

PROPOSED LEGISLATION MAY TRIGGER REASSESSMENT OF COMMERCIAL PROPERTY AND MAY TRIGGER REASSESSMENT ON TRANSFER OF YOUR HOME TO YOUR CHILDREN

Proposition 13, approved by voters in 1978, set a landmark measure that set property taxes at a low rate in California. Currently, there are movements to scale back Proposition 13 in 2020.

The Split Roll Initiative

California treats commercial and residential properties almost identically when it comes to property taxes. A homeowner and a business owner pay taxes on the value of the property based on its fair market value when it is acquired, with increases in property taxes limited to a maximum of 2% per year. This keeps property taxes low for both homeowners and businesses, especially those who bought property a long time ago in a now pricey area. This initiative would treat California commercial property differently than residential properties. Under the proposal, businesses would have their properties reassessed to market values every three years or less. Nothing would change for residential; a concept known as “split roll”.

Backers of the initiative, led by a coalition of civil rights groups and community organizations, argue that if the split roll passes the State will have more funding to cities, counties, special districts, schools and community colleges. Those who oppose the split roll argue that the measure would have indirect effects on the state’s economy which would increase taxes paid by many businesses in the Bay Area, thereby increasing their costs of operating in California relative to other states. This would influence some businesses’ decisions about whether to expand in, or move out, of California. The initiative is eligible for the November 2020 ballot.

SCA 3: Primary Residences Requiring 12 Month Test

State Senator Jerry Hill introduced Senate Constitution Amendment 3 (“SCA 3”) on December 4, 2018. Hill’s amendment seeks to limit Proposition 58 which provides property tax benefits when properties are transferred between parents and children. Currently, a parent or, in some cases, a grandparent, can transfer the primary residence to the children without reassessment. Under the proposed constitutional amendment, the transfer of the principal residence of a parent (or grandparent in some instances) is excluded from “purchase” or “change in ownership” *only if* the transferee uses the residence as his or her principal residence within 12 months after the transfer.

This 12-month test period is to allow the child time to decide whether he or she wants to make it his or her home. If the child decides not to live in the home and instead rent it out, this measure would require that the residence be assessed to its full fair market value as of the date of the transfer from the parent to child. This means that the child only receives the property tax break if the child resides in the home.

The other part of Proposition 58 which allows for the transfer of up to \$1 million of *assessed* value property to be transferred from a parent to children *without* reassessment will apparently remain in place and will not be modified by Hill’s proposed amendment to Proposition 58.

The measure would require a two-thirds majority vote by both houses of the state Legislature for the measure to be placed on the ballot in 2020.