Senate Bill 726 (Archuleta)
Date: April 13, 2023 (Amended)
Program: Property Taxes
Revenue and Taxation Code section 205.5.1
Effective: Immediately

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Summary: This bill adds section 205.5.1 to the Revenue and Taxation Code (RTC) to allow a disabled veteran with a 100 percent disability rating and/or the veteran's spouse (or the unmarried surviving spouse of a qualified veteran) to receive an exemption for the full value of their principal residence up to $863,790 in assessed value with adjustments for inflation each year. The bill sunsets these provisions on January 1, 2035. The bill additionally requires the State Board of Equalization (BOE) to collect data from assessors and annually submit reports to the Legislature, commencing June 1, 2025, until June 1, 2034, quantifying the amount of assessed value exempted and the number and type of taxpayers granted this exemption.

Summary of Amendments: The April 13, 2023, amendments included a provision clarifying that the exemption will only apply to a principal residence owned by the disabled veteran, the spouse of the disabled veteran, or jointly owned by the disabled veteran and their spouse. It also clarifies that the property can be rented or leased to a family member, defined by paragraph (4) of subsection (c) of Section 267 of the Internal Revenue Code, and still qualify for the exemption.

Fiscal Impact Summary: This bill expands the disabled veterans' exemption. BOE estimates that this bill would result in an annual revenue loss of approximately $175 million.

Existing Law: The Constitution[1] allows the Legislature to partially or wholly exempt from property tax the value of a disabled veteran's principal place of residence if the veteran has lost one or more limbs, is totally blind, or is totally disabled, as a result of a service-connected injury. This is known as the "disabled veterans' exemption." The Constitution provides that disabled veterans or unmarried surviving spouses of persons who die while on active duty are allowed the disabled veterans' exemption instead of, but not in combination with, other real property exemptions. The statute allows the exemption for any claimant who obtains a United States Department of Veterans Affairs disability rating that either rates their disability at 100% or rates compensation at 100% because the veteran cannot obtain gainful employment. Additionally, the veteran must have been discharged under other than dishonorable conditions.

Statutory Exemption Amount. Current law allows a partial exemption for disabled veterans[2] on the value of their principal residence. 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. The law also requires these values to be adjusted annually for inflation. For the lien date 2023, the basic exemption amount is $161,083, and the low-income exemption amount is $241,627 for claimants with a household income below $72,335.

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[1] *Article XIII of the California Constitution.*
[2] *Revenue and Taxation Code (RTC) Section 205.5.*

Application. Currently, to receive the exemption, the claimant must apply once to determine if they qualify for the basic exemption and then apply annually to demonstrate eligibility for the low-income exemption.

Proposed Law:

Expands Disabled Veterans' Exemption. This bill expands the disabled veterans' exemption to exempt from taxation the full value of their principal residence up to $863,790 in assessed value. This is an increase from the current $161,083 for the basic exemption in lien year 2023.

Effective Dates. This bill would be effective immediately but specifies that the first date of the full exemption would be lien dates on or after January 1, 2024, but occurring before January 1, 2034.

Repeal Date. Proposed section 205.5.1(g) states this section shall remain in effect until January 1, 2035, and as of that date, is repealed.

Unmarried Surviving Spouses. This bill would allow unmarried surviving spouses to have the same amount of exemption the veteran would qualify for if they were alive and certain conditions were met.

No Household Income Requirement. This bill would eliminate household income requirements.

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.

Another requirement of the disabled veterans' exemption is that the veteran must have been discharged under other than dishonorable conditions.

The law also allows unmarried 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. In addition, surviving spouses of veterans with a 100% disability rating during their lifetime, and received the disabled veterans' exemption can continue to receive the exemption after the veteran's death so long as the surviving spouse does not remarry.

The exemption amount depends upon the claimant's income; a "basic exemption" and a higher "low-income exemption" are adjusted for inflation annually.

Commentary:

1. **Local Tax Losses.** Unlike the homeowners' exemption, the state does not backfill property tax revenue losses resulting from taxpayers receiving the exemption.

2. **Fiscal Impact.** The expansion of this exemption will reduce the assessable value on the tax rolls. This bill creates a state mandate; however, there is no allocation for loss to the local jurisdictions.

3. **Filing.** Current law requires a one-time filing for the basic exemption and an annual filing for the low-income exemption. Since there is no household income requirement, annual filing may not be necessary.

4. **Low-Income Exemption**. There are currently two levels of disabled veterans' exemption: basic and low-income. The low-income exemption requires a claimant's household income not to exceed the amount of $40,000 and is adjusted for inflation. The current household income limit for the lien date 2023 is $72,335[3]. This bill would eliminate the household income requirement, thereby essentially eliminating the low-income exemption and provide a greater level of benefits to all disabled veterans.

