

Understanding the Impact CA Proposition 19

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Parent-Child Exclusion

- **Before 2/16/21:**
 - Principal residence
 - Up to \$1M assessed non-principal-residence
- **On and after 2/16/21 (Prop 19 is in effect):**
 - Family Home (same as principal residence), sometimes, up to a limit

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Main tax changes under Prop 19:

- Parent-child exclusion
- Transfer of base value for older and disabled persons

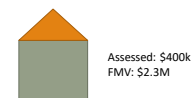
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Parent-Child Exclusion Example 1

Example 1: Parents own a family home (principal residence) assessed at \$400,000 and with a fair market value of \$2,300,000



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Parent-Child Exclusion

- New rules take effect for transfers on or after **2/16/21**
- New rules are more restrictive
- Can apply to grandparent-grandchildren transfers, in some circumstances

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Parent-Child Exclusion Example 1



Before Prop 19:
Entire property can be transferred to their child or children, with no change in property taxes.

Assessed value for child(ren): \$400,000

After Prop 19:
Child must claim Homeowner's or Disabled Veteran's Exemption, and then still there is a \$1M cap on exclusion

Assessed value for child who lives there: \$1,300,000
(=\$400k current base + \$900k appreciation over \$1M)

Assessed value if child does NOT live there: \$2,300,000

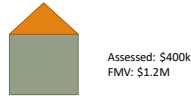
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Parent-Child Exclusion Example 2

Example 2: Parents own a principal residence assessed at \$400,000 and with a fair market value of \$1,300,000



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Parent-Child Exclusion Example 3



Before Prop 19:
Up to \$1M of non-residence property can be transferred from each parent

After Prop 19:
No exemption

Assessed value for child(ren):
A: \$700,000
B: \$700,000
(\$1.4M total)

Assessed value for child(ren):
A: \$3,000,000
B: \$3,000,000
(\$6M total)

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Parent-Child Exclusion Example 2



Before Prop 19:
Entire property can be transferred to their child or children, with no change in property taxes.

After Prop 19:
Child must claim Homeowner's or Disabled Veteran's Exemption, and then still there is a \$1M cap on exemption

Assessed value for child(ren): \$400,000

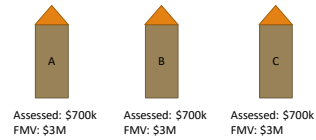
Assessed value for child who lives there: \$400,000

Assessed value if child does NOT live there: \$1,200,000

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Parent-Child Exclusion Example 4

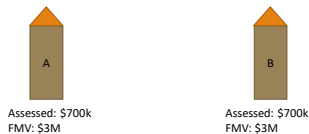
Example 4: as example 3, but now the parents own a third rental property



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Parent-Child Exclusion Example 3

Example 3: Parents are married and both on title for two properties, not their residences, each assessed at \$700,000 and with a fair market value of \$3,000,000. Parents have not previously used any of their lifetime exemption.



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Parent-Child Exclusion Example 4



Before Prop 19:
Up to \$1M of non-residence property can be transferred from each parent

After Prop 19:
No exemption

Assessed value for child(ren):
A: \$700,000
B: \$700,000
C: \$1,028,571
(\$2.42M total)

Assessed value for child(ren):
A: \$3,000,000
B: \$3,000,000
C: \$3,000,000
(\$9M total)

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Parent-Child Exclusion

- Partial transfers of interest are valid
- Prop 19 only applies to California properties

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Transfer of Base Value

- People 55 or older, or severely disabled
- Applies to primary residence only
- New rules go into effect April 1, 2021
- New rules are *less restrictive*
 - Expands to the entire state
 - Transfer up to 3 times in lifetime
 - Can move to a residence with higher value, with limitations
- Replace within 2 years

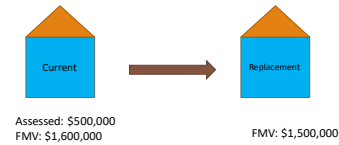
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Other Considerations for Lifetime Transfers

- IRS cost basis
 - Capital gains tax
 - Depreciation

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Transfer of Base Value Example 1



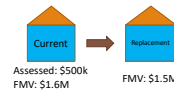
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Other Considerations for Lifetime Transfers

- Loss of control
- Loss of rental income
- Gift taxes
- Medi-Cal LTC eligibility

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Transfer of Base Value Example 1



- Before Prop 19:**
- No previous transfers
 - Transfer within same county, or limited intercounty

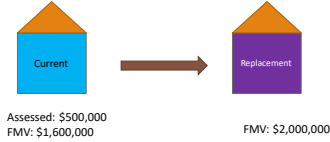
Assessed value of replacement: \$500,000

- After Prop 19:**
- Up to 2 previous transfers
 - Transfer to any county in CA

Assessed value of replacement: \$500,000

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Transfer of Base Value Example 2



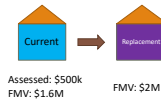
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Transfer of Base Value — Disaster Victims

- Wildfire or disaster victims
- 50% of original residence damaged
- Must purchase/construct replacement within 2 years
- Otherwise similar to aged/disabled transfer
 - Expands to the entire state
 - Can move to a residence with higher value, with limitations

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Transfer of Base Value Example 2



Before Prop 19:

- No previous transfers
- Transfer within same county, or limited intercounty
- Transfer to same or lower value home

Assessed value of replacement: \$2,000,000

After Prop 19:

- Up to 2 previous transfers ok
- Transfer to any county in CA
- Transfer part of base to higher value home

Assessed value of replacement: \$900,000

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General Questions



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Transfer of Base Value

Precaution:

- Sell current home after April 1, 2021
- Purchase replacement after April 1, 2021

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