FOUR THINGS YOU MAY NOT KNOW ABOUT PROPERTY TAXES

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"Discussed are possible ways to reduce your current property taxes along with possible ways to carry over a low property tax valuation when a property is sold or otherwise transferred."

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.

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Recently, we had a couple of interesting questions from clients concerning property taxes. In researching those questions, I found some things that may apply to many of our clients' situations.

Homeowner's Exemption:

Homeowners are eligible for a $7000 homeowner's exemption on their primary residence, saving you at least $70 a year in taxes. Once it's applied for, it should show up automatically each year on your property tax bill.

School Bond Relief for Seniors:

If you read your property tax bill, you will notice there are often taxes for school bonds, which are specific to where you live. Frequently, seniors (i.e. those over 65) can get exempted from paying school bond taxes, saving up to hundreds of dollars every year. The exemption is given locally, not by the county. To qualify, homeowners generally must live in the home as their primary residence. They must request, fill out and send in the application provided by the school district, generally with proof of age, ownership and residency. Generally, the exemption is not needs based; you only have to show that you are over 65. It's not retroactive, but if you apply now you may save money off next year's bill.

Take Your Valuation with You:

Proposition 13, which was passed by California voters in 1978, has rewarded long-time real estate holders with lower property taxes. There are a couple of ways to keep a low property tax assessment when a property is transferred. If you are over 55, you may be able to take your valuation with you. Another instance is when you transfer property between parent and child or in some cases from grandparent to grandchild (see next section for further details).

Under California Proposition 60, if you or your spouse is over 55 years old and you sell your principal residence and move to another within the same county, you can take the assessed value of your home to your next home if:

- The replacement home value must be equal to or less than the current market value of the property you sold.
- The replacement property must be purchased or built within two years (before or after) of the sale of the original property.
- You have to file a claim form with the county assessor within three years of the date of transfer.
- This is a one-time benefit. Once you use it, it can't be used again.

California Proposition 90 allows inter-county transfers of your property base valuation. Currently, there are 9 counties in California (Alameda, El Dorado, Los Angeles, Orange, Riverside, San Diego, San Mateo, Santa Clara, and Ventura) that allow you to transfer your property valuation from another county. If you are moving to another county, it's important to check to see if the county you are moving to will accept the transfer (as this list may change overtime).

<u>Parent-Child and Grandparent to Grandchild Exclusion:</u>

California Propositions 58 and 193 deal with the transfer of real estate between parent and child, or grandparent and grandchild. Proposition 58 excludes from reassessment real estate that is transferred from parent to child, or child to parent. The grandparent to grandchild exclusion under Proposition 193 comes into play only if *all* parents of the grandchild are deceased. A surviving grandparent can transfer their property tax base to their grandchildren, but grandchildren cannot transfer to grandparents. Depending on the situation, it can get complex. Two exclusions apply:

1. Transfer of a primary residence. There is no dollar value limit on the transfer of a primary residence.
2. Transfers of the first $1 million of real property, other than the primary residence, can also be excluded from reassessment. The $1 million exclusion applies to the assessed value of the property, not the fair market value. This can apply to multiple properties until the cumulative assessed value reaches $1 million. Note that real estate held in an LLC, partnership, or corporation are not eligible for the exclusion while real estate in the parent's name or a revocable living trust would be eligible.

What happens when a parent dies and leaves a house to multiple children? Can one get the house and take the exclusion? As long as the value of the property does not exceed that child's share of the entire estate, he/she can get the full exclusion. If he/she needs to buy out their siblings because the house is worth more than what the others received, they can still get a prorated share of the parent's valuation

Let's look at a simple example. Assume a home has a market value of $1 million when the parent dies and the total estate is worth $1.2 million. Assume Child A, who wants the house, has a total share of the estate worth $600,000. That child would be able to exclude a proportional share. If we assumed the current assessed value is $100,000:

Current assessment $100,000 X 60%=	$ 60,000	Parent to Child Portion
Market value $1,000,000 X 40%=	$<u>400,000</u>	Sibling to Sibling Portion
Child's new property tax valuation	$460,000	

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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:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.

Additional Information: I have only skimmed over these issues, with the intention of giving basic information in case any of these situations apply to you. I am not an expert in property tax, real estate, or estate planning. Laws change over time and the information presented here may become out of date. It's always best to consult with a real estate or estate planning attorney for advice before claiming the exclusions. The State Board of Equalization has some very good examples and Q&As for these propositions. If you have specific questions you can search by the proposition number for more info or call the State Board of Equalization or your local county assessor.

Some Useful Links:

Proposition 60& 90 Q&A

http://www.boe.ca.gov/proptaxes/faqs/propositions60_90.htm#14

Proposition 58 and 193 Q&A

http://www.boe.ca.gov/proptaxes/faqs/propositions58.htm#9

The phone number for the Property & Specialty Tax Department at the State Board of Equalization is (916) 274-3350.