5. **Inflation**. Per the proposed section 205.5.1(e), the exemption amount must be adjusted annually for inflation. This would require the State Board of Equalization (BOE) to issue a Letter to Assessor (LTA) to promote conformity with this rule.

6. **Basic and Low-Income Disabled Veterans' Exemption Annual Adjustments.** Will the exemption amounts under section 205 continue to be compounded annually during the ten-year period the new exemption is in place?

7. **Persons Already Receiving the Disabled Veterans' Exemption.** Will these new provisions apply to disabled veterans and surviving spouses that currently receive the disabled veterans' exemption?

8. **No Basis for BOE Annual Reporting Requirement.** This bill would require the BOE to comply with RTC section 41 requirements, by collecting data from assessors and annually submitting reports to the Legislature in compliance with GC section 9795, commencing June 1, 2025, until June 1, 2034, quantifying the amount of assessed value exempted and the number and type of taxpayers granted this exemption.

   However, RTC section 41 only applies to taxes imposed under Parts 1, 10 and 11 under Division 2 of the RTC.[4] These code references refer to sales and use taxes, personal income tax, and corporation tax. RTC section 41 does not apply to property tax or the disabled veterans' exemption. If the reporting requirement is based on RTC section 41, then there is no basis for imposing a reporting requirement since this section does not apply to property tax.

9. **County Assessor Workload.** This bill would require the BOE to collect the amount of assessed value of exempted property and the number and type of taxpayers granted this exemption from County Assessors. Currently, the BOE does not directly request this specific information from County Assessors. County Assessors' offices may not have the staffing, budget, or technology systems to track this type of data and report it separately. This reporting requirement would be an administrative and workload burden on County Assessors' offices.

10. **Sunset Date Clarity.** Under subdivision (a)(1) of the proposed RTC 205.5.1, this bill would authorize an expanded exemption "for property tax lien dates occurring on or after January 1,

[3] See Letter to Assessor 2022/018, *Disabled Veterans' Exemption Increases 2023*.
[4] RTC section 41 (a).

2024, but occurring **before** January 1, 2034." The last property tax lien date occurring before January 1, 2034, is January 1, 2033. However, subdivision (g) of the proposed RTC 205.5.1 states, "This section shall remain in effect only until January 1, 2035, and as of that date is repealed." The first part of that sentence could be interpreted to mean the expanded exemption is still effective on January 1, 2035. However, the second part of the sentence repeals the section on that date. The author may wish to clarify which lien date is the last lien date on which assessors should apply the exemption.

Costs: There would be an estimated cost of $42,000 for BOE to administer this bill, including time to issue Letters to Assessors, update materials, and review times. Additionally, an estimated $22,000 in annual ongoing annual costs if reporting is required.

Revenue Impact: Existing property tax law provides the 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 estimate uses Fiscal Year 2022-23 data and exemption amounts as the basis for consistency since this is the most recent year where all variables for the same year are available. For 2022-23, the basic exemption amount was $149,993. The low-income exemption amount was $224,991 for claimants with a household income below $67,335. Staff calculated the weighted average of both exemptions to be $166,613.

In 2022-23, 68,114 disabled veterans' exemption~~s~~ claims were granted: 63,266 at the basic level and 4,848 at the low-income level. Based on a survey of several counties, staff estimate~~s~~ this bill will not impact 21 percent of homes receiving the basic exemption (13,286 homes), nor 24 percent of homes receiving the low-income exemption (1,164 homes), a total of 14,449 homes. These homes are already fully exempt because they have an assessed value of less than $149,993 and $224,991, respectively. Thus, this bill will either fully exempt from property tax or greatly increase the current exemption amount for an additional 53,665 homes (68,114 – 14,449).

To determine the annual revenue impact, the 2022-23 weighted average of the basic and low-income exemption ($166,613) is subtracted from the 2022-23 statewide average assessed home value of $493,634. The result ($327,021) is multiplied by 53,665 homes, and total additional exempt value is estimated at $17.5 billion (($493,634 - $166,613) × 53,665 homes).

At the 1% property tax rate, the SB 726 proposal results in an estimated $175 million annual property tax loss (1% × $17.5 billion).

Qualifying Remarks

- SB 726 sets the exemption maximum value at $863,790 and adjusts it annually for inflation. At the time of preparing this analysis, staff did not have any specific data on the number of disabled veteran-owned homes with assessed values above $863,790. Those homes would benefit from the increased exemption amount but would not be fully exempt.

- The above revenue impact only accounts for existing disabled veterans' exemption. Any future disabled veterans' exemption granted will increase the revenue loss.

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.