SENATE COMMITTEE ON REVENUE AND TAXATION
Senator Jerry McNerney, Chair
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Author:	Allen	**Tax Levy:**	No
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Consultant:	Grinnell		

WINTER FIRES OF 2025: REAL PROPERTY TAX: EXEMPTIONS AND REASSESSMENT

Makes four changes to property tax law resulting from fires in Los Angeles and Ventura Counties.

Background

Section One of Article XIII of 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 caps a property's annual inflationary increase in taxable value to 2%. Assessors reappraise property whenever it is purchased, newly constructed, or when ownership changes. The Constitution and statute define those terms.

Base year value transfers. State law implementing Proposition 13 generally sets a property's taxable value as its sales price when purchased or, when there is no sales price, at its fair market value when ownership changes (base year value). Thereafter, the law requires an annual inflation adjustment to the taxable value, which cannot exceed 2%. Any increased taxable value is added to the previous year's value to total its factored base year value each year.

Base year value transfers allow a taxpayer to continue paying property taxes at the factored base year value of their previous home (or other property types where the law allows) and not on the value of their newly purchased or constructed home, often resulting in tax savings. For example, a taxpayer who purchased their residence for $100,000 in 1975 now has a base year value under Proposition 13 that cannot exceed $269,158 under the 2% annual inflationary cap, regardless of its market value. A base year value transfer allows a taxpayer to transfer the $269,158 value to a newly purchased or constructed property, subject to specified requirements. Absent a base year value transfer, the new property would be assessed at fair market value at its purchase price.

In June 1986, voters enacted Proposition 50 to allow a taxpayer to transfer their base year value when their property is damaged by a major misfortune or calamity and located in an area the Governor declared or proclaimed to be in a state of disaster. State law implements Proposition 50 to allow the transfer when:

- The damaged property sustains physical damage amounting to more than 50% of its current market value immediately prior to the disaster;
- The replacement property is located in the same county as the damaged property and is acquired or newly constructed within five years after the disaster;

- The replacement property is comparable to the damaged property in size, utility, and function. For example, a residential property can be a replacement property for a damaged residence, but not for a commercial, agricultural, or industrial property;
- The market value of the replacement property does not exceed 120% of the fair market value of the replaced property in its pre-damaged condition. Property owners can still receive the disaster relief in cases where the value of the replacement property exceeds the 120% limitation, but any amount over this threshold is assessed at full market value and added to the transferred base year value; and,
- The buyer of the replacement property was the owner of the damaged property at the time of damage.

AB 2013 (Irwin, 2020). Prior to 2020, any timely reconstruction of property damaged or destroyed by a misfortune or calamity was not reassessed, so long as the reconstruction is "substantially equivalent" to the property prior to damage or destruction. Assessors then value any newly constructed property that was not "substantially equivalent" at fair market value and added to the factored base year value. As a result, taxpayers whose property is damaged by a disaster that they subsequently repair or reconstruct property can often have some portions of their properties with different base year values, depending on whether the property was destroyed, the damaged property incurred a loss in value, and the degree of any reconstruction. Taxpayers can even have different base year values for the same building, because the assessor will only assess to fair market value the portion of the building that is not substantially equivalent. For example, a taxpayer owns a 1,200 square foot home that is destroyed in a wildfire. If they replace the home with a 3,500 square foot home, the assessor values the additional square footage to fair market value, and adds that value to the factored base year value for the 1,200 square foot home.

In 2020, the Legislature enacted AB 2013 (Irwin) to ensure consistency between the standards that apply to owners who rebuild onsite using the new construction exclusion, who currently must meet the "substantial equivalence" requirement, and the more specific and flexible requirements that apply to owners who transfer their base year values to a newly purchased or constructed offsite property under Proposition 50. Under AB 2013, assessors would not revalue a structure that is larger in size if its value is within 120% of the value of the damaged or destroyed structure. Additionally, the assessor will only assess to fair market value that portion of value that exceeds 120% of its pre-disaster value. This treatment applies only when taxpayers complete reconstruction within five years of the disaster.

