



Legislative Bill Analysis

[Senate Bill 658](#) (Grove)
Date: March 5, 2021 (Amended)
Program: Property Taxes
Revenue and Taxation Code Section 205.5
Effective: Immediately

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Summary: Provides a partial exemption for property owned by, and that constitutes the principal place of residence of, a veteran who is partially disabled, or the veteran's spouse. Requires that the amount of exemption be the percentage of the full amount of exemption, equivalent to the partially disabled veteran's disability rating percentage by the United States Department of Veterans Affairs (USDVA) or the military service from which the veteran was discharged.

Fiscal Impact Summary: Annual revenue loss could amount to an estimated \$187 million.

Existing Law: The California Constitution¹ authorizes the Legislature to exempt partially or fully from property tax, the home of a veteran or spouse, including an unmarried surviving spouse, that has incurred certain injuries during military service, including blindness in both eyes, lost use of 2 or more limbs, or totally disabled. The exemption also applies if a person has, because of a service-connected injury or disease, died while on active duty in military service. This exemption is commonly referred to as the "disabled veterans' exemption."

Revenue and Taxation Code (RTC) section 277² requires that anyone claiming the disabled veterans' exemption must file a claim with the Assessor.

Currently, a disabled veteran must have a disability rating of 100 percent to be eligible for the exemption; no partial allowances for a rating less than 100 percent.

Proposed Law:

Partially Disabled. This bill adds the term "partially disabled" meaning that the USDVA or the military service from which the veteran was discharged has rated the disability at less than 100 percent or has rated the disability compensation at less than 100 percent by reason of being unable to secure or follow a substantially gainful occupation.

Partial Exemption. This bill allows a partially disabled veteran to receive a partial allocation of the disabled veterans' exemption based on their USDVA disability rating. The percentage of the exemption they will receive will be the same percentage as their USDVA disability rating.

Technical Changes. This bill also makes minor technical changes.

In General: California law provides a qualified disabled veteran, their spouse, or their unmarried surviving spouse with a property tax exemption that applies to their home's assessed value. Exemption eligibility provisions require that the claimant obtain a USDVA disability rating that either (1) rates the

¹ [Section 4\(a\)](#) of Article XIII of the California Constitution and Revenue and Taxation Code section 205.5.

² [RTC section 277](#)

veteran's disability at 100 percent or (2) rates the veteran's disability compensation at 100 percent because the veteran is unable to secure and maintain gainful employment.

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 percent rating when alive, but whose cause of death is deemed service connected. Surviving spouses of veterans with a 100 percent 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 2021-22 fiscal year, the basic exemption adjusted for inflation will be \$147,535. However, if the claimant's income is less than \$66,251, the exemption amount will be \$221,304. For the 2020 assessment year 59,063 disabled veterans, their spouses, or their unmarried surviving spouses were granted the exemption.

Commentary:

1. **Constitutional Issues.** Section 4 of article XIII provides that the Legislature may provide a full or partial exemption for a veteran or spouse, including an unmarried surviving spouse, who has incurred certain injuries during military service, including blindness in both eyes, lost use of 2 or more limbs, or totally disabled. Does this constitutional definition of disability allow for a partial disability?
2. **Disability Ratings.** If a veteran's disability either increases or diminishes, they would need to obtain an updated rating, which could be time consuming and cumbersome.
3. **Assessors.** Assessors would potentially have to reassess properties on a more frequent basis due to changes in disability ratings. If the ratings change, how will the Assessors be notified? Will there be a requirement to have a rating reviewed on a regular basis? There will likely be an additional workload for Assessors at the onset of implementation due to processing supplemental requests.
4. **Related Legislation.** SB 657 (Roth). This bill would allow the executor or administrator of a disabled veterans' estate to file a claim for exemption with the Assessor on behalf of the estate.

Costs: The BOE would incur absorbable costs to update claim forms and to create guidance.

Revenue Impact: Existing property tax law provides a disabled veterans' exemption to military personnel, or their spouses, 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 annual household income does not exceed \$40,000, with all amounts adjusted for inflation. For the 2021-22 fiscal year, the basic exemption amount is \$147,535. The lower income exemption amount is \$221,304 for claimants with an annual household income below \$66,251.

Service-connected disability ratings data ascertained from the National Center for Veterans Analysis and Statistics (NCVAS) provided staff guidance in preparing the revenue estimate for SB 658. The 2019 disability compensation recipients by county data for California was broken into the following ratings: 0% to 20% (122,815), 30% to 40% (66,828), 50% to 60% (64,319), 70% to 90% (122,544), and 100% (73,018).

Given the intent of SB 658 is to provide a partial exemption to veterans who are partially disabled, staff analyzed all the ratings except those with a 100 percent rating, assuming those veterans are already granted the exemption. The approach taken was as follows:

- For each disability ratings category, staff assumed that 78 percent of disabled veterans owned a home. In a 2020 *Urban Institute* research report, it was highlighted that about 78 percent of veteran households were homeowners.
- Based on the current BOE 100 percent ratings exemption data, staff estimated that 91 percent of partial disabled veterans would qualify for the basic exemption amount and 9 percent would be eligible for the lower income exemption amount.
- For those qualifying for the basic exemption, the pertinent rating was applied to \$147,535 (2021-22) to estimate the exemption value. For those qualifying for the lower income exemption value, it was applied to \$221,304 (2021-22). The exemption value assumes that the taxable value of the home is greater than \$147,535 and \$221,304, respectively, for disabled and lower income disabled veterans.

70% to 90% Rating: The NCVAS data indicated 122,544 disabled veterans receiving disability compensation under the 70% to 90% rating. 78% of 122,544, or 95,584, are estimated to be homeowners. Of the 95,584 homeowners, 91%, or 86,982, would qualify for the basic exemption. Using 80% as the average for the 70% to 90% rating, it was applied to the basic exemption \$147,535, and then multiplied by 86,982 homeowners, resulting in a basic exemption value of \$10.3 billion ($80\% \times \$147,535 \times 86,982$ homeowners). Applying the same methodology to the lower income exemption, the total exemption value was estimated at \$1.4 billion ($80\% \times \$221,304 \times 8,129$ homeowners). Total exemption value for the 70% to 90% rating was estimated to be \$11.7 billion.

Applying this methodology to all disabled veteran ratings, staff estimates the total exemption value under SB 658 amounts to \$18.7 billion. Annual revenue loss at the basic 1% property tax rate amounts to an estimated \$187 million ($1\% \times \18.7 billion exemption value = \$187 million).

Qualifying remarks:

- This amount could increase over time as exemption limits are annually adjusted for inflation.

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