



STATE BOARD OF EQUALIZATION
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September 24, 2004

No. 2004/053

TO COUNTY ASSESSORS:

REPORTING FOR PROPOSITIONS 58/193,
PARENT-CHILD AND GRANDPARENT-GRANDCHILD EXCLUSION

The Governor recently signed Senate Bill 1102 (Chapter 227, Statutes of 2004), a general government omnibus budget trailer bill. It became effective August 16, 2004.

One of the provisions of this bill makes optional a variety of previously-mandatory duties that local government agencies perform because the state funding that had been appropriated to reimburse local government agencies for their costs has been discontinued for a number of years. Section 6 of Article XIII B of the California Constitution generally provides that when the state enacts legislation that mandates a new program or a higher level of service, the state must provide a subvention of funds to reimburse local agencies for their costs.

Among the unfunded state mandates affected by this bill is the parent-child and grandparent-grandchild exclusion reporting in Revenue and Taxation Code section 63.1. The legislation that added section 63.1 (Chapter 48, Statutes of 1987) deemed that the provision requiring assessors to report quarterly certain exclusions to the Board was a state-mandated cost for which counties could be reimbursed. Since 1992-93, the funding to reimburse counties for this cost in the annual budget has been zero. Due to the lack of funding, this bill makes the assessors' quarterly reports to the Board optional, but states that the Legislature, in recognizing the local interests served by this mandate, encourages assessors to continue to report exclusions claimed.

Proposition 58, which was passed by the voters of California on November 4, 1986, added subdivision (h) to section 2 of article XIII A of the California Constitution, and provides, in part, that the terms "purchased" and "change in ownership" shall not include the purchase or transfer between parents and their children of a principal residence, or the first \$1 million of the full cash value of all other real property. Proposition 193 on the March 1996 ballot amended this section to apply the exclusion to transfers of real property from grandparents to grandchildren where all the parents of the grandchildren who qualify as children of the grandparents are deceased as of the date of transfer.

Revenue and Taxation Code section 63.1 provides the statutory implementation for Propositions 58 and 193. To monitor the \$1 million limit of transfers of real property *other* than principal residences, the Board was required to track, statewide, the \$1 million lifetime exclusion for eligible transferors. The Board created a database of exclusions granted based on information compiled from each assessor to ascertain when the \$1 million limit on the exclusion for an eligible transferor has been reached. The Board notifies county assessors on a quarterly basis when eligible transferors have exceeded the exclusion limit.

Chapter 227 amended section 63.1 as follows:

(f) The assessor ~~shall~~ may report quarterly to the State Board of Equalization all purchases or transfers, other than purchases or transfers involving a principal residence, for which a claim for exclusion is made pursuant to subdivision (d). Each report shall contain the assessor's parcel number for each parcel for which the exclusion is claimed, the amount of each exclusion claimed, the social security number of each eligible transferor, and any other information the board ~~shall~~ may require in order to monitor the one million dollar (\$1,000,000) limitation in paragraph (2) of subdivision (a).

(i) In recognition of the state and local interests served by the action made optional in subdivision (f), the Legislature encourages local agencies to continue taking the action formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.

The Board strongly encourages county assessors to continue to report these exclusions on a timely basis to ensure the integrity of the statewide database in order to properly administer section 63.1. Your continued cooperation will allow us to notify you when a person has claimed exclusion for property in excess of the \$1 million limit allowed by law.

If you have any questions regarding this exclusion, please contact our Real Property Technical Services Unit at (916) 445-4982.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

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