

Date of Hearing: June 13, 2022

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Jacqui Irwin, Chair

SB 1357 (Archuleta) – As Amended April 18, 2022

FOR TESTIMONY ONLY

Majority vote. Tax levy. Fiscal committee.

SENATE VOTE: 39-0

SUBJECT: Property taxation: exemption: disabled veteran homeowners

SUMMARY: Creates a new property tax exemption in lieu of the existing exemption for qualified disabled veterans. Specifically, **this bill:**

- 1) Exempts from taxation property owned by, and that constitutes the principal place of residence of, a veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly, if the disabled veteran taxpayer has lost the use of two or more limbs, or is totally blind, and has a 100% disability rating by the United States Department of Veterans Affairs (USDVA).
- 2) Provides a partial property tax exemption if the veteran is blind in both eyes or has lost the use of 2 or more limbs and has a disability rating of less than 100%, but more than 10%. The amount of the full value of the property that would be partially exempted in this case is the product of \$700,000 and the percentage of the veteran's disability rating percentage by the USDVA or the military service from which the veteran was discharged.
- 3) Adjusts the \$700,000 amount used to calculate the partial property exemption annually for inflation.
- 4) Provides an unmarried surviving spouse a property exemption in the same amount that they would have been entitled to if the veteran were alive if the following conditions are met:
 - a) The deceased veteran, during their lifetime, qualified for the exemption under this bill, or would have qualified for the exemption under the laws effective on January 1, 2023, except that the veteran died before January 1, 2023. The veteran was a resident of this state on January 1 of the year in which they died; and,
 - b) The veteran died from an injury or disease that was service-connected as determined by the USDVA, and the veteran was a resident of this state on January 1 of the year in which they died.
- 5) Provides that the property is deemed to be the principal place of residence of the unmarried surviving spouse of a deceased veteran only if the property was the principal place of residence of the veteran when they died.

- 6) Provides that a property is deemed to be the principal residence of a veteran, if the veteran is confined to a hospital or other care facility, if that property would be the veteran's principal residence were it not for their confinement to a hospital or care facility, provided the residence is not rented or leased to a third party. This bill provides that a family member who resides at the residence is not considered a third party.
- 7) Requires certain documentation to be provided to the County Assessor to receive the exemption and prohibits any other real property tax exemption from being granted to the claimant if receiving the exemption provided by the provisions of this bill.
- 8) Defines or explains the following terms used in this bill: "blind in both eyes," "loss of the use of a limb," "totally disabled," "veteran," "property that is owned by a veteran," and "property that is owned by the veteran's unmarried surviving spouse."
- 9) Makes this bill applicable for property tax lien dates occurring on or after January 1, 2023.
- 10) Provides that the Legislature intends to enact legislation to comply with the Revenue and Taxation Code (R&TC) Section 41 requirements.
- 11) Provides that if the Commission on State Mandates determines that this bill contains costs mandated by the state, reimbursement for those costs shall be made under existing law.
- 12) Provides that, notwithstanding existing law, no appropriation is made and the state shall not reimburse local agencies for property tax revenues lost by them pursuant to this bill.
- 13) Takes effect immediately as a tax levy.

EXISTING LAW:

- 1) Provides that all property is taxable unless explicitly exempted by the California Constitution or federal law. (California Constitution, Article XIII, Section 1.)
- 2) Allows the Legislature to exempt from property taxation in whole or in part the home of a veteran or veteran's spouse if the veteran, because of injury incurred in military service, is blind in both eyes, has lost the use of 2 or more limbs, or is totally disabled, or if the veteran has, as a result of a service-connected injury or disease, died while on active duty in military service, unless the home is receiving another real property exemption. (California Constitution, Article XIII, Section 4, Subdivision (a).)
- 3) Exempts from property taxes the principal place of residence of a veteran, that is owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly, if the veteran is disabled as a result of injury or disease incurred in military service, or if the veteran has, as a result of a service-connected injury or disease, died while on active duty in military service. The property tax exemption is on that part of the full value of the residence that does not exceed \$100,000, or \$150,000 if the household income of the claimant does not exceed \$40,000, as adjusted for inflation, as specified. (R&TC Section 205.5.)
- 4) Requires that anyone claiming the disabled veterans' exemption file a claim with the County Assessor. (R&TC Section 227.)

