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No. 2020/002

January 15, 2020

TO COUNTY ASSESSORS:

**CHANGE IN OWNERSHIP EXCLUSION:
 TRANSFER OF CORPORATION STOCK FROM PARENT TO CHILD**

Under Revenue and Taxation Code¹ section 64, a transfer of ownership interests in a legal entity results in a change in ownership of real property under either of these circumstances: (1) any person or entity obtains direct or indirect control of more than 50 percent of the legal entity, or (2) a cumulative transfer of more than 50 percent of original co-owners' interests² in the legal entity. If a change in control occurs pursuant to section 64(c), all real property owned by the legal entity as of the date of the change in control or ownership is subject to reassessment. If a transfer of original co-owner interest results in a change in ownership pursuant to section 64(d), only the real property previously excluded from a change in ownership under section 62(a)(2) is subject to reassessment.

Effective October 9, 2019, Assembly Bill 872 (Stats. 2019, ch. 685) added subdivision (r) to section 62 to exclude from change in ownership any parent to child transfer of stock in a qualified corporation that owns qualified property, provided that the transfer is due to the death of a parent.

This exclusion applies to a transfer of stock resulting from a parent's date of death that occurs on or after October 9, 2019, the effective date of section 62(r). The transfer of stock must trigger a change in control or ownership resulting in a reassessment of qualified property before the exclusion can apply. This exclusion does not apply to a reassessment caused by a change in control or ownership from a voluntary transfer of stock between parents and their children, a transfer of stock from a child to a parent, or a transfer of real property between an individual and a corporation.

Qualified Corporation

This exclusion applies only to a reassessment of qualified property resulting from a transfer of interest in a *qualified corporation*. Section 62(r)(4)(A) defines a "qualified corporation" as a corporation that meets all of the following conditions:

- Created between March 1, 1975 and November 6, 1986, inclusive.
- The only stockholders in the corporation have been the parents and their children.
- The corporation owns qualified property.

¹ All statutory references are to the Revenue and Taxation Code, unless otherwise provided.

² If real property is transferred to a legal entity in a transaction that is excluded from change in ownership under section 62(a)(2), the person(s) or entity(ies) holding the ownership interests in the transferee legal entity immediately after the transfer are deemed original co-owners for purposes of determining whether a change in ownership of real property occurs upon subsequent transfers of the ownership interests in such legal entity.

To qualify for this exclusion, the only stockholders of the corporation since its incorporation is any combination of parents and their child(ren). If any other person or family member was a stockholder at any point in time since incorporation, the transfer of corporate stock that results in a reassessment of qualified property will not qualify for exclusion.

The exclusion does not apply to a reassessment of real property caused by a transfer of interest in any other type of legal entity, such as a limited liability company or a partnership.

Qualified Property

Section 62(r)(4)(B) defines "qualified property" as a parcel of land that meets *both* of the following conditions:

- Contains the principal place of residence of the parent(s) prior to their death and that has been the continuous place of residence of a child of the parent(s) since the creation of the qualified corporation.
- Has an adjusted base year value of the land and residence that, as of the date immediately prior to the date of death of the last surviving parent, does not exceed \$1 million.

This exclusion applies only to real property that contains a home that was the principal residence of both the parent and a child. Moreover, the home had to have been the continuous place of residence of that child. Any other type of real property owned by the qualified corporation does not qualify for the exclusion.

Claiming the Exclusion

Section 62(r) does not provide any filing requirements. For administrative ease, the State Board of Equalization (BOE) is in the process of creating a claim form, which will be provided to and available for County Assessors once it has been approved.

To determine qualification, an assessor will need to verify that the corporation was incorporated between March 1, 1975 and November 6, 1986, and that the stockholders of the corporation have only been parent(s) and their child(ren). In addition, a corporation may need to provide evidence that the residence was the parent's principal place of residence and has been the child's continuous place of residence since incorporation. A corporation will need to provide copies of the following documents:

- The corporation's articles of incorporation or other formative document that indicates the date of incorporation.
- The corporation's stock ledger or other document that shows all stockholders since incorporation.
- Evidence indicating the principal place of residence of both the parent(s) and child, such as vehicle registration, voter registration, bank statements, etc.

A copy of section 62(r) is enclosed. If you have any questions regarding this change in ownership exclusion, please contact the County-Assessed Properties Division at 1-916-274-3350.

Sincerely,

/s/ David Yeung

David Yeung
Deputy Director
Property Tax Department

DY:gs
Enclosure

Effective October 9, 2019, subdivision (r) is added to section 62 of the Revenue and Taxation Code:

62. Change in ownership shall not include:

* * *

(r) (1) Any parent to child transfer of stock in a qualified corporation that results in a change in ownership of a qualified property owned by the qualified corporation, provided that the transfer of stock is due to the death of a parent or parents.

(2) The assessor shall report quarterly to the State Board of Equalization all transfers for which a claim for exclusion is made for a qualified property pursuant to this subdivision and the amount of each exclusion claimed.

(3) The exclusion provided by this section shall apply only to a qualified property.

(4) For purposes of this subdivision, both of the following definitions shall apply:

(A) "Qualified corporation" means a corporation that satisfies all of the following conditions:

(i) Was created between March 1, 1975, and November 6, 1986, inclusive.

(ii) The corporation owns qualified property.

(iii) The only stockholders in the corporation have been the parents and their children.

(B) "Qualified property" means a parcel of land that satisfies both of the following conditions:

(i) Contains the principal place of residence of the parents prior to their death that has been the continuous place of residence of a child of those parents since the creation of the qualified corporation.

(ii) Its full cash value, as defined in Section 2 of Article XIII A of the California Constitution and Section 110.1, with any adjustments authorized by those sections, as of the date immediately prior to the date of death of the last surviving parent does not exceed one million dollars (\$1,000,000).