



Legislative Bill Analysis

[Senate Bill 520](#) (Seyarto)
February 14, 2023 (Introduced)
March 20, 2023 (Amended)
Program: Property Taxes
Revenue and Taxation Code Section 218
Effective: Upon chaptering

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Summary: Senate Bill (SB) 520 clarifies that individuals who are confined to a hospital or a live-in care facility are still “occupying their principal residence” for the purpose of qualifying for their homeowners’ property tax exemption.

Summary of Amendments: One of the provisions of this bill was that for a residence to continue to qualify for the homeowners’ exemption when the homeowner was confined to a hospital or care facility was that the dwelling could not be rented or leased to a “third party.” The March 20, 2023, amendment replaced “third party” and added the following language to Section 218(b)(4)(c): the dwelling is not rented or leased to a person that is not described in Section 267 (c)(4) of Title 26 of the Internal Revenue Code.

Fiscal Impact Summary: Indeterminable.

Existing Law: The California Constitution¹ exempts from property tax the first \$7,000 of assessed value for owner-occupied principal places of residence, commonly known as the “homeowners’ exemption.” The Constitution² also requires the state to reimburse local agencies annually for certain property tax revenues lost as a result of any exemption or classification of property for purposes of ad valorem property taxation. The implementing statute³ specifies exemption amounts, eligibility requirements, and filing requirements. 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 veteran’s exemption.

Proposed Law: Homeowners’ Exemption. This bill would provide that, if a person receiving the exemption is not occupying the dwelling because they are confined to a hospital or other care facility, the person shall be deemed to occupy that dwelling as their principal place of residence, provided that the person would occupy the dwelling if they were not confined to the hospital or other care facility, the person intends to return to the dwelling when possible to do so, and the dwelling is not rented or leased to a person that is not described in Section 267 (c)(4) of Title 26 of the United States Code.

In General: Creation of Homeowners’ Exemption. Prior to the enactment of Proposition 13⁴ in 1978, property tax reform advocates in the 1960s and 1970s put forth various reform proposals that departed from a market value-based property tax system. At that time, the law required the County Assessor to reassess property to its current market value cyclically. These periodic reassessments resulted in substantial property tax increases due to escalating real estate values during that time period. In 1968, voters enacted the

¹ Article XIII, section [3\(k\)](#).

² Article XIII, section [25](#).

³ Revenue and Taxation Code (RTC) section [218](#).

⁴ [Article XIII A](#) of the California Constitution.

homeowners' exemption to provide some property tax relief.⁵ Initially, the exemption amount was \$3,000⁶ of assessed value. In 1972, legislation increased the exemption amount to its current level of \$7,000, effective in 1974.⁷

Between 1972 and 1978, the Legislature introduced numerous bills to increase the exemption amount. All were rejected. The prevailing view was that continuous increases in the homeowners' exemption would, at best, only provide temporary property tax relief in inflationary times. Thus, those holding this view argued that fundamentally changing the property tax system to contain rapidly increasing property taxes was the better approach. Ultimately, voters adopted Proposition 13.

Property Tax System Reform. Voters changed California's property tax system through Proposition 13 (1978), replacing a current market value-based system with an acquisition value-based system. Under this new law, real property assessed values were rolled back to 1975 market value levels, and future assessed value increases were limited to the inflation rate, not to exceed one percent, for as long as the property's ownership remained unchanged and the property was not substantially improved (i.e., new construction). Proposition 13 also limited the basic property tax rate to 1 percent, plus voter-approved bonded indebtedness. Previously, the statewide average tax rate was 2.67 percent, as each taxing agency could set and levy its own rate to meet its budgetary needs.

The current system provides certainty to property owners regarding future property tax liability. The 2 percent maximum inflation adjustment ensures only modest assessed value increases, assuming no ownership changes or substantial property improvements.

