



*Planning your path
for the future*

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Re: Estate Planning and Proposition 19

Dear Clients of THE LAW OFFICES OF TRICIA SHINDLEDECKER:

Proposition 19 was passed by California voters on November 3, 2020, and increases property taxes for transfers of California real property between parents and children.

Ownership transfers of California real property generally result in a reassessment for property tax purposes with certain exceptions.

Prior to Proposition 19, two exceptions provided that a property would not be reassessed for parent-child transfers:

- The principal residence exclusion allowed the transfer of a principal residence of unlimited value between parents and children; and
- The \$1 million lifetime non-principal residence exclusion allows the transfer between parents and children of up to \$1 million of assessed value for all other types of property. Married couples could combine the lifetime exclusion for a combined amount of \$2 million.

Under Proposition 19, for transfers on or after February 16, 2021:

- In order to qualify for the principal residence exclusion, the receiving child must use the residence as their own principal residence, and only the first \$1 million of additional assessed value is excluded; and
- The non-principal residence exclusion has been completely eliminated (except for transfers of family farms).

This applies only to transfers on or after February 16, 2021.

If you have a property that was previously transferred from parent to child, which qualified for a reassessment exception, that property will not be reassessed now. The new Proposition 19 rules only apply to future transfers.

Clients ask whether they should rush to transfer real estate before February 16, 2021. Families with real estate that are planning to pass from parent to child should consider making transfers before February 16, 2021, to preserve low property tax bases. If the children plan to keep the property to rent or use as a second home, this could save a tremendous amount of property tax in the future.

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However, if the children will likely sell the property, making a gift during life will preserve the low property tax base, but it will eliminate the step-up in basis for income taxes that the children would get if they inherited the property at their parent's death. In this scenario, transferring the real estate now may create a higher income tax liability in the long run.

This is a simplified overview of California property tax changes under Proposition 19. Please contact our office to discuss how these new rules will affect your real estate and family succession planning.

Very truly yours,



Tricia A. Shindledecker

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