California State Board of Equalization

Legislative Bill Analysis

Senate Bill 566 (Grove)
Date: February 20, 2025 (Introduced)
Program: Property Taxes
Revenue and Taxation Code section 218
Effective: Upon enactment, immediately

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Summary: This bill, beginning with the lien date for the 2026-27 fiscal year, provides an increased homeowners' property tax exemption for senior citizens, age 62 and older, from $7,000 to $50,000 of assessed value.

Fiscal Impact Summary: This bill would increase the state reimbursement for the homeowners' exemption by approximately $817 million annually.

Existing Law: Article XIII, section 3(k)[1] of the California Constitution exempts from property taxation the first $7,000 of assessed value of an owner-occupied principal place of residence. This exemption is called the "homeowners' exemption." Section 25 of Article XIII requires the state to reimburse local government for the resulting property tax revenue loss.

Existing law, pursuant to Section 3(k) of Article XIII, authorizes the Legislature to increase the amount of the homeowners' exemption if:

- local governments are reimbursed for the revenue loss; and,
- benefits to renters, currently provided via the renters' income tax credit, are increased by a comparable amount.

Revenue and Taxation Code (RTC) section 218 specifies eligibility for the homeowners' exemption and sets the exemption at $7,000[2]. It specifies that the exemption does not extend to property that is rented, vacant, under construction on the lien date, or that is a vacation or secondary home of the owner or owners, nor does it apply to property on which an owner receives the veterans' exemption.

Proposed Law: SB 566 proposes the following changes to existing law:

Homeowners' Exemption. This bill would amend RTC section 218 to increase the amount of the homeowners' exemption to $50,000 for persons who are age 62 years or older. Qualification for the homeowners' exemption remains unchanged, and does not extend to property that is rented, vacant, under construction on the lien date, or that is a vacation or secondary home of the owner or owners, nor would it apply to property on which an owner receives the veterans' exemption.

Renters' Credit. Additionally, this bill would amend RTC section 17053.5 to make a corresponding increase to the amount of the income tax credit provided to qualified renters that are over the age of 62 as specified.

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[1] Article XIII, Section3 (k)
[2] Revenue and Taxation Code section 218

As the Franchise Tax Board (FTB) administers the renters' credit, this analysis does not address this provision of the bill. Additionally, the associated revenue impact of this provision is not reflected in the State Board of Equalization's (BOE) revenue estimate.

Effective Dates. This bill would be effective immediately.

In General: Prior to the enactment of Proposition 13 in 1978, various property tax reform proposals were advocated in the 1960's and 1970's because at that time property taxes were based on a property's actual market value. Consequently, property was reassessed to its current market value on a cyclical basis and these periodic reassessments resulted in substantial property tax increases due to rapidly escalating real estate values, similar to the real estate market in recent years. To provide some measure of property tax relief to homeowners, the "homeowners' exemption" was created in 1968 via a constitutional amendment. (Proposition 1-A; SCA 1 and SB 8, Stats. 1968). The exemption was equivalent to $3,000 of assessed value. In 1972, legislation was passed to increase the exemption to its current equivalent level of $7,000 beginning in 1974. (SB 90, Stats.1972)

Numerous bills were introduced in the Legislature between 1972 and 1978 to increase the amount of the exemption. Apparently, these bills were rejected, in part, because some viewed the use of a homeowners' exemption as a temporary means of providing property tax relief, the benefits of which would erode over time due to inflation. Some argued instead that a fundamental change to the property tax system was needed to contain rapidly increasing property taxes.

Ultimately, the property tax reform proposal adopted was Proposition 13 (Article XIIIA of the California Constitution). Approved by the voters in June 1978, it rolled back real property values to 1975 market value levels and limited future annual increases in assessed values to the rate of inflation, not to exceed 2%, as long as the property remained under the same ownership. Proposition 13 also limits the basic property tax rate to 1%. Previously, each taxing agency could determine and levy its own rate, and the statewide average tax rate was about 2.67%.

Under Proposition 13, property is reassessed to its current market value only after a change in ownership. Generally, the sales price of a property is used to set the property's assessed value and annual increases to that value are limited to the rate of inflation, not to exceed 2%. Thus, Proposition 13 established a new assessment value standard that requires property to be assessed based upon the market value of the property at the time it is acquired by the taxpayer, rather than the value it has in the current real estate market. For property owners, especially homeowners, the primary benefits of this system are that future property tax liability is determinable and annual increases are modest.

