SENATE COMMITTEE ON APPROPRIATIONS
Senator Anthony Portantino, Chair
2021 - 2022 Regular Session

SB 1357 (Archuleta) - Property taxation: exemption: disabled veteran homeowners

Version: April 18, 2022
Urgency: No
Hearing Date: May 9, 2022

Policy Vote: GOV. & F. 5 - 0, M.V.A. 5 - 0
Mandate: Yes
Consultant: Robert Ingenito

Bill Summary: SB 1357 would make specified changes to the disabled veterans' property tax exemption.

Fiscal Impact:

- The Board of Equalization (BOE) estimates that this bill would likely result in annual property tax revenue losses of an indeterminable amount. Reductions in local property tax revenues, in turn, increase General Fund Proposition 98 spending by up to roughly 50 percent (the exact amount depends on the specific amount of the annual Proposition 98 guarantee, which in turns depends upon a variety of economic, demographic and budgetary factors).

- BOE has yet to determine its administrative costs that would result from the bill.

- By adding to the duties of local tax officials in administering the disabled veterans' property tax exemption, this bill creates a state-mandated local program. To the extent the Commission on State Mandates determines that the provisions of this bill create a new program or impose a higher level of service on local agencies, local agencies could claim reimbursement of those costs (General Fund). The magnitude is unknown.

Background: Under the California Constitution, all property is taxable unless explicitly exempted by either itself or by federal law. The Constitution limits the maximum amount of any ad valorem tax on real property at one percent of full cash value, plus any locally-authorized bonded indebtedness. County assessors reappraise property whenever it is purchased, newly constructed, or when its ownership changes.

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 (1) has lost one or more limbs, (2) is totally blind, or (3) is totally disabled, as a result of a service-connected injury. This "disabled veterans' exemption," is available to disabled veteran taxpayers or their unmarried surviving spouses, and applies instead of other real property exemptions, like the homeowners' exemption.

The disabled veterans' exemption amount depends upon the claimant's income. For 2022, the basic exemption adjusted for inflation will be $149,993. However, if the claimant's income is less than $67,335, the exemption amount will be $224,991. For the 2021 assessment year, 63,968 disabled veterans or their unmarried surviving spouses

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

Proposed Law: This bill would, beginning on the January 1, 2023 lien date, do the following:

- Create an alternative disabled veterans' exemption, which exempts from property tax for the entire value of the disabled veteran's principal place of residence if the disabled veteran taxpayer has lost one or more limbs, is totally blind, and has a 100% disability rating USDVA.

- Create a partial exemption for disabled veteran taxpayers who are blind in both eyes or who have lost the use of two or more limbs, but do not have a 100% disability rating from the USDVA. The partial exemption would be equal to the product of multiplying $700,000 by the USDVA percentage disability rating.

- Provide that the $700,000 amount would be adjusted annually for inflation, as specified.

Related Legislation:

- SB 667 (Roth, Chapter 430, Statutes of 2021) allows the executor or administrator of the claimant's estate to file a claim for the disabled veterans' exemption.

- SB 1073 (Grove) would expand the disabled veterans' exemption to allow a reduced exemption for partially disabled veterans. The bill is currently pending in this Committee

Staff Comments: BOE indicates that, under current property tax law, the total qualifying basic exemption value reported for 2020-21 was $8.1 billion, and the low-income exemption value was $1 billion, resulting in a total exemption amount of $9.1 billion. At the 1 percent basic rate, this amounts to a property tax reduction of $91 million.

As noted above, this bill would exempt from taxation property that is the principal place of residence owned by a veteran who is blind in both eyes or has lost the use of two or more limbs as a result of injury or diseased incurred in military service and has a 100 percent disability rating from the USDVA and to veterans that are totally disabled as a result of injury or disease incurred in military service.

BOE notes that, under current law, such veterans either receive the basic exemption or the low-income exemption if they meet household income requirements. The full value of these properties that currently receive the exemption and the difference between the exemption amount currently received and the new exemption amount proposed by this bill would be unknown. However, BOE asserts that it is likely these properties have a full value greater than the current exemption amounts; consequently, the bill would result in lower property tax revenues.

With respect to the bill's proposed changes related to a partial disabled veterans' property tax exemption, BOE indicates that, though there is sufficient data from the National Center for Veterans Analysis and Statistics (NCVAS) on the number of veterans in each partial disability percentage category, staff is unsure of the universe of veterans that would meet the bill's requirements of being blind in both eyes or having lost the use of two more limbs in service.

BOE staff could provide a revenue estimate based upon the partial disability ratings; however, it is likely the result would be substantially overstated since the universe of veterans that would qualify for a partial exemption under this bill is likely to be very narrow.

For these reasons, BOE is not able to provide a revenue estimate for the bill, but notes that it would likely result in reduced property tax revenue compared to current law.

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