

[Assembly Bill 2254](#) (Lackey)

Date: Introduced (2/13/2018)

Program: Property Taxes

Sponsor: Author

Revenue and Taxation Code Section 205.5

Effective: Upon enactment, but operative for the 2019-20 fiscal year

David Yeung (Chief) 916.274.3334

Glenna Schultz (Analyst) 916.274.3362

Chris Butler (Revenue) 916.445.0840

**Summary:** This bill exempts from property tax the home of any person eligible for the disabled veterans' exemption.

**Purpose:** To provide a full property tax exemption to disabled veterans and their spouses or their unmarried surviving spouses.

**Fiscal Impact Summary:** Annual revenue loss of \$91.1 million.

**Existing Law:** The California Constitution<sup>1</sup> authorizes the Legislature to exempt partially or fully from property tax, the home of a person or spouse, including an unmarried surviving spouse, if the person has incurred certain injuries, including blindness in both eyes, lost use of 2 or more limbs, or is totally disabled. The exemption also applies if a person's death is from a service-connected injury or disease, or occurs while on active duty in military service. This exemption is commonly referred to as the "disabled veterans' exemption."

**Statutory Exemption Amount.** Current law contains a partial exemption.<sup>2</sup> For the 2018-19 fiscal year, persons with household incomes below \$60,490 may receive an exemption of \$202,060. For all other eligible persons, the exemption amount is \$134,706.<sup>3</sup>

**Proposed Law:** This bill provides a full exemption for the home of any person qualified to receive the disabled veterans' exemption.

**Effective Date.** As a tax levy, this bill is effective immediately upon enactment. However, the bill provides that it becomes operative commencing with the lien date for the 2019-20 fiscal year. (RTC Section 205.5(a)(2).)

**In General:** California law provides qualified disabled veterans and their unmarried surviving spouses with a property tax exemption that applies to their home's assessed value. To be eligible, the claimant must obtain a United States Department of Veterans Affairs (USDVA) disability rating that either (1) rates the veteran's disability at 100% or (2) rates the veteran's disability compensation at 100% because the veteran is unable to secure and maintain gainful employment.

---

<sup>1</sup> [Section 4\(a\)](#) of Article XIII of the California Constitution.

<sup>2</sup> Revenue and Taxation Code (RTC) Section [205.5](#).

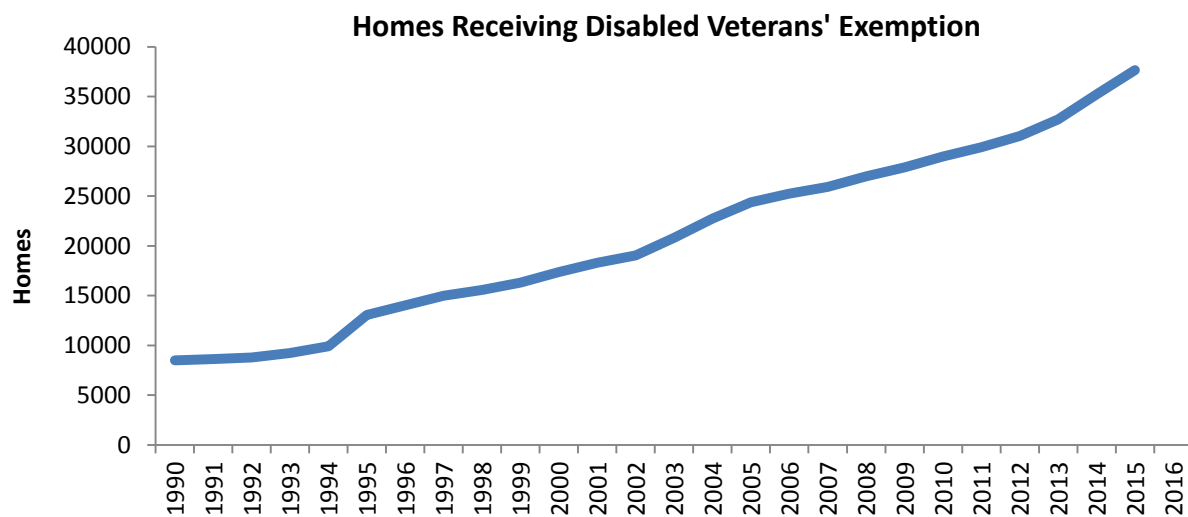
<sup>3</sup> This is the current exemption amount. Since 2006, RTC 205.5(h) allows a compounding inflation factor to apply to the \$150,000 and \$100,000 amounts. This is the current income threshold. Since 2002, RTC 205.5(g) allows a compounding inflation factor to apply to the \$40,000 income threshold. Letter to Assessors No. [2017/014](#), dated April 7, 2017, lists exemption amounts and household income limitations effective for lien dates 2002 through 2018.

