California State
Board of Equalization

Legislative Bill Analysis

Assembly Bill 1066 (Patterson)
April 27, 2023 (Amended)
Revenue and Taxation Code section 155.20
Effective: Upon chaptering

Lisa Renati (Chief Deputy Director) 916-274-3563
Ronil Dwarka (Analyst) 916-274-3391
Ronil Dwarka (Revenue) 916-274-3391
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Summary: This bill would increase the exemption limit from $10,000 to $15,000 for properties having a total base year value or a full value too low to justify the costs of assessment and collection of taxes, special assessments, and applicable subventions. The bill would also eliminate the 2 percent limitation to the inflation adjustment for the purpose of calculating this exemption.

Summary of Amendments: The April 27, 2023, amendments would raise the maximum exemption amounts to $15,000 for the lien dates occurring on or after January 1, 2024, and before January 1, 2029. The bill would apply the inflation adjustment factor commencing on January 1, 2025, for calculating the maximum exemption value to both the total base year value of the real property and the full value of the personal property. April 24, 2023, amendments would eliminate the 2% limitation to the inflation adjustment for the purpose of calculating the exemption for a property having a full value too low to justify the costs of assessment and collection.

Fiscal Impact Summary: Estimated additional annual revenue loss of $765,000 a year.

Existing Law: Section 1(a) of article XIII of the California Constitution provides that all property is taxable unless otherwise provided by the Constitution or the laws of the United States. Section 7 of article XIII provides that the Legislature may authorize a county board of supervisors to exempt real property having a full value so low that, if not exempt, the total taxes and applicable subventions on the property would amount to less than the cost of assessing and collecting them.

Revenue and Taxation Code[1] (RTC) section 155.20 authorizes a county board of supervisors to exempt from property tax real property with a factored base year value and personal property with a full value so low that, if not exempt, "the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them." The exemption permitted under this section of the law is commonly referred to as the "low value" exemption.

The amount of the low value exemption may not exceed $10,000, except that the limit is increased to $50,000 in the case of all possessory interests through lien date 2024; the limit will be $50,000 in the case of a possessory interest, for a temporary and transitory use, in a publicly owned fairground, fairground facility, convention facility, or cultural facility beginning lien date 2025.

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

In administering the low value exemption, an assessor enrolls and then exempts property subject to the low value ordinance. If the assessor has been specifically authorized by the county board of supervisors, the assessor can administer the low value exemption by not enrolling property subject to the exemption.[2]

Proposed Law:

This bill would amend Revenue and Taxation Code Section 155.20 to increase from $10,000 to $15,000, the maximum exemption amount that a board of supervisors could authorize. In addition, it would provide that the maximum amount could thereafter be annually adjusted by an inflation factor, that is, the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year, in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations.

In General:

Low Value Exemption.

The Legislature enacted section 155.20 to provide the necessary statutory implementation. Section 155.20 authorizes a county board of supervisors to exempt from property tax real property with a factored base year value and personal property with a full value so low that, if not exempt, "the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them."

In determining the level of the exemption, a county board of supervisors is required to:

> … determine at what level of exemption the costs of assessing the property and collecting taxes, assessments, and subventions on the property exceeds the proceeds to be collected. The board of supervisors shall establish the exemption level uniformly for different classes of property. In making this determination, the board of supervisors may consider the total taxes, special assessments, and applicable subventions for the year of assessment only or for the year of assessment and succeeding years where cumulative revenues will not exceed the cost of assessments and collections.[3]

There are also other provisions of law related to property tax amounts that are not cost effective to pursue.

- Revenue and Taxation Code section 75.55 provides that the county board of supervisors may, by ordinance, provide for the cancellation of any supplemental tax bill in which the amount of taxes to be billed is less than the cost of assessing and collecting them, if the amount of taxes does not exceed $50. Alternatively, the board may adopt an ordinance allowing the assessor to cancel the supplemental assessments in the first place, if the amount of taxes does not exceed $50.

- Revenue and Taxation Code section 4986.8 allows the county auditor, upon the tax collector's recommendation, to cancel any tax bill, if the amount is so small as not to justify the cost of collection.

[2] Section 155.20(b)(3).
[3] Section 155.20(b)(2).

- Revenue and Taxation Code section 2611.4 provides that "any county department, officer, or employee may refrain from collecting any tax, assessment, penalty or cost" when the amount to be collected is $20 or less.

Background: The authorization for the low-value ordinance exemption was established by a constitutional amendment, Proposition 8, in November 1974. Proposition 8 also revised various articles of the State Constitution relating to taxation generally, as recommended by the Constitution Revision Commission. According to documents related to the legislation that added section 155.20 to the Revenue and Taxation Code to implement this constitutional amendment, many County Assessors had decided not to assess certain properties such as undeveloped mining interests, where the values of the properties were too small. The constitutional amendment, therefore, was intended to provide some legal authority for the actual assessment practice.