FISCAL EFFECT: The State Board of Equalization (BOE) estimates that this bill would likely result in annual property tax revenue losses of an indeterminable amount.

COMMENTS:

1) The author has provided the following statement in support of this bill:

Veterans, like all Californians, are struggling with the high cost of housing. According to the US Department of Housing and Urban Development, over 11,000 veterans are experiencing homelessness in California. With many veterans throughout the state living on a fixed income and the median price of a home in California exceeding over \$800,000 – California must do more to ensure our veterans can afford to live in this great [state] while also striving to end veteran homelessness. Hardest hit in the dream of home ownership has been our veterans and more so our 100 percent disabled veterans. SB 1357 will provide an additional helping hand to those homeowners who have a 100 percent disability rating. This measure expands the disabled veteran's exemption to allow a full property tax exemption for 100 percent disabled veterans.

2) This bill is supported by the President of the Los Angeles Chapter of United States Veteran Business Alliance, which notes, in part:

As a disabled veteran, I'm supporting SB 1357; providing property tax exemption for our 100% disabled veterans and those veterans who have lost two limbs, eyesight and or disability related to a disease from their military service, as rated by the Veterans Administration. This bill will help to improve the quality of life to those who have given so much of themselves for our country, our people and the great State of California.

3) Committee Staff Comments:

- a) *What would this bill do?* This bill would allow either a full property tax exemption or a partial property tax exemption as an alternative to the existing exemption for disabled veterans. This bill would allow any disabled veteran who qualifies for the exemption due to a 100% USDVA disability rating to claim a full exemption from property tax without any limitation on the property's value. This bill would also enact a new 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 value of the property exempt under the partial exemption is equal to the product of multiplying \$700,000 by the USDVA percentage disability rating.
- b) *Who would potentially benefit from this bill?* This bill would benefit disabled veterans, who would receive a greater property tax exemption from this bill than under the existing property tax exemption for disabled veterans. The existing exemption reduces the property tax liability on the principal place of residence of qualified veterans who, due to a service-connected injury or disease, have been rated 100% disabled or are being compensated at the 100% rate due to unemployability. Furthermore, existing law provides two levels of exemption for disabled veterans:
 - i) The basic exemption, also known as the “\$100,000 exemption”, is available to all qualifying claimants. The exemption amount is compounded annually by an inflation factor. For example, for 2023, the basic exemption amount was \$161,083; and,

- ii) The low-income exemption, also referred to as the “\$150,000 exemption”, is available to qualifying claimants whose annual household income does not exceed a specified income limit. The amounts for the low-income exemption and the annual income limit are compounded annually by an inflation factor. For example, for 2023, the low-income exemption amount was \$241,627, and the annual household income limit was \$72,335.¹

Accordingly, in general, the following taxpayers would likely benefit from this bill:

- i) Qualified disabled veterans who own a home that is valued greater than the current exempt amounts, which are \$241,627 or \$161,083 for the 2023 year;
 - ii) Qualified disabled veterans who own a home and are partially disabled; and,
 - iii) Qualified disabled veterans who own a home and make more than the annual household income limit for the existing exemption, which was \$72,335, for the 2023 year.
- b) *What is the problem this bill is seeking to solve?* According to the author, veterans, like all Californians, are struggling with the high cost of housing. According to the U.S. Department of Housing and Urban Development, over 11,000 veterans are experiencing homelessness in California.

Committee staff questions whether this bill actually is the solution to addressing the high cost of housing and homelessness. This bill does not assist disabled veterans in attaining homeownership. Instead, this bill assists disabled veterans in reducing their cost of home ownership, i.e., their property tax liability.

- c) *The high cost may weigh on this bill:* When analyzing tax legislation, this Committee may weigh the need for the subsidy against the costs to the state. During the current legislative session, this Committee has heard and supported several tax proposals that would have subsidized honorable disabled veterans. Specifically, related to this bill, the Chair and members of this Committee unanimously passed out AB 2898 (Fong), which would have increased the property tax exemption for qualified disabled veterans. The Assembly Committee on Appropriations' analysis noted that the annual property tax loss for AB 2898 was \$33.2 million and AB 2898 was held on the Assembly Appropriations' Suspense File.²

Compared to AB 2898, this bill is more generous with its subsidy because it provides an unlimited exemption amount for disabled veterans with a 100% disability rating and a potentially greater amount for partially disabled veterans. This bill is likely more costly than AB 2898.

