LIBERTY FINANCIAL

A REAL ESTATE LENDING FIRM

# What are Propositions 58 & 193?

In 1986, California voters approved Proposition 58, which allows parents to transfer their real estate property to their children without triggering an increase in the property tax base. Prop 58, known as the "parent-child reassessment exclusion" means a potential property tax savings of thousands each year. Proposition 193, passed in 1996, allows for the reassessment exclusion for properties transferred between grandparents and grandchildren. The caveat to Prop 193 is that the parents of the grandchild inheriting the property must be deceased in order be granted the exclusion.

Example: A child who inherits or buys a home in which a parent has owned for 20 years would also inherit the low property tax assessment and annual tax bill. The home could have a market value of $800,000 but an assessed value of $85,000, kept low by limits on property tax increases established by Prop. 13 in 1978. The heir would have an annual tax bill of about $850 with the parent-child reassessment exclusion, saving $8,000-$9,000 per year in property taxes.

Inherited homes qualify for the tax break, whether the children use them as principal residences or as rentals. And the break applies not only to a parent's principal residence, but also to any other inherited real estate, whether commercial or rental, valued up to $1 million. Though the property transfer covered by the law is typically from parent to child, it can also be from child to parent.

When more than one child is inheriting, maximizing the reassessment exclusion lies in the estate-planning details. Consider a hypothetical scenario in which a parent dies, leaving their estate to three daughters to be divided equally among them. Two of the daughters want to sell the house and cash out the equity, while the third wants to keep the property and buy out the others' interest. If the property is transferred first to all three siblings, then from the three siblings to just the one, two-thirds of the parent-child reassessment exclusion has been wiped out. There are other ways of coordinating this so that the child keeping the home gets the entire exclusion, so be sure to do your research and talk to your mortgage professional about the best way to accomplish this and do not rely on the estate attorney to guide you through this.

Keep in mind that the exclusion is not automatic. A claim must be filed with the County Tax Assessor's office within three years of either the date of death of the parent or grandparent, or the date of death, in order for the assessment exclusion to be retroactive to the date of transfer or death. If a claim is filed after the three year mark, the exclusion may be granted, but it would only apply from the year the claim was filed, and no refunds would be issued for previous years. The form is a very simple two-page form that can be found on your local County's Tax Assessor's website. County officials may ask to see a parent's will or trust when considering approval of the assessment exclusion, so be sure you have the proper documentation to provide to the County officials.

With the rising price of real estate in California, buying a home might be out of reach for some young people. Allowing your child or grandchild to buy or inherit a property from you with a low property tax base could just be the “leg-up” they need to begin their journey into homeownership.  We are always happy to strategize and discuss the options you have, so please don’t hesitate to give us a call!