer a high value commercial property to their kids in addition to their principal residence, and avoid normal reassessment consequences not available to families that do not own shopping centers, office buildings or apartments" said Assessor Larry Stone.

In 2018, a Los Angeles Times investigation revealed that Hollywood celebrities Beau and Jeff Bridges inherited a beautiful a home in Malibu with access to a semi-private beach and panoramic views of the Pacific Ocean from their famous father Lloyd Bridges. The Times investigation revealed the brothers rented the home for \$16,000 a month, and their annual tax property taxes were approximately \$5,000. This was possible because they inherited their parent's home many years earlier through the provisions of Proposition 58.

The new law Proposition 19, takes effect on February 15, 2021. Assessor Stone is advising property owners if they wish to transfer their principal residence to their children/child and take advantage of the provisions of the current law, they should do so before the law expires.

Many of the provisions of the Proposition 19, are confusing, ambiguous, and conflict with the initial intent. "Proposition 19 was rushed through the Legislature and signed by the Governor in just six days at the end of the legislative session," said Stone.

A committee of the California Assessors' Association, led in part by Santa Clara County Assessor's Office, have been meeting with subject matter experts and attorneys and will engage state legislative leaders for clarity. "It's a mess and an embarrassment," said Stone.

“Once the vote is certified by the Secretary of State on December 11, Proposition 58 and Proposition 193 will end and properties transferred after February 15, 2021 will be subject to Proposition 19,” said Stone. Under Proposition 19 only the principal residence (or family farm) is eligible for a reduced assessment. Prior to transferring, the home must be the parent’s principal residence, and become the principal residence of the children/child after the transfer. This is intended to eliminate the “Bridges” loophole

Unlike Prop 58/193 the benefits in Proposition 19 appear to be limited to the first \$1 million of value that would be added upon reassessment of a family home (or family farm). 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 assessed value.

If the market value exceeds this limit (\$1M plus the prior Assessed Value), partial relief is available. For example, a family home that has an assessed value of \$300,000 with a market value of \$2,500,000 when transferred will result in a new assessed value to the children of \$1,500,000. The Proposition 19 benefit methodology is as follows: \$300,000 AV + \$1,000,000 (Proposition 19 benefit) = \$1,300,000. The difference between the market value of \$2,500,000 compared to \$1,300,000 is \$1,200,000. This amount is added to the \$300,000 AV. Thus, the adjusted base year value is \$1,500,000. Assessors are working with state leaders to confirm this methodology for determining the Proposition 19 benefits.

Answers to many questions about the application of Proposition 58/193 are available on the Assessors website at www.sccassessor.org or the Board of Equalization’s website www.boe.ca.gov. As property transfers frequently trigger unintended consequences on federal and state taxes property owners are encouraged to see legal advice before transferring. Specific questions about how Proposition 19 will be administered will be posted on the Assessor or Board of Equalization’s website as soon as more information is available. It is anticipated that additional legislation will be required to resolve some of the outstanding issues.

Proposition 19 also expanded benefits allowed for seniors, disabled and victims of disasters to transfer their assessed value to another home anywhere in California. This aspect of Proposition 19 is effective April 1 and the Assessor plans to provide additional information as more information becomes available.