¹ California State Board of Equalization. (n.d.). Disabled Veterans' Exemption. Retrieved June 9, 2022, from https://www.boe.ca.gov/proptaxes/dv_exemption.htm#Description

² Ho, I. (2022). Assembly committee on appropriations' analysis of AB2898 (Fong) – as amended April 26, 2022.

Should the author wish to lower the cost of this bill, Committee staff offers the following amendments for consideration:

- i) Limit the amount of exemption. Disabled veterans who own homes that are valued in excess of \$2 million may not need the financial assistance provided by this bill.
- ii) Add a household income cap. High-income earners may not need financial assistance. Disabled veterans with higher income may wish that the state provide financial assistance to other veterans or people in need.

Amending this bill to reduce the fiscal cost to the state and local jurisdictions may help the author successfully overcome the hurdles of the legislative process and deliver these tax subsidies to honorable veterans.

- d) *Potentially questionable*: Under this bill, a disabled veteran with a 99% disability rating would receive a \$693,000 property tax exemption. However, another disabled veteran who owns a home valued at \$1 million and who received a 100% disability rating would receive the full \$1 million property tax exemption just for having a rating that is 1% greater. These types of situations can raise a fairness question.
- e) *BOE's analysis*: The BOE's analysis of this bill raises a few considerations for the author, including topics related to "Code Section Clean-Up," defining family members for this bill, disability ratings, and county assessor implementation.³ Committee staff recommends the author's office consider resolving the issues raised by the BOE to assist the agency and county assessors in administering this bill.
- f) *Floodgates principle*: Beneficiaries of other property tax exemptions, such as qualified homeowners and other veterans, may request greater property tax exemption benefits if this bill is enacted.
- g) *Other opportunities to help veterans*: As mentioned by the author, California's housing affordability crisis is rampant. While this bill benefits existing homeowners, it does not directly benefit the 19,000 homeless veterans in California.⁴ This Committee may wish to weigh spending priorities between helping deserving homeowners reduce their property taxes against building housing for homeless veterans.
- h) *Double-referral*: This bill was referred to the Assembly Committee on Military and Veterans Affairs.
- i) *Committee's tax expenditure policy and BOE's data collection concerns*: SB 1335 (Leno), Chapter 845, Statutes of 2014, added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending

³ State Board of Equalization. (2022). Analysis of SB 1357 (Archuleta) amended 04/18/22. <https://www.boe.ca.gov/legdiv/pdf/1357sb041822rd.pdf>

⁴ California Department of Veterans Affairs. (n.d.). *Housing Resources*. Retrieved April 18, 2022, from <https://www.calvet.ca.gov/VetServices/Pages/Housing-Resources.aspx#:~:text=California%20is%20home%20to%20nearly,services%20for%20all%20California%20veterans.>

programs to tax credits introduced on or after January 1, 2015. AB 263 (Burke), Chapter 743, Statutes of 2019, extended the requirements in R&TC Section 41 to all tax expenditure measures under the Personal Income Tax Law, the Corporation Tax Law, and the Sales and Use Tax Law introduced on or after January 1, 2020. This Committee has also adopted a policy, requiring that all tax expenditure proposals must comply with the requirements of R&TC Section 41. A tax expenditure proposal must outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. A tax expenditure bill will not be eligible for a Committee vote unless it has complied with these requirements. This bill does not comply with R&TC Section 41 requirements.

In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote. According to the policy, an "appropriate sunset provision" is five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" is 10 years. This bill should have a sunset provision for 10 years because veterans are the beneficiaries of this bill.

Committee staff has recommended that the author's office make amendments to comply with the Committee's policy to be eligible for a vote.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Realtors
Los Angeles Chapter of The US Veteran Business Alliance

Opposition

None on file

Analysis Prepared by: Gi Jung Nam / REV. & TAX. / (916) 319-2098