PROPOSITION 19 Q&A

On November 3rd, 2020 California voters approved Proposition 19. This new law expands the special rules allowing eligible homeowners to transfer their property's assessed value to the purchase of a replacement property and changes the property tax rules on family transfers of real property.

Purchase of Replacement Principal Residence

When is this law effective?
The portion of Prop 19 relating to the purchase of replacement property takes effect on **April 1, 2021**.

Where can I move?
Eligible homeowners could keep their lower property tax bill when moving to another home *anywhere in the state of California.*

Can I purchase a more expensive home?
Yes, eligible homeowners can use the special rules to move to a more expensive home. Your property tax bill will go up but not by as much as it would for other homebuyers.

How many times can I use the special rules?
Homeowners who are over 55, or severely disabled, can use the special rules *three times in their lifetime*.

Who is eligible?
Proposition 19 allows homeowners 55 and older, the severely disabled, and wildfire or natural disaster victims to carry their low property tax assessments with them when they purchase and move to a replacement home in California.

What property is eligible?

The original and replacement properties must both be the primary residence of the homeowner and located in California. They can be existing homes or new construction. To be considered a primary residence, it must be eligible for the property tax Homeowner's Exemption.

How long do I have to complete the sale?
The purchase of the replacement residence must be within two years of the sale of the old residence.

How do I apply?
To obtain the tax exemption, the taxpayer must file an application with the assessor in the county where the replacement property is located.

Value of home.
The market value of the home is its fair market value. This may or may not be the same as the purchase or sale price if the assessor determines otherwise.

Lesser value replacement.
If the replacement home value is the same or less than the value of the original home, then the assessed value of the original home is transferred to the replacement.

Higher value replacement.
The homeowner may purchase a replacement residence at a higher value and still benefit from Prop 19. The old (lower) tax base carries over to the equivalent value of the replacement residence, and the excess value of the replacement residence is added to become the new tax base.

<u>For example</u> – if a $2.0 million home (with a low assessed value of $700,000) is sold and replaced with a higher value $2.5 million home, the assessed value of the replacement home will be $1.2 million [i.e., $700,000 ([old value) + $500,000 (excess value)]. The owner is taxed on a new assessed value of $1.2M with Prop 19 instead of $2.5M (actual purchase price) without Prop 19. The tax savings can be significant.

Family Transfers

Most Family Transfers Will Trigger Reassessment
Starting **February 16, 2021**, Prop 19 narrows the special rules for transferring the assessed value of certain properties to family members. In general, real property

transferred from parent to child, or grandparent to grandchild, will be reassessed and taxed at its full fair market value upon transfer (by sale, gift or inheritance).

Limited Exemption.

A limited exemption from reassessment applies if the transferred property was the primary residence of the parent and continues as the primary residence of the child who claims the homeowner exemption. The transfer of family farms is also partially exempt.

High Value Property Will Be Reassessed.

However, if the fair market value of the eligible property (family residence or farm) exceeds the property's taxable value by more than $1 million (adjusted for inflation every two years) then the property will be taxed at fair market value minus a $1 million exemption amount.

Consult Your Tax Professional.

This information is general in nature. You should consult with your tax advisor to determine if you qualify for these tax exemptions.

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