

Date of Hearing: May 3, 2023

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Chris Holden, Chair

AB 1361 (Hoover) – As Introduced February 17, 2023

Policy Committee: Revenue and Taxation

Vote: 11 - 0

Urgency: No

State Mandated Local Program: Yes

Reimbursable: Yes

SUMMARY:

This bill establishes a preliminary process to determine whether the property a person intends to purchase is eligible for the disabled veteran's property tax exemption.

Specifically, this bill:

- 1) Allows a person, after the person enters into a real estate purchase agreement for a property, but before taking ownership of the property, to file a written preliminary application with the county assessor to determine whether the property is eligible for a veteran's exemption.
- 2) Requires the assessor to process the application within 15 business days of receipt and send a written determination to the applicant that includes the amount of the tax exemption, if approved. The assessor must process the exemption, if approved, when the person receives ownership of the property without requiring the person to file another claim.

FISCAL EFFECT:

- 1) Minor and absorbable costs to the State Board of Equalization (BOE) to provide written guidance to assessors and update informational materials.
- 2) Likely reimbursable costs (General Fund) of an unknown, but potentially significant, amount in excess of \$150,000. By requiring a county assessor to process a preliminary application for the disabled veteran's property tax exemption within 15 business days, this bill likely creates a state-mandated local program. If the Commission on State Mandates determines the provisions of this bill create a new program or impose a higher level of service for which the state must reimburse local costs, counties could claim reimbursement from the state. Assessors note it takes closer to six to nine months to process this exemption accurately, thus the 15-day requirement is "not administratively feasible."

COMMENTS:

- 1) **Purpose.** According to the author:

This bill just streamlines the home buying process by allowing 100% permanent and total disabled veterans to apply for their real estate tax exemption after going under contract on a home, but before taking ownership. This simple change would allow veterans [to] be approved for their tax exempt status before closing on a mortgage, potentially

saving veterans thousands of dollars that they would otherwise have to pay, just to get reimbursed at a later date.

- 2) **Support and Opposition.** This bill is supported by Veteran Strong USA, which argues “With many leaving California due to the continued rising cost of home ownership and inflation, this will help our veterans and surviving spouses remain in California.” This bill is also supported by the California Association of Realtors and United Wholesale Mortgage.

This bill is opposed by the California Assessors’ Association (CAA), which explains “Purchase agreements are not equivalent to contracts of sale or recorded deeds transferring title. Pre-approval of exemption is contrary to existing law that requires legal ownership of property as a primary residence for exemption qualification purposes.” Therefore, this bill “could lead to frustration by the public when a timely and accurate response cannot be provided.”

- 3) **Veteran’s Exemptions.** Existing law authorizes a veteran’s property tax exemption that is functionally obsolete. However, existing law also authorizes another property tax exemption for the principal residence of a disabled veteran or for the unmarried surviving spouse of a deceased disabled veteran. For purposes of this exemption, the veteran must have been discharged under honorable conditions and the disability rating must be 100%, generally occurring for a veteran who is blind in both eyes, has lost the use of two or more limbs, or is totally disabled. This exemption is commonly referred to as the “disabled veterans’ exemption.”

The property tax exemption amount is equal to the assessed value of the property, up to \$100,000 (the “basic” exemption). If household income does not exceed \$40,000, the maximum property tax exemption is increased to \$150,000 (the “low-income” exemption). The exemption amounts and income limitation are adjusted annually for changes to the California Consumer Price Index.

This bill requires county assessors to establish a process to preliminarily approve eligible taxpayers for the disabled veteran’s property tax exemption. The author intends this bill to allow eligible veterans to have the exemption amount included in the underwriting process when determining the amount a veteran may borrow through their mortgage to buy a home. As noted in the Assembly Revenue and Taxation Committee’s analysis of this bill, considering the amount of the tax exemption when underwriting a mortgage could result in a corresponding increase in the amount the taxpayer could borrow. However, the overall impact of considering these exemptions for a mortgage may be limited, since the current maximum annual reduction in tax liability is \$1,611 (or \$2,416 for the low-income exemption). While this bill specifies the taxpayer “shall receive” the exemption if the application is preliminarily approved, this bill does not require the exemption amount to be factored into a mortgage calculation.

- 4) **Implementation Challenges.** The state Constitution and implementing statute specifies an eligible veteran must take ownership of the property in order to receive the disabled veteran’s exemption. This bill, however, allows a veteran to apply and be “preliminarily approved” for the exemption after entering into a purchase agreement, but before taking ownership of the home, which is contrary to existing law.

Pursuant to Property Tax Rule 2 (the Value Concept), it has been the interpretation of the BOE since 1967 that the rebuttably presumed value of real property is the price for which the property was bought. Thus, the sales price itself has legal weight in the assessment process and a final appraised value is generally required to determine a final sales price. Since final appraisals occur after a purchase agreement is entered into, this bill requires assessors to make a determination on exemption eligibility before a final appraisal and without a final sales price. Additionally, other exclusions, such as transfer of a property's base year value, can impact the final assessed value of the property, and thus, the taxpayer's exempt amount under the disabled veteran's exemption. This bill requires completion of a very complicated, generally months-long, assessment process in 15 business days.

- 5) **Related Legislation.** AB 46 (Ramos) excludes specified military benefits from gross income under the Personal Income Tax Law. AB 46 is pending hearing in this committee.

SB 82 (Seyarto) requires a county assessor to accept an electronically generated letter of service-connected disability, in lieu of an original letter, for purposes of verifying eligibility for the disabled veteran's property tax exemption. SB 82 is pending on the Senate Floor.

SB 726 (Archuleta) creates a new disabled veteran's property tax exemption in lieu of the existing exemption. SB 726 is pending on the Senate Committee on Appropriations' suspense file.

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