
SENATE COMMITTEE ON GOVERNANCE AND FINANCE

Senator Mike McGuire, Chair
2019 - 2020 Regular

Bill No: SB 364
Author: Stone
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Consultant: Grinnell

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Tax Levy: Yes
Fiscal: Yes

PROPERTY TAXATION: SENIOR AND DISABLED VETERANS

Eliminates the inflation adjustment for the principal place of residence of an income-eligible veteran taxpayer over the age of 65; expands to a full exemption the current partial disabled veterans' property tax exemption.

Background

The California Constitution provides that all property is taxable unless explicitly exempted by the Constitution or federal law. The Constitution limits the maximum amount of any ad valorem tax on real property at 1% of full cash value, plus any locally-authorized bonded indebtedness, and provides that assessors can only reappraise property whenever it is newly constructed, or when ownership changes (Proposition 13, 1978).

Growth limitation. State law implementing Proposition 13 generally sets a property's value as its price when purchased or when ownership changed, plus an annual inflation factor, calculated by the Department of Industrial Relations using the California Consumer Price Index for all items. For example, a home purchased in 2012 for \$300,000, has a maximum taxable base year value of \$306,000 in 2013, \$312,200 in 2014, \$318,440 in 2015, \$325,808 in 2016, and \$332,324 in 2017. This base year value is then multiplied by the appropriate rate (generally 1%, but can be more if voters approved local general obligation bonds) to determine tax due.

Disabled Veterans' Exemption. The Constitution 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 veteran taxpayers, or unmarried surviving spouses of persons who die while on active duty, must apply the exemption instead of, but not in combination with, other real property exemptions. Statute allows the exemption for any claimant who obtains a United States Department of Veterans Affairs disability rating that either rates his or her disability at 100%, or rates compensation at 100% because the veteran is unable to obtain gainful employment.

Unlike the homeowners' exemption, the state does not backfill property tax revenue losses resulting from taxpayers applying the exemption. According to the Board of Equalization (BOE), the number of taxpayers claiming the exemption has increased from 8,483 to 48,829 between 1990 and 2015, an increase of 475%. San Diego (7,159), Riverside (4,961), Los Angeles (3,477), and San Bernardino (2,908), are the counties with the most taxpayers claiming the exemption.

State law implementing the exemption doesn't fully exclude the property value from property tax, instead it allows a partial exemption of \$100,000 for disabled veteran taxpayers with household income of more than \$40,000, or \$150,000 for income lower than that amount, with each threshold adjusted for inflation by the Department of Industrial Relations using the California Consumer Price Index for all items. The current inflation adjusted value is \$139,437 for disabled veterans with income of more than \$62,614, and \$209,156 for those with less than that amount.

The author wants to grant additional property tax benefits by disconnecting the inflation factor for taxpayers qualifying for the veterans' exemption in the California Constitution with annual income below specified amounts, and expand the current partial disabled veterans' exemption conditioned on income into a full exemption.

Proposed Law

Senate Bill 364 makes two changes to property tax law:

Growth limitation. SB 364 disconnects the inflation factor for the principal place of residence of income-eligible taxpayers over the age of 65 who were honorably discharged from military service for any assessment year on or after either January 1, 2020, or the taxpayer's 65th birthday, whichever is later. The bill would allow the benefit solely for veterans with household combined annual income of less than \$100,000, or if single, annual income of less than \$50,000 using the definitions for income in the Senior Citizens and Disabled Citizens Property Tax Postponement Law. To claim the benefit, the veteran taxpayer must complete an affidavit furnished by the assessor providing all information required and answering any questions to determine qualification. The assessor may require additional proof of the information or answers in the affidavit before allowing the benefit, which only applies to land necessary for the use of the property as a home – any additional land would continue to grow in taxable value pursuant to current law. If the assessor grants the claim, the measure would freeze the veteran taxpayer's base year value at its current amount until new construction or a change in ownership occurs.

Disabled veterans' exemption. SB 364 enacts a full exemption from property tax for the principal place of residence of qualifying disabled veterans to replace the current partial exemption, commencing with lien date for the 2019-20 fiscal year, regardless of income.

The bill also makes technical and conforming changes.

State Revenue Impact

According to BOE, SB 364 results in annual property tax revenue losses of \$131.4 million, with \$27.2 million attributable to disconnecting the inflation factor for an income-eligible veteran's principal place of residence, and \$104.2 from converting the disabled veterans' exemption into a full exemption.