Commentary:

1. **County participation optional.** The increase in the exemption amount authorized by this measure would only take effect if a county board of supervisors subsequently amended its ordinance to increase the exemption level above its current amount.

2. **Counties determine their maximum exemption amount.** Counties are charged with setting the appropriate level of the exemption. The manner of preparing the cost-benefit analysis in each county may vary. Where the analysis is identical, the actual break-even point will still likely vary because of the uniqueness of costs in each particular county. In addition, the philosophies of the elected officials towards the low-value exemption, as well as its level, may affect whether an ordinance is adopted.

3. **What types of property could qualify?** Real property that could have a value less than $15,000 includes mining or mineral rights, possessory interests, timeshare estates in timeshare projects, and leased tenant improvements. Personal property that could have a value under $15,000 includes personal property used in a trade, profession or business, and boats, planes, and mobile homes.

4. **Past Legislation.** AB 608 (Petrie-Norris) in 2019 amended the low-value exemption under Revenue and Taxation Code section 155.20 by expanding the $50,000 limit for possessory interests to include all possessory interests, rather than only those with a temporary and transitory use in a publicly owned fairground, fairground facility, convention facility, or cultural facility through lien date 2024. The State Board of Equalization (BOE), via LTA 2021/029, requested information from County Assessors regarding each county's low-value ordinance. Of the 58 counties, 48 counties stated that they had a low-value ordinance. In relation to making an amendment to include all possessory interests as allowed by AB 608 (2019), 50 counties responded to the question, and forty-four (88%) stated no amendments or changes to their low-value ordinance.

5. **State-County Property Tax Administration Loan Program.** In some contracts between the Department of Finance and counties, one element in approving the loan was a restriction against increasing the county's low-value exemption threshold.

6. **This bill would not subject a county's exemption level to annual inflation factoring.** With respect to the annual inflation adjustment for the valuation of real property, the percentage increase for any assessment year must not exceed 2 percent of the prior year's value. However, this bill would eliminate the 2 percent limitation for purposes of calculating this exemption; counties could allow the maximum amount of the exemption to be annually adjusted by the inflation factor in the California

Consumer Price Index for all items, as determined by the California Department of Industrial Relations, as stated in section 51. Additionally, it is possible that counties could draft their ordinances in a way to automatically incorporate inflation adjustments, so that an annual action by the boards of supervisors would not be necessary.

7. **The BOE annually provides County Assessors with the inflation factor as determined by the California Department of Industrial Relations.** The BOE currently sends, via its "Letters to Assessors," similar information on changes in the California Consumer Price Index for the October-to-October period, for purposes of annual inflation adjustments under Proposition 13. The BOE could additionally include the current maximum level permitted for purposes of the low-value ordinance exemption.

Costs: The BOE would incur costs of approximately $3,400 for fiscal year (FY) 2023-24, and $5,500 for years thereafter.

Revenue Impact:

According to BOE 2022-23 roll data, there are currently fifty counties (out of fifty-eight) with low-value ordinances. Twenty-eight counties reported values, and the low-value property exemption amounted to $102 million in 2022-23. At the 1% property tax rate, this amounts to $1 million in property tax revenue loss.

Of the fifty counties, only four counties have approved the maximum $10,000 exemption. The proposal to increase the exemption from $10,000 to $15,000 is a 50% increase in the total maximum exemption amount for properties other than possessory interests. If an assumption is made that all twenty-eight counties would increase their exemption to $15,000, and assuming the same distribution of assessment across the value, then the estimated potential annual revenue loss for the five-year period (January 1, 2024 – January 1, 2029) would be $765,000.

Qualifying Remark:

It should also be noted with AB 608 in 2019, only six out of fifty counties (twelve percent) made amendments to their low-value ordinances in relation to possessory interests.[4] Since the low-value ordinance limit was increased to $10,000 in 2009, only four counties voted to raise their limit to the maximum exemption. Most counties with a low-value ordinance in place have adopted maximum limits of between $1,000 and $7,500. Staff then assumes that it is unlikely that county boards of supervisors will suddenly vote in large numbers to raise their exemption limits to $15,000 under AB 1066.

Of the fifty counties with low-value ordinances, twenty-eight reported values in the roll year 2022-23. BOE staff does not know the assessed value of qualifying low-value exempt property in the other twenty-two counties, in which case this revenue estimate may be understated.

[4] See Letter To Assessors No. 2021/029.