The law also allows surviving spouses to receive the exemption if the spouse's death was service connected. To be eligible for the exemption, surviving spouses must receive a USDVA determination that the spouse's death was service-connected. A USDVA determination is necessary for (1) active duty personnel deaths (i.e., the service person was not a "veteran") and (2) veterans without a 100% rating when alive, but whose cause of death is deemed service-connected. Surviving spouses of veterans with a 100% disability rating during their lifetime continue to receive the exemption after the veteran's death so long as they do not remarry.

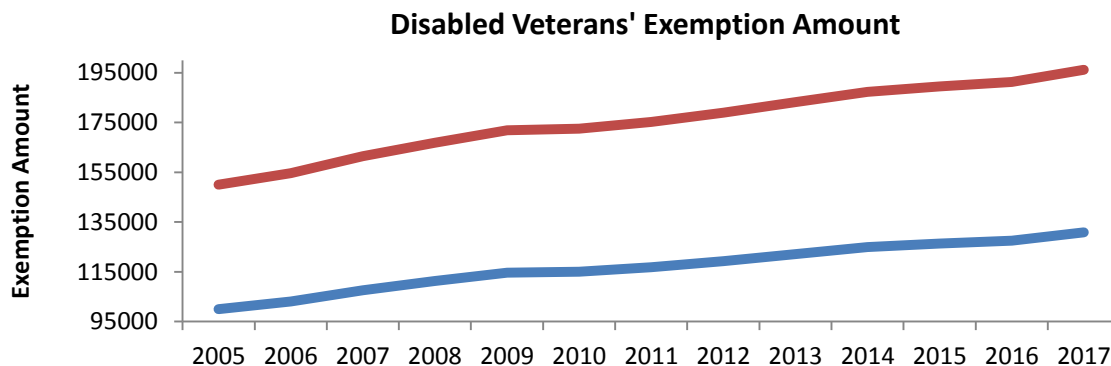
The exemption amount depends upon the claimant's income. For the 2017-18 fiscal year, the basic exemption adjusted for inflation will be \$130,841. If the claimant's income is less than \$58,754, the exemption amount will be \$196,262. For the fiscal year 2017-18, 44,963 disabled veterans or their unmarried surviving spouses were granted the exemption.

Qualification	Basic Exemption Amount	Lower Income Exemption Amount
	No income limit	Income is less than \$58,754
<p><b>Disabled Veteran</b></p> <ul style="list-style-type: none"> <li>• Disability Rating = 100%</li> <li>• Disability Compensation = 100%</li> <li>• Blind</li> <li>• Lost the Use of Two or More Limbs</li> </ul> <p><b>Spouse of Military Personnel</b></p> <ul style="list-style-type: none"> <li>• Surviving Spouse: Disabled Veteran</li> <li>• Surviving Spouse: Active Duty Death</li> <li>• Surviving Spouse: Posthumous service-connected death finding</li> </ul>	<p>\$100,000 adjusted for inflation</p> <p><b>\$130,841</b></p>	<p>\$150,000 adjusted for inflation</p> <p><b>\$196,262</b></p>
<b>Claims Granted: 44,963</b>	<b>40,830</b>	<b>4,133</b>

In 1990, 8,483 disabled veterans' exemptions were provided to eligible homeowners. For 2015, there were 37,653 eligible homeowners. In the last 25 years, this is a 344% increase.



After 2005, the law allowed the \$100,000 and \$150,000 exemption amounts to annually increase by an inflation factor.



**Legislative History:** The following table lists the most recent proposals to increase the disabled veterans' exemption.

Year	Bill	Proposal
2017	<a href="#">SB 404</a> (Stone)	Full Exemption
2016	<a href="#">SB 1104</a> (Stone)	Full Exemption
2016	<a href="#">AB 1556</a> (Mathis)	Increase to \$2.1 million
2016	<a href="#">SB 1183</a> (Bates)	Increase to \$1 million
2008	<a href="#">AB 2568</a> (Houston)	Full Exemption
2007	<a href="#">AB 1485</a> (Jefferies)	Full Exemption, as introduced
2007	<a href="#">AB 1485</a> (Jefferies)	Increase to \$200,000 and \$250,000, as amended
2005	<a href="#">SB 1005</a> (Florez)	Full Exemption for Spouses if Active Duty Death Full Exemption for Spouses if Public Safety Officer Death
2004	<a href="#">SB 764</a> (Morrow)	Inflation factoring commences January 1, 2006 (Enacted)
2003	<a href="#">SB 764</a> (Morrow)	Increase to \$200,000 and \$250,000, as introduced

**Commentary:**

1. **This bill fully exempts from property tax the homes of disabled veterans and their unmarried surviving spouses.** The California Constitution provides that the Legislature may exempt these homes in whole or in part. This bill proposes to modify the current partial exemption to a full exemption for all qualifying claimants. Additionally, by eliminating the income-based exemption amount, it eliminates the need for these claimants to annually reapply to verify their continued eligibility for the higher exemption amount.
2. **The state does not reimburse local governments for the property tax revenue loss from the Disabled Veterans' Exemption.** By contrast, the state fully reimburses local governments for the homeowners' exemption.
3. **Operative Date.** To transition from a partial to a full exemption at the least possible administrative cost, subdivisions (a)(2) of RTC 205.5 delays the operative date to coincide with the lien date for the 2019-20 fiscal year (i.e., January 1, 2019). Otherwise, as a tax levy, this bill would take effect and become operative immediately upon enactment.