The five-year deadline can be difficult to meet. Disaster-affected property owners become their own property developers and have to navigate insurance, permitting, and construction contracting. As a result, the Legislature has extended AB 2013's five-year deadline in AB 1500 by three years for both the 2018 Camp Fire and Woolsey Fire disasters (AB 1500, Irwin, 2023).

Disaster reassessment. The California Constitution allows the Legislature to authorize local agencies to provide for the assessment or reassessment of taxable property "physically damaged or destroyed" for property tax purposes. To implement these Constitutional provisions, a county board of supervisors can enact an ordinance allowing any taxpayer whose property was damaged or destroyed in a major misfortune or calamity, and not by the fault of the taxpayer, to apply for reassessment. These provisions apply to large disasters, such as earthquakes or wildfires, or site-specific incidents, like house fires. Every county has enacted such an ordinance.

Upon a taxpayer filing a valid claim, assessors must revalue the property affected by the disaster. The assessor must calculate the pre and post-disaster market value of land, improvements, and other taxable personal property not affixed to land (or other belongings). If the sum of the pre-disaster values exceed the post-disaster values by $10,000 or more, the assessor then determines the percentage value difference for each of land, improvements, and other property. For example, a home with a market value of $675,000 is 100% destroyed in a wildfire. In this case, the assessor determines that the loss of the home exceeds $10,000, then reduces the value of the home and other property by 100%. The assessor may reduce the value of the land in some cases, but at a lower percentage that the home and other property.

Taxpayers must file a claim with the county assessor within the time specified in its ordinance or 12 months from the date of damage or destruction, whichever is later. After the taxpayer files a claim with the assessor, the assessor revalues the property to its disaster-affected value and sends the taxpayer a Notice of Proposed New Assessment. The county will then issue a separate supplemental refund for taxes paid in the current year based on the amount of reduction, if applicable. The refund is prorated from the month in which the disaster occurred to the end of the fiscal year or the completion of new construction, whichever is first. The property retains its disaster-affected value until fully restored, reconstructed, or rebuilt.

Additionally, taxpayers can defer payment of their next property tax installment if the property was damaged or destroyed by a disaster the Governor issued a state of emergency for and the taxpayer files a valid claim for disaster reassessment as well as a deferment application. The deferment postpones the next regular property tax installment payment (December 10 for the first installment or April 10 for the second installment) until the Assessor reassesses the property.

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 two or more limbs, is totally blind, or is totally disabled as a result of a service-connected injury. The disabled veteran's exemption applies instead of other real property exemptions, like the homeowners' exemption. The taxpayer must have served in the United States Army, Navy, Air Force, Space Force, Coast Guard, or Marine Corps and been discharged under conditions other than dishonorable. This disabled veterans' exemption is available to disabled veteran taxpayers or their unmarried surviving spouses, so long as the U.S. Department of Veterans Affairs (USDVA) determines that the veteran's injury, disease, or death was service-connected. State law implementing the disabled veterans' exemption deems property to be the disabled veteran's principal place of residence, and therefore still eligible for the exemption, when the veteran is confined to a hospital or other care facility, if that property would be that veteran's principal place of residence were it not for their confinement to a hospital or other care facility, provided that the residence is not rented or leased to a third party.

The homeowners' exemption. The Constitution and statute exempts $7,000 in taxable value when the home is the principal place of residence of the owner on January 1st of the year the exemption is claimed, unless the taxpayer claims another exemption. State law provides that the homeowners' exemption does not apply to a second or vacation home, or when the dwelling is vacant. However, the Legislature has provided in two instances that the assessor cannot revoke a taxpayer's homeowners' exemption when they do not occupy the dwelling (SB 1494, Committee on Revenue and Taxation, 2010), including:

- A dwelling that was totally destroyed in a disaster for which the Governor proclaimed a state of emergency, that previously qualified for the exemption and that has not changed

ownership, provided the person intends to reconstruct a dwelling on the property and occupy the dwelling as their principal place of residence when it is possible to do so.
- When the dwelling is damaged in a misfortune or calamity, the person's absence from the dwelling is temporary, and the person intends to return to the dwelling when possible to do so. However, if the dwelling is destroyed, the exemption is not applicable until the structure has been replaced and occupied as a dwelling.

