
SENATE COMMITTEE ON GOVERNANCE AND FINANCE

Senator Mike McGuire, Chair
2021 - 2022 Regular

Bill No: SB 658
Author: Grove
Version: 3/5/21 Amended
Consultant: Grinnell

Hearing Date: 4/8/21
Tax Levy: Yes
Fiscal: Yes

PROPERTY TAX: EXEMPTIONS: DISABLED VETERANS

Expands the disabled veterans' exemption to allow a reduced exemption for partially disabled veterans.

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. Assessors reappraise property whenever it is purchased, newly constructed, or when 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 has lost one or more limbs, is totally blind, or 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.

Current law defines "totally disabled" to mean that the United States Department of Veterans Affairs (USDVA) or the military service from which the veteran was discharged has rated the disability at 100 percent, or has rated the disability compensation at 100 percent by reason of being unable to secure or follow a substantially gainful occupation. According to the Board of Equalization (BOE), if a veteran has received a disability rating of 100 percent from the USDVA, the county assessor should consider the veteran qualified for the exemption without requiring further documentation.

State law implementing the Constitutional exemption doesn't fully exclude the value of a disabled veteran's property, instead enacting 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 \$143,273 for disabled veterans with income of more than \$64,337, and \$214,910 for those with less than that amount.

Currently, a disabled veteran must have a disability rating of 100% to be eligible for the exemption; no partial allowances for a rating less than 100 percent. San Bernardino County Assessor-Recorder-Clerk Bob Dutton wants to allow disabled veterans with less than a 100% rating to qualify for a partial exemption in accordance with their disability rating.

Proposed Law

Senate Bill 658 expands the disabled veterans' exemption to allow a reduced exemption for partially disabled veterans, effective for lien dates on or after January 1, 2022. The bill sets the amount of the partial exemption as the percentage of the full amount of exemption allowed to a totally disabled veteran equivalent to the partially disabled veteran's disability rating percentage issued from USDVA, or the military service from which the veteran was discharged. The bill also makes technical and conforming changes.

State Revenue Impact

Pending.

Comments

1. Purpose of the bill. According to the author, “Only a small percentage of veterans are listed with a 100% disability rating by the USDVA. As it stands, even if a veteran were to have a 90% disability rating, they would be ineligible for a property tax exemption under current law. Many veterans who are severely disabled as a result of their service to the United States are turned away when seeking this exemption. SB 658 ensures that California veterans are treated with the proper gratitude and respect they deserve for their service to the United States by expanding access to a helpful tool for California Veterans and their families.”
2. Revenue loss. SB 658 expands the disabled veterans' exemption to allow a reduced exemption for partially disabled veterans, which will likely reduce valuations for property tax purposes. As a result, the state, cities, counties, and special districts will have to reduce spending or increase taxes to compensate for any foregone revenue resulting from the measure.
3. Constitutional? The Constitution allows the Legislature to partially or wholly exempt from property tax the value of a disabled veteran's principal place of residence, but only if the veteran is “totally disabled,” as a result of a service-connected injury, among other criteria. SB 658 allows a partial exemption for “partially disabled” veterans, defined as those less than 100% disabled, which could conflict with the express language in the Constitution requiring the disability to be “total.” If enacting a partial exemption is consistent with the Constitution, the Committee may wish to consider amending the bill to set a minimum disability threshold.
4. Ratings changes. Unlike permanent disabilities, USDVA can increase or decrease a disability rating if it finds sustained improvement in the veteran's ability to function under the ordinary conditions of life, including employment, after review of the veteran's medical history and conducting a thorough examination. Because SB 658's exemption amount is equal to the veteran's disability rating percentage multiplied by the exemption amount allowed to a totally disabled veteran, the exemption amount could change if the veteran's rating does. However, the measure does not provide a process for when a disability rating reduces over time; should the veteran be required to notify the assessor if their rating increases or decreases?
5. Coming home. According to BOE, the number of taxpayers claiming the disabled veterans' exemption has increased from 8,483 to 37,653 between 1990 and 2015, an increase of 344%. San Diego (5,391), San Bernardino (3,732), and Sacramento (2,422) are the counties with the most taxpayers claiming the exemption.

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 658 expands the disabled veterans' exemption, 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. Coming and going. The Senate Rules Committee ordered a double referral of SB 658. First, to the Governance and Finance Committee to consider its tax implications, and second to the Military and Veterans Affairs Committee.

8. Related legislation. Earlier this year, the Legislature approved SB 668 (Roth), which allows the executor or administrator of the claimant's estate to file a claim for the disabled veterans' exemption. In 2016, the Legislature expanded eligibility for the exemption to include a person who has been discharged under other than dishonorable conditions, but who is otherwise eligible for federal veterans' health and medical benefits, as determined by the USDVA (SB 1458, Bates).

Support and Opposition (4/5/21)

Support: Bob Dutton - San Bernardino County Assessor-Recorder-Clerk (Sponsor); California Assessors' Association; California Association of County Veterans Service Officers; California State Commanders Veterans Council; Military Officers Association of America; Vietnam Veterans of America, California State Council

Opposition: None received.

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