

## Parent-Child Change in Ownership Exclusions

### What Does the Exclusion do?

By applying for this exclusion, property owners may be able to avoid property tax increases when acquiring property from their parents or children.

In the State of California, real property is reassessed at market value if it is sold or transferred and property taxes can sometimes increase dramatically as a result. However, if the sale or transfer is between parents and their children, the property will not be reassessed if certain conditions are met and the proper application is filed.

**Important Note:** Property owners should understand that claiming this exclusion may not always be to their benefit. See "**When is it not beneficial to claim this exclusion?**" Section for an explanation of that circumstance.

### What Are The General Requirements?

- A properly completed, state approved application must be filed with the Assessor as soon as possible following the transfer. An applicant may also be required to provide additional documentation to support their claim.
- The application must be filed within three (3) years of the date of transfer (which is the date of death if the transfer is the result of a death) in order to qualify for the exclusion retroactive to the date of death. Applications may be filed at any time after the three year deadline; however, those filed after the three (3) year deadline will only become effective for the Lien date in the assessment year in which they are filed and will not be retroactive to the date of transfer.
- Owners may claim the Parent-Child Exclusion on the residence of a parent or child that has been sold or transferred to them. In other words, the exclusion applies whether the transfer is from parent to child, or from child to parent. They may also claim the exclusion on other real property up to \$1,000,000 in assessed value.
- The exclusion applies to sales and transfers both from parents to their children and from children to their parents. It also applies to transfers between a trust and a parent or child. It does not apply to sales and transfers to and from partnerships, corporations, or other legal entities.
- The exclusion only applies to sales and transfers that occurred after November 6, 1986. If a transfer occurs because someone dies, the date of death is considered to be the date the property transferred.
- A child is defined as being a child by birth, marriage, or adoption. If they are a stepchild or an in-law, they must have been a stepchild or an in-law when the property sold or transferred. If the child was adopted, the adoption must have occurred before age 18.

### When Is It Not Beneficial To Claim This Exclusion?

In some circumstances, claiming the Parent/Child exclusion actually may not be to an owner's benefit.

Example: If the transferred property was being assessed at its current market value under Proposition 8 at time of transfer (that is, its market value had fallen below its original Proposition 13 factored base year value), it may be beneficial for the new owner **not** to claim the exemption and instead accept a new Proposition 13 base year reassessment. By doing so in this circumstance, the reassessment can result in lower property taxes over time by locking-in the lower market value as the property's new base year value as of the date of transfer.

Otherwise, the higher original Proposition 13 base year value set for the prior owners would some day be reinstated as market conditions improve over time and at a level higher than they would be if the property had received a new Proposition 13 Base Year Value as of the date it transferred to the parent or child.

In any case, you may wish to consult with a real estate or income tax expert before claiming this exclusion.

### **Does the Exclusion Apply to Capital Gains or Income Taxes?**

No, this exclusion is **not** related to State or Federal capital gains or inheritance tax laws and has no affect upon them.

### **More Questions?**

If you have any questions, you may call the Property Transfer Section of the Assessor's Office at (209) 385-7631. Telephone hours are 8 a.m.. to 5 p.m., Monday through Friday. You can also visit the Assessor's Office on the 2nd floor of the County Administration Building at 2222 M Street, Merced. Our Office hours are from 8 a.m.. to 5 p.m.

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## **Grandparent/Grandchild Change In Ownership Exclusions**

### **What Does The Exclusion Do?**

By applying for this exclusion, property owners may be able to avoid property tax increases when acquiring property from their grandparents.

In the State of California, real property is reassessed at market value if it is sold or transferred, and property taxes can sometimes increase dramatically as a result. However, if the sale or transfer is from a grandparent to a grandchild, the property will not be reassessed if certain conditions are met and the proper application is filed.

**Important Note:** Property owners should understand that claiming this exclusion may not always be to their benefit. See "**When is it not beneficial to claim this exclusion?**" section for an explanation of that circumstance.

### **What Are The General Requirements?**

- A properly completed, state approved application must be filed with the Assessor as soon as possible following the transfer. An applicant may also be required to provide additional documentation to support their claim.

- The application must be filed within three (3) years of the date of transfer (which is the date of death if the transfer is the result of a death) in order to qualify for the exclusion retroactive to the date of death. Applications may be filed at any time after the three year deadline; however, those filed after the three (3) year deadline will only become effective for the Lien date in the assessment year in which they are filed and will not be retroactive to the date of transfer.
- This exclusion applies only to transfers occurring on or after March 27, 1996. If a transfer occurs because someone dies, the date of death is considered to be the date the property transferred.
- This exclusion only applies to transfer from grandparents to grandchildren and not to transfers from grandchildren to grandparents (differs from parent/child exclusion in that respect).
- To qualify, a grandchild's own parents must either have both been deceased before the date of transfer from grandparent to grandchild, or, in the case where only the grandparent's child is deceased, the surviving in-law parent must have either been divorced or remarried before the date of transfer.
- A grandchild is defined as a "child" of the grandparent's own children "Children" is defined under the law that offers the similar parent/child exclusion which provides that a child may be a child by birth, marriage, or adoption. If they are a stepchild or an in-law, they must have been a stepchild or an in-law when the property sold or transferred. If the child was adopted, the adoption must have occurred before age 18.

### **When Is It Not Beneficial To Claim This Exclusion?**

In some circumstances, claiming the Grandparent to Grandchild (or parent/child) exclusion actually may not be to an owner's benefit.

Example: If the transferred property was being assessed at its current market value under Proposition 8 at time of transfer (that is, its market value had fallen below the grandparent's original Proposition 13 factored base year value), it may be beneficial for the new owner **not** to claim the exemption and instead accept a new Proposition 13 base year reassessment. By doing so in this circumstance, the reassessment can result in lower property taxes over time by locking-in the lower market value as the property's new base year value as of the date of transfer.

Otherwise, the higher original Proposition 13 base year value set under the grandparent's ownership would some day be reinstated as market conditions improve over time and at a level higher than they would be if the property had received a new Proposition 13 Base Year Value as of the date transferred to the grandchild.

In any case, you may wish to consult with a real estate or income tax expert for advice before claiming this (or the Parent/Child) exclusion.

### **Does the Exclusion Apply to Capital Gains or Income Taxes?**

No, this exclusion is **not** related to State or Federal capital gains or inheritance tax laws and has no affect upon them.