Welfare exemption. The Constitution allows the Legislature to exempt property used exclusively for charitable purposes, so long as it is owned by non-profit entities organized and operated for charitable purposes, such as universities, hospitals, and libraries. To receive a welfare exemption, the Board of Equalization (BOE) must verify that the organization is charitable, and then the assessor must determine that the use of the property qualifies for an exemption. After a disaster, such as when a wildfire destroys an exempt property, it is hard for a property to qualify as exempt in many cases. For example, a church must be used for religious worship to qualify for the exemption; however, if the church is destroyed or damaged so badly it cannot be used for services, the property no longer meets the requirement of being used for charitable purposes. In such a case, the assessor must generally revoke the property welfare exemption.

Los Angeles and Ventura County Fires. The National Weather Service held a conference call with Southern California fire and emergency management officials on Jan. 3, warning that a "truly historic event" was due in four days, with the possibility of fires that would spread with extraordinary speed. On January 7, a series of fires exploded in Los Angeles County, for which the Governor declared a state of emergency to exist in Los Angeles and Ventura counties. According to CalFIRE, the Palisades Fire burned 23,448 acres, destroyed 6,833 structures, and killed 12. The Eaton Fire burned 14,021 acres, destroyed 9,418 structures, and killed 18. The Kenneth Fire started two days later, and the Hughes Fire on January 22nd, neither of which destroyed structures or resulted in loss of life. The UCLA Anderson School of Management estimates total property and capital losses could range between $76 billion and $131 billion, with insured losses estimated up to $45 billion. The causes of all four fires remain under investigation.

The Mountain Fire began on November 6, 2024, near the City of Camarillo. The fire burned 19,904 acres and destroyed 126 structures according to the California Department of Forestry and Fire Protection, which identified equipment as the cause of the fire. The Franklin Fire began on December 9, 2024, in Malibu Canyon State Park. The fire destroyed 20 structures, and its cause remains under investigation. Neither fire resulted in loss of life.

Seeking to assist disaster-affected taxpayers, the author wants to extend disaster relief deadlines, and ensure that neither disabled veterans nor properties that were welfare-exempt before recent fires lose the exemption because of the fire, among other changes.

Proposed Law

SB 663 makes four changes to property tax law related to the Los Angeles County Fires:

- Extends the deadline from 12 to 24 months for taxpayers to file a claim for disaster reassessment for property that was damaged or destroyed by the 2025 Palisades Fire, the

2025 Eaton Fire, the 2025 Hughes Fire, the 2025 Kenneth Fire, or the 2024 Mountain Fire or Franklin Fire, for which the Governor proclaimed a state of emergency.

- Lengthens the five-year deadline in AB 2013 by three years if the qualified property was substantially damaged or destroyed on or after November 1, 2024, but before February 1, 2025, and is applicable for the determination of base year values for the 2025–26 fiscal year and thereafter, that applies to property under the same fires named above.
- The bill directs the assessor to deem that a property that received a welfare exemption in 2025 continues to be used exclusively for its welfare exempt purposes if the property is no longer being used for its exempt purpose due to damage to the property by the same fires named above. This provision is operative for lien dates until January 1, 2033, and applies so long as:
    - The property has not changed ownership since the commencement date of the applicable disaster.
    - The claimant demonstrates intent to reconstruct the property and resume the preexisting exempt purpose, as reflected in documented plans, permit submissions, financial commitments, or other documentation that can be reviewed by the assessor to confirm project viability.
    - The claimant submits, along with any applicable annual filings required, documentation that demonstrates that the claimant is proceeding with the intent of reconstructing the property.
    - The claimant demonstrates that they are in the course of beginning the process of reconstruction of the property for the preexisting exempt purpose by December 31, 2033.
- Provides that under the disabled veteran's exemption from property tax, property shall continue to be deemed as the principal place of residence of the disabled veteran when a dwelling on the property was completely destroyed in a disaster for which the Governor proclaimed a state of emergency, and all of the following apply:
    - The property qualified was the veteran's principal place of residence prior to the commencement date of the disaster.
    - The property has not changed ownership since the commencement date of the disaster.
    - The veteran intends to reconstruct a dwelling on the property and occupy the dwelling as their principal place of residence when it is possible to do so.
    - The veteran continues to comply with any applicable annual filing requirement.