4. **How much is the exemption currently?** For the 2018-19 fiscal year, persons with household incomes below \$60,490 may receive an exemption of \$202,060. For all other eligible persons, the exemption amount is \$134,706.<sup>4</sup>
5. **How many persons claim the disabled veterans' exemptions?** For 2017, 44,963 exemptions were granted to eligible claimants: 40,830 basic exemptions and 4,133 lower income exemptions.
6. **Top 10 Counties.** For 2016, the counties with the most disabled veterans' exemptions in descending order include: (1) San Diego: 5,868; (2) Riverside: 4,316; (3) Los Angeles: 2,770; (4) San Bernardino: 2,642; (5) Sacramento: 2,518; (6) Solano: 1,902; (7) Orange: 1,822; (8) Contra Costa: 1,207; (9) Kern: 1,088; and (10) Ventura: 1,052.<sup>5</sup>
7. **Related Legislation.** Assembly Bill 3209 (Frazier) proposes a full exemption for a qualified disabled veteran and his or her spouse.

**Costs:** BOE would incur absorbable costs to modify forms, publications, and website materials.

**Revenue Impact:** Existing property tax law provides a disabled veterans' exemption to military personnel, or their spouse, in the event of a service-connected injury, disease, or death, as specified. The law provides a basic exemption amount of \$100,000, but increases that amount to \$150,000 if the claimant's household income does not exceed \$40,000, all values adjusted for inflation. The following revenue impact estimate uses FY 2017-18 data and exemption amounts for consistency since this is the most recent year where all variables for the same year are available. For 2017-18, the basic exemption amount was \$130,841. The lower income exemption amount was \$196,262 for claimants with a household income below \$58,754.

Staff estimated the number of disabled veteran owned homes currently receiving the exemption. In 2017-18, 44,963 disabled veterans' exemptions were granted: 40,830 at the basic level and 4,133 at the lower income level. Based on a survey of several counties, staff estimates that this bill will not impact 21% of homes receiving the basic exemption (8,574 homes) or 24% of homes receiving the lower income exemption (992 homes). These homes are already fully exempt because they have an assessed value of less than \$130,841 and \$196,262, respectively. Thus, this bill will exempt from property tax 35,397 homes: 32,256 (40,830 – 8,574) currently receiving the basic exemption and 3,141 homes (4,133 - 992) receiving the lower income exemption.

	Homes Granted Exemption	Homes Already Fully Exempt	Additional Homes Exempted
<b>Basic</b>	40,830	8,574	<b>32,256</b>
<b>Lower Income</b>	4,133	992	<b>3,141</b>
<b>Total</b>	44,963	9,566	<b>35,397</b>

Staff then estimated the additional amount of assessed value that this bill will exempt. Staff subtracted the current exemption amounts provided from the average assessed value (AV) of properties receiving

<sup>4</sup> This is the current exemption amount. Since 2006, RTC Section 205.5(h) allows a compounding inflation factor to apply to the \$150,000 and \$100,000 amounts. This is the current income threshold. Since 2002, RTC Section 205.5(g) allows a compounding inflation factor to apply to the \$40,000 income threshold.

<sup>5</sup> State Board of Equalization's *Annual Report 2015-16*, [Table 8](#).

the homeowners' exemption. For 2017-18, the average was \$393,982. The affected difference in value and revenue loss at the basic 1% property tax rate is then:

	<b>Avg. Home AV</b>	<b>Exemption Current</b>	<b>Exemption Increase</b>	<b>Tax Rate</b>	<b>Tax Savings Per Home</b>	<b>Homes</b>	<b>Local Revenue Loss</b>
<b>Basic</b>	\$393,982	\$130,841	\$263,141	1%	\$2,631	32,256	\$84.9M
<b>Lower Income</b>	\$393,982	\$196,262	\$197,720	1%	\$1,977	3,141	\$6.2M
<b>Total</b>						<b>35,397</b>	<b>\$91.1M</b>

**REVENUE SUMMARY**

By exempting the home of qualified disabled veterans, this bill would result in a potential local annual revenue loss of \$91.1 million.

**QUALIFYING REMARKS**

For 2018, the basic disabled veterans' exemption amount increased to \$134,706. The lower income disabled veterans' exemption amount increased to \$202,060. The household income limit increased to \$60,490. These amounts will be applied by counties to their FY 2018-19 property tax rolls.

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