Commentary:

1. **Temporary Absence.** The State Board of Equalization (BOE) opined in [Letter To Assessors \(LTA\) No. 82/50](#) on the subject of being 'temporarily away' for purposes of the homeowners' exemption, and the following are questions that the LTA No. 82/50 addressed:

Question: *May a person who is temporarily away from his residence, and the residence was not leased or rented to others on the lien date, qualify for the homeowners' exemption?*

Answer: *Yes. An absence for more than one year would raise considerable doubt that this is the principal residence.*

Question: *Does the dwelling occupied by the family of a son and owned by a parent who is confined to a convalescent home or hospital qualify for the homeowners' exemption?*

Answer: *Yes. The dwelling may be exempt if the claimant is expected to return to the dwelling and if he does not receive rent from any persons occupying the premises. An absence for more than one year would raise considerable doubt that the owner is expected to return.*

A summary of BOE's LTA No. 82/50 on the subject of temporary absence is as follows:

- i. *A temporary absence from one's principal residence does not disqualify one for the exemption so long as the property is not leased or rented on the lien date. An absence of more than one year would raise considerable doubt that a residence is a principal residence.*

⁵ Proposition 1-A; SCA 1 and SB 8, Statutes of 1968.

⁶ The actual exemption amount was \$750 of assessed value; however, at that time, property was assessed at 25 percent, rather than 100 percent, of market value. To compare the exemption amounts on the same mathematical basis, the "equivalent" amount of \$3,000 is referenced ($\$750 \times 4 = \$3,000$).

⁷ SB 90, Statutes of 1972, provided for a \$1,750 exemption amount. But assessments were set at 25 percent of market value. To compare the exemption amounts on the same mathematical basis, the equivalent amount of \$7,000 is referenced ($\$1,750 \times 4 = \$7,000$).

- ii. Hospitalization in a convalescent home does not disqualify one for the exemption if the claimant expects to return to the dwelling and the property is not leased or rented.*
 - iii. An absence for training or employment or a temporary exchange of dwellings with no rentals paid does not disqualify one for the exemption. LTA No. 82/50 (3/23/1982).*
2. **The State subvenes homeowners' exemption property tax revenue loss.** The homeowners' exemption is the only property tax exemption for which the state fully reimburses local governments. This bill would provide that, notwithstanding those provisions, no appropriation is made, and the state shall not reimburse local agencies for property tax revenues lost by them pursuant to the bill.
3. **Intergenerational Transfers.** Regarding the Proposition 19 (2020) intergenerational transfer change in ownership exclusion, for an eligible transferor, the family home must be eligible for the homeowners' or disabled veterans' exemption, as a result of the transferor's ownership and occupation of the property as a principal residence. Section 2.1(c) of article XIII A requires a transferee to file for the homeowners' or disabled veterans' exemption within one year of the date of transfer or change in ownership in order to be eligible for the intergenerational transfer exclusion. Once the exclusion is granted to an eligible transferee, the family home must remain eligible for the exemption in order to retain the change in ownership exclusion. If the personal residence of a person confined to a hospital or other care facility is no longer eligible for the homeowners' exemption, then the property would no longer be eligible for intergenerational transfer to an eligible transferee.

Costs: Counties administer the homeowners' exemption and may incur costs to modify their systems to reflect any law changes. The BOE monitors duplicate claims granted under the homeowners' and disabled veterans' exemptions and would also incur an estimated \$1,051 in costs to inform and advise County assessors, the public, and staff of the law changes.

Revenue Impact: Staff views SB 520 as a clarification proposal in relation to the homeowners' exemption and temporary absence. Staff does not have any specific county data on the number of absence cases tied to homeowners in a hospital or other care facility, and where counties may have denied exemptions. In general, research does indicate that most people leave health care facilities within one year. For example, a 2020 study concluded that eighty-eight percent of nursing home residents were discharged after a stay of 3 months or less, and that only six percent of residents stayed for one year or more. Based on the 1982 BOE LTA discussed above which includes the nursing home example, a very small number of homeowners may have doubts raised about their residency and their qualification for the exemption.

At this time, based on unknown factors or specific data, the revenue loss is difficult to compute and indeterminable.