

Proposition 19: New Property Tax and Inheritance Rules for California

On November 3rd, California voters approved Proposition 19, a measure designed to give homeowners more freedom to change residences while closing tax loopholes on inherited properties.

The measure, set to go into effect early next year, has two distinct parts, the first of which allows homeowners who are 55 or older, disabled, or lost their home in a natural disaster to transfer their tax base to a new home up to three times anywhere in California.

Previously, homeowners could only take advantage of a tax base transfer once in their lifetime, and only if they bought a replacement home in certain California counties.

The second part outlines the requirements for retaining tax basis in family transfers, which is now limited to transferring a primary residence to a child or grandchild for continued use as a primary residence.

Frequently Asked Questions

Who does this affect?

The new law has long-lasting implications for homeowners, inheritors, firefighters, and local governments. Homeowners benefit from the ability to transfer their tax base and move into a new home, while inheritors are subject to more limitations on properties they receive from parents and grandparents. The California State Controller is required to deposit 75 percent of the calculated revenue to the Fire Response Fund and 15 percent to the County Revenue Protection Fund.

What does this mean for homeowners?

Homeowners can transfer the tax basis of a sold primary residence to a replacement primary residence up to three times. These transfers are unlimited for those whose homes were destroyed or substantially damaged by fire. If the replacement home is of equal or lesser value, the tax base remains the same. The sale of the original home must happen within two years of buying the replacement residence, and homeowners can purchase their new residence before their current residence sells.

What if the replacement home is more expensive than the sold home?

If the replacement home is of greater value, the new tax base follows this formula:

$$[\text{value of new home} - \text{value of old home}] + [\text{old tax base}] = [\text{new tax base}]$$

If homeowner with a tax assessment of \$300,000 on their house sells for \$900,000, then moves to a home worth \$1.3 million, their new tax base is \$400,000 (the difference in value) plus the original home's \$300,000 tax assessment. The new home retains a tax basis of \$700,000.

What does this mean for inheritors?

Inheritors who receive a primary residence from a parent or grandparent will be able to retain the same tax base so long as the property continues to be used as a primary residence. Even in this case, the residence is subject to some upward adjustments if the new property value is more than \$1M over the original tax basis. Family farms are exempt from these restrictions.

When do these changes take place?

Beginning April 1, 2021, Proposition 19 applies to the transfer of one's tax basis anywhere in the State of California regardless of value. Beginning February 16, 2021, the family transfer rules take effect.

How does this affect purchases and sales made before April 1, 2021?

A message from the California Association of Realtors on the matter reads:

"Although we believe that the tax benefits under Proposition 19 apply to transactions where either the sale or purchase of a primary residence takes place before April 1, 2021, as long as the subsequent sale or purchase takes place within two years and on or after April 1, 2021, others have taken the position that both the sale and purchase must occur on or after April 1st, 2021. C.A.R. will seek official clarification of this issue."