

# LIBERTY FINANCIAL

A REAL ESTATE LENDING FIRM

## WHAT IS PROPOSITION 13?

In 1978, an overwhelming majority of California voters passed Proposition 13 which brought forth sweeping changes to the way properties were taxed. Prior to the passage of this law, property taxes were nearly 3% of the assessed value and a reassessment of the fair market value could occur from year to year. Because of the unpredictable annual costs of property taxes, many older homeowners on fixed incomes were often no longer able to afford the home they had lived in all their adult lives. To the rescue, Howard Jarvis!

Under proposition 13, the assessed value of California real estate was rolled back to its 1975-76 valuations. The new law only allowed for a reassessment when a property transferred ownership, new construction was completed or a decline in value occurred. But the best part of Prop 13 was the tax rate was limited to 1% of the sales price (presumed to be the market value) plus any assessment bonds approved by popular vote. Any subsequent annual increase would be limited to a maximum of 2% per year. With this formula, the property owners in California could anticipate what their property tax cost would be each year.

There are a several type of transfers that are excluded from being reassessed upon the transfer of a property.

1. Propositions 58 and 193 is when a transfer occurs between a parent and a child or a grandparent and a grandchild, if the parent is deceased.
2. Propositions 60 and 90 which allows buyers age 55 and older to transfer their old assessed value to a new replacement property providing the new property is of equal or lower value than the home they sold.
3. The addition or removal of a spouse and domestic partner
4. Transfers to legal entities where the same parties own the property in the same proportion, i.e. an LLC
5. Transfers in and out of revocable living trusts

The Howard Jarvis Taxpayers Association is still around as a watchdog intent on preserving Proposition 13. Political opponents of Proposition 13 are always on the lookout for ways to circumvent this law and extract more money from California property owners. So Beware! Any change to this law could cost you thousands every year.

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