Commentary:

1. **Exemption Amount Unchanged Since the Enactment of Proposition 13.** The homeowners' exemption was enacted in 1968 and increased to its current level in 1974. Despite numerous attempts, the exemption has not been increased in more than 50 years. Arguments against increasing the exemption generally follow the line of reasoning that California property tax law, via Proposition 13, provides sufficient property tax relief and protections for homeowners. Opponents of increasing the exemption have also expressed

concern with the fiscal impact of increasing the exemption, given limited resources and other competing needs, since the state would be required to fully reimburse local governments for the revenue loss as well as provide a comparable increase in benefits to renters via the renters' state income tax credit.

2. **The Constitution Specifies the Minimum Amount of the Exemption.** The $7,000 amount specified in the California Constitution is the *minimum* exemption amount. The Constitution provides that the homeowners' exemption can be statutorily increased as long as there is an equivalent increase in the amount of the renters' credit and local governments are reimbursed for the property tax revenue loss. This bill provides an increased renters' credit for seniors, and existing law (Section 25 of Article XIII of the Constitution) already requires the state to reimburse local government for any property tax revenue loss associated with the homeowners' exemption.

3. **Other Property Tax Benefits Provided to Seniors.** Proposition 19 (2020) allows homeowners age 55 or older, or severely and permanently disabled of any age, to transfer the "taxable value" of their principal residence to a replacement property up to three times anywhere in the state. "Taxable value" means the base year value plus inflationary adjustments, commonly referred to as a factored base year value. The replacement's market value can exceed the original's market value up to one hundred and five percent (105%) if the replacement is purchased within the first year after the sale of the original, or one hundred and ten percent (110%) in the second year after the sale of the original. Any value of the replacement property that is in excess of these percentages is added to the taxable value.

4. **Senior Homeowners Will Need to Take Action to Receive the Higher Exemption Amount.** The homeowners' exemption claim forms do not currently indicate the age of the homeowner and the Assessors' offices do not maintain any information as to a homeowner's age. Accordingly, this bill would require the BOE to revise the homeowners' exemption form which would then result in a mass refiling by seniors eligible to claim the higher exemption amount. Additionally, persons file a claim for the homeowners' exemption only once under current law. However, persons eligible for the $50,000 exemption will need to refile with their County Assessor's office. The current bill version does not specify an age verification process.

5. **The State Subvenes Property Tax Revenue Loss from the Homeowners' Exemption.** The homeowners' exemption is the only property tax exemption for which the state fully reimburses local governments. The state also makes subvention payments to offset property tax reductions for open space and agricultural property that receives preferential assessment treatment under the Williamson Act at the rate of $1 per acre for non-prime land and $5 per acre for prime land.

6. **Suggested Amendment.** For clarity for taxpayers and administrators, it would be preferable to clearly state that the age of a person on the lien date (January 1) will determine the exemption amount provided for the upcoming fiscal year, which would be the following July 1 to June 30.

Costs:

The homeowners' exemption is administered at the local level, therefore counties would incur costs to modify their systems to reflect a separate homeowners' exemption for seniors.

BOE would incur some minor absorbable costs to inform and advise County Assessors, the public, and staff of the law changes and address ongoing implementation issues and questions. The costs are estimated to be a one-time cost of approximately $9,371.

Additionally, BOE currently monitors duplicate claims that are granted under the homeowners' exemption. However, if BOE is required to modify its homeowners' exemption tracking system to separately track those that qualify for the senior exemption, additional costs may be incurred.

Revenue Impact: According to 2024-25 BOE data, an estimated 4.7 million claimants received the homeowner's exemption equating to an estimated $32.8 billion in exempt value. Based on the United States Census Bureau 2023 *Tenure by Age of Householder* owner-occupied data, staff estimated forty percent of homeowners are 62 years of age or older. Consequently, it is estimated that of the current 4.7 million claimants, about 1.9 million (40% × 4.7 million) are 62 years of age or older and would qualify for the $50,000 exemption, as proposed by SB 566.

Based on an estimated 1.9 million claimants aged 62 and over, and the proposed $50,000 homeowners' exemption, exempt value under SB 566 is estimated at $95 billion ($50,000 × 1.9 million claimants) . At the basic 1% property tax rate, revenue loss is then estimated to be $950 million (1% × $95 billion).

Under the current $7,000 homeowners' exemption, exempt value for claimants 62 years of age or older is estimated at $13.3 billion, and the property tax revenue loss is $133 million ((1.9 million claimants × $7,000) × 1%).

On the merit of the above analysis, it is estimated that SB 566 would likely result in an increased estimated annual property tax revenue loss of $817 million (SB 566 $950 million – current impact $133 million).

Revenue Summary:

This bill is estimated to increase the state reimbursement for the homeowners' exemption approximately $817 million annually.

Qualifying Remark:

This amount is likely to increase over time as the number of qualified claimants increases due to the aging population.

This revenue estimate does not account for any changes in economic activity that may or may not result from the enactment of the proposed law.