California State Board of Equalization

Legislative Bill Analysis

AB 1516 (Assembly Rev &Tax Committee)
Date: Introduced 03/13/25
Program: Property Taxes
Revenue and Taxation Code sections 73, 75.21, 271, and 271.5
Effective: January 1, 2026

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Analysis Date: July 14, 2025

Summary:

AB 1516 is a committee bill sponsored by the California Assessors' Association intended to make technical cleanup provisions to the Revenue & Taxation Code (RTC). This bill imposes a three-year deadline to file certain specified claims for the active solar energy system (ASES) new-construction exclusion under property tax law, and it adds the term "public school" to the list of exempt entities exempt from supplemental assessment and eligible for refunds under current property tax law.

Fiscal Impact Summary: Likely minor property tax revenue gain from reducing the lookback period by which a taxpayer may file a claim for the ASES exclusion.

Potential minor property tax revenue loss in conforming treatment of a supplemental assessment standards to public schools consistent with their existing exemption.

Existing Law:

Under the California Constitution, all property is taxable unless specifically exempted.[1] The Constitution limits the assessed value of property upon which the property tax is imposed. For property tax purposes, real property is reassessed to its current market value when real property undergoes a change in ownership or is newly constructed.[2] Generally, the law establishes a property's assessed value at its market value[3] on the date purchased (base year value) and requires additional assessments to reflect certain construction activities that qualify as "new construction."

New Construction. When substantial additions or alterations occur, the law requires the County Assessor to increase the assessment to reflect the value of "newly constructed" property.[4] The County Assessor assigns the assessable new construction with its own distinct base year value. The remainder of the property's assessment is unaffected and retains its base year value.[5] The Constitution allows the Legislature to provide that the term "newly constructed" does not include certain construction activities. These are commonly called "new construction exclusions." Any

[1] Article XIII, section 1 of the California Constitution.
[2] California Constitution, article XIII A, section 2; RTC section 110.1.
[3] The assessed value is based on 1975 market value for property that has not changed ownership since that date.
[4] Article XIII A, section 2 of the California Constitution (Proposition 13) and RTC section 70. Additionally, "supplement assessment" laws make the new construction taxable as of the completion date.
[5] Unless the new construction replaces certain types of existing improvements, in which case the value attributable to those preexisting improvements is deducted from the property's existing base year value.

value added by these additions or alterations is not subject to be assessed, until the real property undergoes a change in ownership.

Active Solar Energy System (ASES) New Construction Exclusion. The California Constitution[6] grants the Legislature the authority to exclude the construction or addition of any active solar energy system from the definition of assessable new construction. Section 73 implements the new construction exclusion. Section 73 is scheduled to sunset on January 1, 2027. Any active solar energy system that was excluded prior to this date will continue to be excluded until a change in ownership occurs.

In 2011, the Legislature added findings and declarations,[7] which provide that in cases where a newly constructed active solar energy system is sold or transferred in sale-leaseback arrangements, partnership flip structures, or other transactions to take advantage of federal tax benefits, the active solar energy system new construction exclusion applies, as long as (1) the system is newly constructed or added, and (2) no other taxpayer has received the exclusion for that same system. The new construction exclusion remains in effect only until there is a subsequent change in ownership.

Public Schools: Exemption from Supplemental Assessments and Refunds and Cancellations.

Existing property tax law provides that certain properties used for certain purposes are exempt from property taxation. RTC section 202 (a) (3) specifies the exemption applies to property used exclusively for public schools, community colleges, state colleges, and state universities, including the University of California.

While existing law provides that property used exclusively for public schools is exempt from taxation, it does not provide a corresponding reference to public schools in the provision governing the filing of a claim for exemption from supplemental assessments in RTC section 75.21. Therefore, if a public school purchases property during the year, the law is silent on whether the public school is required to file a claim for exemption from supplemental assessment.

Additionally, under RTC section 271, a County Assessor is required to refund or cancel any property taxes, penalties, or interest imposed on property owned by certain exempt-eligible entities, provided the entities file an appropriate application for exemption within a certain period.

Current law requires the issuing of an escape assessment for exempt property that is sold or transferred, and provides that a new exemption is available pursuant to the procedures in existing law under RTC section 271.5.

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[6] Article XIII A, section 2(c)(1).

[7] ABx1 15, Ch. 3, Stats. 2011.

Proposed Law:

ASES: This bill amends RTC section 73 to impose a three-year deadline to file a claim for the active solar energy system (ASES) new construction exclusion, to be considered timely, and it clarifies that the ASES exclusion applies to the next lien date of the assessment year in which the claim is filed, if it is filed after the three-year deadline. The bill makes these provisions operative January 1, 2027.

