INFORMATION SHEET

PROPERTY TAX SAVINGS: TRANSFER OF PROPERTY TAX BASE TO REPLACEMENT PROPERTY – AGE 55 AND OLDER

The State Board of Equalization Taxpayers' Rights Advocate Office is committed to helping California taxpayers understand property tax laws, and be aware of exclusions and exemptions available to them.

Transfer of Property Tax Base to Replacement Property – Age 55 and Older

Did you know property owners in California who are age 55 and older can transfer the taxable value of their home when they sell their home and buy or build another home and avoid paying higher property taxes?

In November 2020, California voters approved Proposition 19, which, among other things, allows persons over 55 years of age to transfer the taxable value of their principal residence to a replacement principal residence located in *any* California county, up to three times, *provided certain requirements are met*. This prevents the replacement home from being reassessed at market value due to a change in ownership, which can significantly increase the property taxes from those that were paid on the original residence. "Taxable value" means the property's base year value plus inflationary adjustments, commonly referred to as the factored base year value.

Revenue and Taxation Code (R&TC) section 69.6 implements the base year value transfer provisions under Proposition 19 for persons over 55 years of age for transfers that ***occur on or after April 1, 2021***. (For such transfers that occurred before April 1, 2021, see Publication 800-3a Information Sheet, *Transfer of Property Tax Base to Replacement Property – Age 55 and Older Occurring On or Before March 31, 2021.*)

This base year value transfer is available to a person who is age 55 or older that sells their principal residence (referred to as the original property) and buys or builds a replacement residence (referred to as the replacement property) ***within two years of the sale of the original property***.

To qualify for this exclusion, the following conditions must be met:

- Claimant must be age 55 or older at the time the original property is sold.
- Either the sale of the original home or the purchase or new construction of the replacement home, or both, must occur on or after April 1, 2021.
- The claimant must own and reside in the original property at the time of sale or within two years of the purchase or new construction of the replacement property.
- The original property must have been eligible for the homeowners' or disabled veterans' exemption and the replacement property must be eligible for one of these exemptions.
- The original property must be sold, and the replacement property purchased for consideration. Consideration is defined as something of value such as payment of cash, creation or cancellation of debt, or exchange of other property.

Value Comparison Test and Calculation for Replacement Property's Base Year Value

A claimant may purchase or newly construct a replacement property of any value; however, any value in excess of the original property's market value is added to the original property's transferred base year value. If the replacement property is purchased or newly constructed after the original property is sold, the replacement's market value can exceed the original's market value up to 105 percent of the original's market value if the replacement is purchased within the first year after the sale of the original, or 110 percent within the second year, with no excess added to the transferred taxable value.

If the replacement property is of *equal or lesser value* as compared to the original property, then the factored base year value of the original property, plus any applicable annual inflationary adjustments that occurred between the date the original property was sold and date that the replacement property was purchased or new construction completed, becomes the new base year value of the replacement property.

"Equal or lesser value" means that the full cash value (commonly referred to as market value) of the replacement property does not exceed one of the following:

- 100 percent of the original property's market value if the replacement property is purchased or new construction completed ***before*** the sale of the original property,
- 105 percent of the original property's market value if the replacement property is purchased or new construction completed ***within the first year*** after the sale of the original property,
- 110 percent of the original property's market value if the replacement property is purchased or new construction completed ***within the second year*** after the sale of the original property.

If the replacement property's market value is *greater* than the original property's market value, then the amount above the "equal or lesser value" of the original property's market value is added to the transferred factored base year value.

Therefore, in cases where the replacement property is purchased or newly constructed *before* the sale of the original property, and the replacement's market value exceeds the original's market value, then the difference (excess) will be added to the transferred base year value. If the replacement is purchased or newly constructed *after* the sale of the original property, depending on the time period when the replacement is purchased, the amount above 5% or 10% over the original property's market value is added to the transferred base year value.

Example 1- Replacement Purchased Before Sale of Original

The market value of the replacement property at the time of purchase in July 2021 was $730,000. The market value of the original property at the time of its sale in September 2021 was $700,000 and its assessed value (factored base year value) was $225,738. Since the replacement was purchased ***before*** the sale of the original, then 100 percent of the original property's market value would be compared to the replacement property's market value. Since the replacement's market value is greater than that of the original property, the difference of $30,000 ($730,000 - $700,000) is added to the original property's factored base year value of $225,738. The new base year value of the replacement property would therefore be $255,738 ($225,738 + $30,000).

