

FROM: Stephen N. Allred, Attorney at Law

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SUBJECT: Proposition 19 and the Reassessment of Inherited Real Property in California

We are writing to inform you about a new law that affects how California real property is passed to your children and/or grandchildren. As a current or former estate planning client or donor, this information may be of interest to you and influence how you decide to plan your estate going forward.

California voters recently passed Proposition 19, which amends the California state constitution and goes into effect on February 16, 2021. Among other things, Proposition 19 eliminates the parent-to-child and grandparent-to-grandchild property tax reassessment exemption in cases where the child or grandchild does not use the inherited real property as their principal residence. This means that inherited property such as a rental house will now be reassessed at the time it is inherited. Proposition 19 leaves in place a parent-child or grandparent-child reassessment exclusion only for the transferor's principal residence and a family farm. The transferred residence must also be used as the recipient's principal residence to take advantage of the reassessment exclusion.

When the inherited property is used as the recipient's principal residence but is sold for \$1 million more than the property's taxable value, an upward adjustment in assessed value will occur under Proposition 19 (with the \$1 million adjusted annually by the Federal Housing Finance Agency's House Price Index for California starting Feb. 16, 2023). The ballot measure also applied these rules to certain types of farms.

A summary of the changes under Proposition 19 can be found at California State Board of Equalization website: <https://www.boe.ca.gov/prop19/>. The San Francisco County Assessor has prepared a video on Proposition 19 and the reassessment of inherited property which can be found here: <https://sfassessor.org/Prop19>.

You should consult with an attorney and your tax advisor to discuss any transfers of real property to children/grandchildren you wish to make (and record) prior to the February 16, 2021 deadline. Proposition 19's changes to inherited property will also lead many to re-think their estate plan distribution schemes with a focus on fairness and preserving family harmony.

May God bless you as you plan for His Kingdom!

Sincerely,



Stephen N. Allred, Esq.