

PROP 19: PROVIDING HOMEOWNERS 55 AND OLDER A SIGNIFICANT TAX BREAK WHEN PURCHASING A NEW RESIDENCE ANYWHERE WITHIN CALIFORNIA



David S. Costello
Contributing Writer

With the recent passage of Prop 19, which is scheduled to go into effect on April 1, 2021, a homeowner who is either over 55 years of age, severely disabled, or whose home was substantially damaged by wildfire may transfer the taxable value of their primary residence to a replacement residence anywhere in the state, regardless of the value of the replacement primary residence within two years of the sale.

Prop 19 supersedes the previous rules which limited this exemption to the sale and purchase of a principal residence within the same county (Prop 60) or between certain counties (Prop 90). Under the old rules the replacement property had to be of equal or lesser value, and was allowable only one time.

Prop 19 makes three significant changes to the portability of one's tax basis

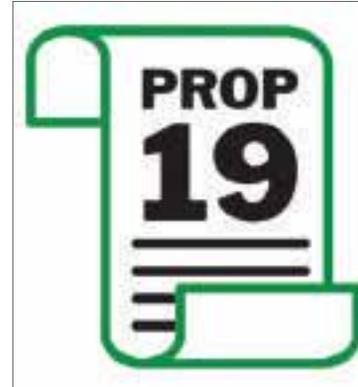
- It allows a seller of a principal residence to transfer the tax basis of that principal residence to the purchase of a replacement principal residence anywhere in the State of California. Under prior law, the seller was limited to transfers either within the same county, or between a limited number of approved counties that specifically permitted such taxable value transfers.
- It allows the transfer of the tax basis of the sold principal residence to the replacement principal residence, regardless of value, with

certain adjustments to the tax basis if the replacement principal property is of greater value than the sold principal residence.

- Prop 19 permits such transfers up to three times, but unlimited for those whose homes were destroyed by fire.

If the replacement residence is of greater value, the taxable value of the replacement primary residence is calculated by adding the difference between the full cash value of the original primary residence and the full cash value of the replacement primary residence to the taxable value of the original primary residence.

Effective February 16, 2021 Prop 19 also changed the rules on exemptions from reassessment for intergenerational transfers. If your principal residence is passed on to your children or grandchildren and will be used as their primary family home, the property tax basis will remain the same - subject to an upward adjustment if the property



at the time of transfer minus \$1M. For example, if the original tax basis were \$500,000, and at the time of the property's transfer the property is valued at \$2M, then the new taxable rate will be \$1M (\$2M minus \$1M) – as the value of the property at the time of transfer was more than \$1M over the taxable basis.

Prop 19's goal is to incentivize seniors stuck in oversized homes to downsize, freeing up inventory in the state's ridiculously expensive housing market.

value, at the time of transfer, is more than \$1M over the original tax basis. For example, if the original tax basis was \$500,000 and property is valued at \$1.2M, then the property tax basis will remain at \$500,000, as the \$1.2M is not more than the \$1M over the original tax basis. If the property at the time of transfer is more than \$1M over the original tax basis, then the next tax basis will be the value of the property

David Costello,
Luxury Homes & Developments
david.costello@compass.com
ardilacostelloteam.com

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