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“Prop 19 gives Californians age 55 and older potentially a big property tax break when buying a new home. This comes at a cost though, which curtails a significant tax break when inheriting CA property from parents and grandparents.”

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.



CA Proposition 19 - Changes Related to Property Tax Assessed Values

(Originally Published in December 2020 Monthly Commentary)

Proposition 19 was passed by California voters in the November Presidential Election. It gives Californians age 55 and older potentially a big property tax break when buying a new home. Legislators hope this measure will increase home sales by calming the fears of those who want to move but are concerned about rising property tax bills. To fund the new tax break, it will curtail a separate tax break Californians may receive on homes inherited from parents and grandparents.



CA Property Tax Law- Proposition 13: Under 1978's Proposition 13, real estate in California is reassessed at market value when it changes hands. In between changes of ownership, the assessed value can go up by no more than 2% per year plus the value of new construction. Normally, taxes go up when a property turns over because market values have risen more than 2% a year over the long term.

After Prop. 13 passed, voters approved several propositions that excluded some property transfers from reassessments, including those for older adults and transfers between parents and children. Prop. 19 will replace those exemptions with new rules.

Rules Related to Those 55 & Older: Currently, homeowners older than 55 or severely disabled can sell their primary residence and transfer its tax base to a replacement home of equal or lessor value in the same county, or in one of 10 that accept inter-county transfers. Under Prop 19, effective April 1, 2021, those 55 and older and disabled homeowners, will be able to sell their primary residence, buy a replacement home of any value anywhere in CA, and transfer its tax base from the old home to the new one. If the new home is more expensive, the difference in market value between the old and new homes will be added to the old home's tax base. A homeowner will be able to do this transfer up to three times.

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services:

- Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:
 - Tax Return Preparation
 - Income Tax Projections
 - Tax Minimization Ideas
 - Tax Authority Representation

Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
 - Medicare Planning— Eileen Hamm of Superior LTC Planning Services, Inc.
 - Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

Rules Related to Transferring Property to Children: Today a parent can transfer by gift, sale or inheritance, a primary home of any value and it won't be reassessed, even if they leave it vacant or rent it out. A parent can also transfer other real estate, such as a rental home or commercial property, and exempt up to \$1 million of assessed value (not market value) from reassessment. A married couple can transfer up to \$2 million. Prop. 19 will abolish this tax break on any property not being used as a primary residence or farm. To qualify, the new owner must also use the property as their primary residence or farm and the difference between the assessed value and current market value does not exceed \$1 million. If the difference does exceed \$1 million, the primary residence or farm will be reassessed based on a convoluted formula.

Tax Planning for CA Real Estate: Families with substantial real estate holdings may want to consider transferring property before February 16, 2021. However, there's a trade-off. For those who plan to leave the property to their children as an inheritance, the children will lose the step-up in basis that property receives under current law when it is transferred at death. This step-up allows heirs to avoid capital gains taxes on inherited property if they sell it right away.