Comments

1. **Purpose of the bill.** According to the author, "An issue that is currently plaguing California is the issue of veterans who are homeless. Veterans have sacrificed much for their country, and in return, local, state and federal governments need to do everything in their power to help them succeed. According to the National Coalition for Homeless Veterans, homeless veterans are

younger on average than the total veteran population. Approximately 9% are between the ages of 18 and 30, and 41% are between the ages of 31 and 50. On top of that, about 1.4 million other veterans are considered at risk of homelessness. There is no single solution that will solve this crisis. Reasons for the large number of homeless veterans are complex and numerous. Two of the biggest factors are the extreme shortage of affordable housing and livable income. SB 364 attempts to address the affordable housing issue for veterans by capping the property taxes on any primary residence of an honorably discharged veteran over the age of 65, and exempting the property tax of all disabled veterans living in their primary residence. By making these two changes, it will go a long way to helping veterans stay in their homes by making their living situation more affordable.”

2. Too many benefits? California already uses acquisition-cost valuation, applies one of the lowest property tax rates in the nation, and limits reassessment only when property is newly constructed or changes ownership, thereby providing significant benefits to property owners, especially those that have been in their homes for many years. Reassessment limits and capped inflation growth ensure a predictable, slowly growing tax obligation for the taxpayer, and predictable revenue for local agencies; however, these limits may also result in a taxable base year value below the property’s fair market value, which grows in magnitude the longer the assessor hasn’t revalued the property. In most cases, this system shifts the cost of public services from incumbent homeowners onto individuals who recently purchased property. SB 364 expands those benefits to freeze base year values for income-eligible veteran taxpayers over the age of 65 at current amounts, and in the future for veterans when they turn 65. The children and grandchildren of veterans would also benefit from SB 364’s lower base year value if the veteran transferred the property to them, as these transfers are not changes in ownership under the Constitution. The Committee may wish to consider whether this tax benefit is necessary given those already afforded under current law.

3. Different treatment. Proposition 13’s cap on assessed value growth currently benefits all taxpayers regardless of age, income, or other variable. SB 364 sets a precedent by freezing an income-eligible veteran over the age of 65’s property tax base at its amount today, as well as for other qualifying veterans when they turn 65, while all other taxpayers would be subject to annual inflation adjustments.

4. No income test. Generally, property tax exemptions don’t depend on the taxpayer’s income; however, the different disabled veterans’ exemption amounts based on income were first enacted by the Legislature when it allowed a greater exemption (\$15,000 at the time) for disabled veterans with income sufficiently low to qualify for the Property Tax Postponement program (AB 955, Mangers, 1978). The Legislature maintained the distinction when it fixed the current exemption amounts (SB 320, Royce, 1989), and applied the inflation adjustment (SB 1362, Poochigian, 2000). SB 364 ends this distinction by granting a full exemption for all taxpayers regardless of income. Increasing the disabled veterans’ exemption reduces taxes for those who have sacrificed greatly for their country, and would be easier for assessors to administer, as they would no longer have to verify the taxpayer’s income. However, the bill would grant a full exemption from property tax to all disabled veterans, thereby potentially providing a benefit for individuals who have income sufficient to meet current tax obligations despite their disability. The Committee may wish to consider whether the bill’s tax benefits should depend on the taxpayer’s income.

5. Related legislation. SB 364 is largely identical to SB 404 (Stone, 2017), which was almost identical to SB 1104 (Stone, 2016). The Committee approved both measures unanimously, but

neither advanced from the Senate Appropriations Committee's suspense file. As introduced, SB 1104 would have frozen the base year value for all veteran taxpayers; however, the author accepted amendments in this Committee limiting this benefit solely to veterans with incomes below a specified limit, and applying its changes to mobile and manufactured homes.

6. Mandate. The California Constitution requires the state to reimburse local governments for the costs of new or expanded state mandated local programs. Because SB 364 changes the manner in which assessors value real property, Legislative Counsel says that it imposes a new state mandate. The measure provides that the state shall not reimburse local agencies for property tax revenue losses, instead stating that should the Commission on State Mandates determine that the bill imposes a reimbursable mandate, reimbursement must be made pursuant to existing statutory provisions.

7. Double-referred. The Senate Rules Committee referred SB 364 to both the Committees on Governance and Finance, which considers bills affecting property taxation, and Veterans Affairs.

Support and Opposition (3/22/19)

Support: Unknown.

Opposition: Unknown.

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