

California Homeowners, Proposition 19 Both Gives and Takes!

January 11, 2021



Last November, California voters passed one particular ballot initiative by a narrow 51.1% versus 48.9% margin. Known as Proposition 19, it was perhaps most recognized for increasing future flexibility for homeowners over age 55, disaster victims, and the disabled to sell a home and transfer their capped (Prop 13) property tax valuation to a new home when they move. Previously, this portability was limited in scope with tighter stipulations. This new law (beginning April 1, 2021) will certainly benefit a multitude of California seniors who want or need to move to a new home but would not be able to afford the increase in local property taxes from a fresh upward tax valuation when they purchase or build a new one at today's home prices.

A less well-understood element of the new Proposition 19 however, is that beginning February 16, 2021, rules about parent-to-child transfers of that same property tax valuation will change, potentially a major inheritance issue.

1. Only a primary residence will be eligible to retain the parent's property basis, and even that will be limited to \$1 million of home value. Currently all properties keep their existing property valuation, including vacation houses and rentals. This has allowed inheritors to retain houses in the family and boost net income on rental properties, but in the future, only the primary home will be eligible.
2. The inheriting child will also be required to move into the home as his/her primary residence in order to keep the inherited property tax valuation intact.
3. Transfers of ownership (such as a lifetime gift) taking place before the implementation date would lock in the parental property tax valuation but would surrender the future benefit of a cost basis "step-up" that accompanies inheriting after a death. That "step-up" to market value at inheritance can wipe out long accumulated capital gains and facilitate a tax-free sale if the child wasn't planning to move into a parent's home, but rather intends to sell it.

By now you might sense this is complicated and very specific to a family's particular circumstances! It truly is. While legal mechanisms may exist making properties effectively exempt from the consequences of Proposition 19, they need to be done under the supervision and advice of a qualified and experienced attorney. This is a tax and estate planning issue rolled up into one, and limited time remains to accomplish transfers. Additionally, some areas will require clarification by agencies and the state legislature. [Here](#) is a link to a useful comparison chart of current law versus Prop 19 for your reference, provided by the California State Board of Equalization.

Whatever your situation, we advocate preserving as much future flexibility as you can manage, because the world is constantly changing, and so are the rules. We welcome the opportunity to further clarify and discuss with you. Happy New Year from all of us at Ashfield!

ASHFIELD CAPITAL PARTNERS



This communication has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty representation, express or implied, has been made as to the accuracy or completeness of the information contained herein and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or to participate in any trading strategy. If any offer of securities is made, it will be pursuant to a confidential offering memorandum, an investment management agreement or other offering materials, which contains material information not contained herein and which supersedes this information in its entirety. This communication is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this communication is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation, applicable risk factors, and/or particular needs of any individual client or investor and should not be relied upon as the basis for investment decisions. Additional information is available upon request.

The investments discussed herein are for illustrative purposes only and it should not be assumed that such investments were or will be profitable or that the investments or recommendations Ashfield Capital Partners makes in the future will be profitable or will equal the anticipated results discussed herein. Past performance is not necessarily indicative of future results. The indices, markets and countries referenced in this communication are provided for informational purposes only and should not be used as the basis for making an investment decision. The indices, markets and countries referenced in this communication are included merely to show the general trend in the markets in the periods indicated and are not intended to imply that the underlying returns were comparable to the indices, markets or countries either in composition or element of risk. There are significant differences between client accounts and the indices, markets and countries herein including, but not limited to, risk profile, liquidity, volatility, and asset composition.