Example 2- Replacement Purchased After Sale of Original

The market value of the replacement property at the time of purchase in September 2021 was $730,000. The market value of the original property at the time of its sale in July 2021 was $700,000 and its assessed value (factored base year value) was $225,738. Since the replacement was purchased within the first year ***after*** the sale of the original property, 105 percent of the original property's market value ($700,000 x 105% = $735,000) would be compared to the replacement property's market value ($730,000). The difference that exceeds 105 percent of the original's market value would then be added to the original's factored base year value. In this case, there is no excess value to be added because the original property's adjusted market value of $735,000 is greater than the replacement property's market value of $730,000. Therefore, the original property's factored base year value of $225,738 would transfer to the replacement property without any excess added.

However, if the market value of the replacement property was $800,000 instead of $730,000, $65,000 in excess value would be added to the $225,738 transferred value. The excess is calculated as follows: $800,000 minus the original's adjusted market value of $735,000 ($700,000 x 105%) = $65,000. The new base year value of the replacement property would then be $290,738 ($225,738 + $65,000).

Potential for Tax Savings

Property taxes are based on the assessed value of your property. For purposes of California property taxation, real property is reassessed at market value when sold or transferred, or upon completion of new construction. As a result of purchasing a different home or building a new one, the property's assessed value can sometimes increase significantly, resulting in higher property taxes due each year.

If the original property's factored base year value is less than the market value of the replacement property, then receiving a base year value transfer will result in savings.

Tax savings of *Example 1* from above: The market value of the replacement property at the time of purchase was $730,000; normally the change in ownership would result in the property being reassessed at its market value, which establishes its new base year. However, because the owner applied and qualified for a base year value transfer, the new base year value of the replacement property is $255,738. This results in lower property taxes because the assessed value of the replacement property is $474,262 lower than its market value ($730,000 - $255,738 = $474,262). Given the one percent statewide tax rate, this would save over $4,742 in property taxes per year.

Tax savings of *Example 2* (scenario 2) from above: The market value of the replacement property at the time of purchase was $800,000; normally the change in ownership would result in the property being reassessed at its market value, which establishes its new base year. However, because the owner applied and qualified for a base year value transfer, the new base year value of the replacement property is $290,738. This results in lower property taxes because the assessed value of the replacement property is $509,262 lower than its market value ($800,000 - $290,738 = $509,262). Given the one percent statewide tax rate, this would save over $5,092 in property taxes per year.

How to Apply for the Base Year Value Transfer Exclusion

Complete form BOE-19-B, *Claim for Transfer of Base Year Value to Replacement Primary Residence for Persons at Least Age 55 Years*. Obtain the claim form from the County Assessor's office where the replacement property is located. Submit the completed form to the same office.

When to File Your Claim

To qualify for this base year value transfer, the claim must be filed with the County Assessor within three years of the date you purchased or completed construction on the replacement home.

The base year value transfer is still available for claims filed after the three-year period; however, the transfer will be granted beginning with the year that the claim is filed.

Helpful Hints

- The original property must be your principal residence at the time of sale or within two years of buying or completing construction on your replacement home; it cannot be your vacation home.
- The replacement property can be purchased within two years (before or after) of the sale of the original property.
- You must be at least age 55 when you sell your original property; but you can be under 55 when you purchase the replacement property.
- If married, only one spouse needs to be at least age 55.
- You can transfer your base year value up to three times under Proposition 19, regardless of whether you already received a base year value transfer prior to April 1, 2021, under Proposition 60 or 90.
- If you buy a replacement property with a market value lower than that of the original property, any new construction completed on the replacement within two years of the sale of the original can be included in the transferred base year value, up to the amount of the original property's market value.
- You cannot benefit from this exclusion if you transfer your original property to your child and your child claims the parent to child exclusion.
- If the market value of the replacement property is less than the factored base year value of the original property at the time of the transfer, then claiming the exclusion is not beneficial.

- If you did not receive the homeowners' or disabled veterans' exemption on the original property, you can still qualify for a base year value transfer if you were eligible for one of these exemptions at the time of sale or within two years of the replacement property's purchase or new construction.
- Property owned by a legal entity (for example, corporation) is not eligible for a base year value transfer.

Where to Find Additional Information

Visit the State Board of Equalization's (BOE) website at *www.boe.ca.gov* for property tax information. For comprehensive information on Proposition 19, visit *www.boe.ca.gov/prop19*.

Refer to LTA 2022/009, *Implementation of Proposition 19: Base Year Value Transfers* and Property Tax Rule 462.540, *Change in Ownership – Base Year Value Transfers*.

Visit the County Assessor's website where the property is located. The BOE's website has contact information for each County Assessor in California, available at *www.boe.ca.gov/proptaxes/countycontacts.htm*.