

BIG CHANGES FOR PROPOSITION 13 Proposed for November 2020

If you own real estate in California and were planning on **passing the property to your children** or if you **own or lease commercial or industrial property**, significant tax increases may be coming your way. Please see below for an executive summary and please watch this space and join our Vlogs (live and recorded Video presentations 30 minutes in length) for continuous analysis of these two important propositions.

Executive Summary:

Propositions 15 and 19, on the ballot this November 2020, seek to dramatically roll back the landscape of Proposition 13 passed by the voters in the 1970s in an effort to cap increases in California real property taxes.

Proposition 15 is the so-called ‘Split Roll’ initiative. This proposition calls for the increase of the assessed value of **commercial** and **industrial** zoned property valued over \$3 million dollars to **fair market value**. This will have the effect of causing a huge increase in real property taxes for many property owners and/or their **tenants**.

Proposition 19, part one, is a ‘re-run’ of last year’s Proposition 5. It offers similar liberal transfer rules for California seniors and others.

The second part of Proposition 19 is new- it seeks to substantially curtail the availability of the **parent-to-child reassessment exclusion** and the grandparent-to-grandchild reassessment exclusion. If the proposition is passed, a child will be able to retain their parents’ property tax bill **only** on the primary residence and **only** if the child’s residency is established in the home within *one year* of the parent to child transfer. Under proposition 19, California real property, other than the parents’ primary residence, will **no longer** qualify for the parent-to-child reassessment exclusion.

Moreover, when the inherited property is used as the child’s principal residence (it must for the reassessment exclusion to apply) if its market value is above \$1 million, an upward adjustment in assessed value will occur. These rules would also be applied to certain farms. Finally, beginning in 2023 the property tax value of an inherited principal residential property would be adjusted each year at a rate equal to the change in the California House Price Index. The increase would no longer be capped at the 2% or less provided by Proposition 13.

BIG CHANGES FOR PROPOSITION 13

A. Action Plan For Proposition 15:

1. Read the initiative so that you may make a reasoned choice on how you will vote this November 3rd.
2. Keep an eye out for our updated news releases and attend our upcoming VLOGS on these important propositions.
3. If you own property zoned **commercial** or **industrial**, you need to pay particularly close attention to the language of the proposition to confirm whether or not your property will be subject to reassessment. If the property is subject to reassessment, you will want to calculate the anticipated increase in property taxes and plan strategies for meeting the increase in property taxes. In particular, you will want to confirm whether or not any leased property requires the tenant to pay for property tax increases.
4. If you are a **tenant** leasing commercial property, you will want to consult your lease provisions to confirm whether or not your lease requires you to pay increases in property taxes. Most **triple net leases** have this tenant requirement. If so, you will want to consult with your landlord to confirm whether the property you lease will be subject to the tax increase and the anticipated amount of the increase. You will then need to develop strategies when considering the renewal of your lease.

B. Action Plan For Proposition 19

1. Read the initiative so that you may make a reasoned choice on how you will vote this November 3rd.
2. Alert your friends and, if you are an advisor, educate your clients on this important initiative.
3. Monitor our continuing analysis of the initiative and attend our Vlogs discussing the details of the Initiative,
4. As we read the terms of Proposition 19, the ability to transfer the family home without restrictions and the ability to transfer to your children other California real estate with an assessed value up to \$1 million dollars without reassessment **will end on February 15, 2021**. If this initiative passes, clients and advisors will need to consider and analyze the benefits and burdens of completing transfers of California real property to their children prior to **February 15, 2021**. ****Previously reported as February 21, 2021****

Should you have any questions or would like to learn more, please feel free to consult with one of our attorneys at McDowall Cotter by giving us a call at 650-572-7933. The accomplished attorneys of McDowall Cotter work in civil litigation, business services, and estate planning and are located in San Mateo. Our experienced and knowledgeable staff will be able to help you with any of your needs or concerns. Additionally, you can find McDowall Cotter on Facebook, Instagram, Twitter and LinkedIn @McDowallCotter.