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Are Parent-Child Transfers under California Prop 19 Destroying the Ability to Create Generational Wealth?

On November 3, 2020, California voters narrowly voted to pass **Proposition 19** (Prop 19) which affects how California homeowners are able to pass on property to family members. Effective on February 16, 2021, parents attempting to pass on their family home to children are now inadvertently restricting how their children can and will use the home.

How does Prop 19 affect Parent-Child Transfers?

Prior to Prop 19, the law allowed for a parent to transfer their primary residence to a child **without having the property reassessed for tax purposes** even if the child did not use it as their primary residence. Then, for example, it would be fine for the child to live elsewhere and use the property as an income or vacation property. Now, under Prop 19, a child whose parents transfer their primary residence **must use the property as their primary residence** or have the property reassessed, thus potentially increasing their tax obligations.



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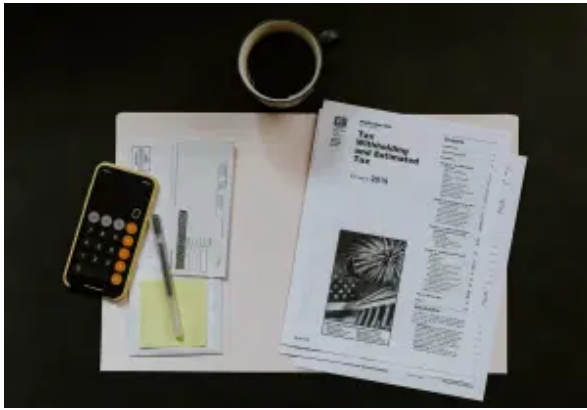


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An important factor to this change in the law affecting tax obligations is the \$1,000,000 cap on taxable value. If the increase in value is less than or equal to \$1,000,000, there is no reassessment of the property. However, if the increase in value is more than \$1,000,000, anything over the first \$1,000,000 is added to the value for tax purposes.

Building Generational Wealth

Each generation should be in a better place than the last — this is what most people have heard for ages. However, when an attempt to secure generational wealth for your children and your children's children becomes a money pit, how can someone not be angered?

Generational wealth is created when assets held by the family get passed down to their children then their grandchildren, and so forth. This can range anywhere from cash, stocks, bonds, investments, and properties. The most common form of generational wealth is through passing on real estate. When you purchase a home, that's a big step since you are potentially going to pass this piece of property on to your children. Purchasing a home is one of the biggest transactions a person will make in their lifetime. Purchasing a home not only secures a place for your family but for future generations to come.

Millennials have the biggest disadvantages all around. In 2019, **Millennials held the least amount of wealth** even though they account for the largest population. Older generations have continued to accrue large amounts of wealth while younger generations have had difficult starting points. Joining the workforce for millennials was a rocky start due to the **Great Recession in 2007-2009 and financial crisis**. This is not even taking into account racial disparities in wealth gaps: **communities of color pay higher property taxes**.



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The idea of owning a home and not having to answer to anyone with respect to who lives in it or not is the way it should be.

Unfortunately, vis-à-vis Prop 19, the state wants to take that away. It is ridiculous that the State wants a piece of the proverbial pie. Legislators should have never gotten involved in people's efforts of building generational wealth, especially families of color who are disproportionately impacted by this change. Some will point out that California residents voted for this, but similar to other measures, **this proposition is complex** and it is unlikely that voters knew exactly what they were voting for. Younger generations who would benefit from having their parents transfer their properties, now face the potential of having their property taxes reassessed if the value is in excess of \$1,000,000. Why should someone be penalized for their parents having made smart investments?

When you look at Prop 19 as a whole it appears quite strange that they also included wildfire relief. Of course, voters would want to help those that were affected by wildfires, so this was a



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very clever way to get parent-child transfers approved by voters. If the State of California wanted to help out those who lost their homes during the tragic wildfires that's amazing, and these efforts should be taken by the State. If the concern was about creating more revenue for cities, the State could have found other tax generators, without going after families trying to secure generational wealth. Presently however, in this context, the State is helping someone while inadvertently harming others. The idea that Prop 19's triggered reassessment of property taxes would increase revenue for respective cities comes at what cost to hardworking families? People who've made smart investments should not be punished in order to

help those who deserve relief.

Prop 19 passed with only 51% approval. If the state really believed that California voters would approve a proposition that would reassess property tax on parent-child transfers then they should have created a separate proposition – one which was only and exactly what it claimed to be focused on. California is very diverse with the majority of the population belonging to a minority group including **more than 10 million immigrants** in the state. More minority and immigrant families will be affected by this parent-child transfer. My parents are immigrants who have worked very hard for everything they have. This parent-child transfer now affects how my siblings and I, if any, will take the family home in the future.

We already know that racial disparities in wealth exist, that communities of color are already at a disadvantage. Now this will be another item on the list potentially holding them back from creating or adding to generational wealth, and gaining financial agency for themselves that they've historically been deprived of.

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