Exemption References for Public Schools. Existing law generally provides that property used exclusively by public schools is exempt from property taxation, however, public schools are not among the listed exempt entities in the RTC regarding exemption claims for supplemental assessments and refunds and cancellations of tax, penalties and interest.

This bill amends RTC sections 75.21, 271, and 271.5, to add "public schools" to the list of exemption-eligible entities not required to file an additional claim for exemption from supplemental assessment, and also adds public schools to the list of eligible entities entitled to a refund for any taxes paid on exempt property.

No Reimbursement. Any local property tax dollars lost pursuant to the bill's provisions will not be reimbursed by the state.

Effective Dates. This bill would be effective January 1, 2026

In General: Property Tax System. Article XIII, section 1 of the California Constitution provides that all property is taxable at the same percentage of "fair market value," unless specifically exempted, or authorized for exemption. Article XIII A, section 2 defines "fair market value" as the County Assessor's opinion of value for the 1975-76 tax bill, or, thereafter, the appraised value of property when purchased, newly constructed, or a change in ownership has occurred. This value is generally referred to as the "base year value." Annual adjustments to the base year value are limited to 2 percent or the rate of inflation, whichever is less. Article XIII A, section 2 also provides for certain exclusions from consideration as a "change in ownership" and "newly constructed" as approved by voters via constitutional amendments.

New Construction. The California Constitution does not define the terms "new construction" or "newly constructed." Section 70 defines these terms, in part, to mean:

- Any addition to real property, whether land or improvements (including fixtures) since the last lien date.
- Any alteration of land or any improvements (including fixtures) since the last lien date that constitutes a "major rehabilitation" or that converts the property to a different use.

A major rehabilitation is any rehabilitation, renovation, or modernization that converts an improvement or fixture to the substantial equivalent of a new improvement or fixture.

With respect to any new construction, the law requires the County Assessor to determine the added value upon completion. The value is established as the base year value for those specific improvements qualifying as "new construction" and is added to the property's existing base year value. When new construction replaces certain types of existing improvements, the value attributable to those pre-existing improvements is deducted from the property's existing base year value.[8]

New Construction Exclusions. Certain types of construction activity are excluded from assessment as "new construction" via constitutional amendment. Consequently, while these improvements may increase the value of the property, the additional value is not assessable. Relevant to this bill, Proposition 7, approved by California voters in November 1980, created an exclusion for active solar energy systems.

Overview of Solar Energy New Construction Exclusion. An "active solar energy system" is defined in RTC section 73 as a system that uses solar devices, which are thermally isolated from living space or any other area where the energy is used, to provide for the collection, storage, or distribution of solar energy.

This exclusion is scheduled to sunset on January 1, 2027. Any active solar energy system that was excluded from assessment prior to this date will continue to be excluded until a change in ownership occurs.

Commentary:

According to support material from the California Assessors' Association:

Consistent with existing law, this bill provides that for "newly constructed" construction or addition of an ASES an exclusion applies to the initial purchaser of a new building upon filing a claim with the Assessor. This bill states that a claim filed after the three-year deadline would be applied beginning on the lien date for the assessment year in which the claim is filed. These provisions become operative January 1, 2027.

The second item covered by AB 1516 provides for the eligibility of exemptions for public schools to be applied to a supplemental assessment, as well as a proration on the fiscal year bill. This bill would add public schools to the list of entities eligible for the cancellation of any tax or penalty or interest on property acquired in a given calendar year after the lien date, but before the first day of the fiscal year commencing with that calendar year. This change will bring public schools into alignment with all other similar exemptions."

Costs: The State Board of Equalization would incur one-time administrative costs of approximately $10,000 in the 2025/2026 budget year to issue a Letter to Assessor (LTA).

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[8] Section 71.

Revenue Impact:
Unknown but likely minor property tax revenue gain by limiting the lookback period to three years by which a taxpayer may file a claim for the ASES exclusion. The most common circumstance would likely be individuals who added solar (ASES) to their existing home, but had not filed the exclusion paperwork.

Potential minor property tax revenue loss in conforming treatment of supplemental assessment standards to public schools consistent with their existing exempt status. This would cover cancellations or refunds of supplemental assessments issued by an Assessor for property added or acquired by an otherwise exempt public school, so it would not be a revenue "loss" as much as a procedural correction to the current process with corresponding clarifications and references made to the appropriate Revenue and Taxation Code sections.

Similar Legislation: SB 710 (Blakespear) from this legislative session would create a new set of standards for active solar exclusions via RTC section 73.1, effective January 1, 2027, if signed into law.

Qualifying Remark:

- 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.