The measure also permits the disaster relief ordinance to permit the assessor to determine the appropriate date of damage for the purposes of reassessment, and modifies the definition of "state of disaster" to refer to the Governor's proclamation of a State of Emergency under the Emergency Services Act. The bill repeals its welfare exemption changes on December 31, 2033.

State Revenue Impact

According to BOE, SB 663 results in "annual property tax revenue loss of up to $184 million by allowing additional base-year value transfers beyond the existing five-year time period. BOE notes that this estimate may be high, as the estimate assumes all affected property owners will seek the three-year extension and elect to rebuild the property instead of purchasing a replacement property. However, this estimate does not account for the potential property tax revenue loss from this bill's other provisions, which may also be significant."

Comments

1. Purpose of the bill. According to the author, "The January 2025 fires in Southern California were together the most destructive in California history, damaging or destroying over 18,000 structures and leaving thousands of families displaced. The significant destruction and lessons learned from previous disasters demonstrate a need for additional property tax flexibility. As homeowners navigate the trauma of losing their homes and securing temporary housing, filing misfortune and calamity claims within the existing twelve month deadline may be difficult for many. The current five year timeline to rebuild and transfer the base tax year of the original home is also likely to be too short for many of the victims to utilize. Rebuilding after a disaster is a complex task, and residents must grapple with insurers, competition for contractors, and permitting. For example, only about one-third of the homes destroyed during the 2018 Woolsey fire have been rebuilt to date. Additionally, current law entirely lacks flexibility for entities that receive property tax exemptions. Churches, nonprofits, and low-income veterans will lose tax-exempt status since they cannot use their property for the allowable purpose. This could create significant unanticipated financial liability when they themselves are struggling to recover after the disaster. SB 663 will address these problems to provide immediate tax relief and ease the recovery and rebuild for Los Angeles wildfire victims."

2. What's the rush? SB 663 extends two deadlines in property tax law for taxpayers affected by the 2025 Los Angeles Fires. First, it extends from 12 to 24 months the period of time for taxpayers to file a claim for disaster reassessment. However, the County Board of Supervisors can already extend this period by revising its ordinance. Second, it extends from five to eight years the deadline for taxpayers to claim a new construction exclusion when rebuilding their properties to be comparable to the damaged or destroyed property. While disaster rebuilds are costly and difficult, and the Legislature has previously extended the deadline for the Woolsey and Camp Fires, the deadline is not currently binding until January 2030.

3. Apples and oranges. SB 663 extends the five-year deadline in AB 2013, which provides a safe harbor from reassessment for taxpayers rebuilding on the same site after their property was damaged or destroyed in a disaster. Specifically, assessors carry over the base year value of the damaged or destroyed property (subject to the 2% annual inflationary growth) so long as the rebuilt property is comparable to the damaged or destroyed property, and the value of the rebuild is within 120% of the damaged or destroyed property. However, AB 2013's safe harbor is measured by value, not *size.* After the wildfire, Los Angeles Mayor Karen Bass and Governor Newsom issued executive orders to expedite review and permitting for rebuilds within 110% of the size of the damaged or destroyed property. Noting this disconnect, on March 5, 2025, Los Angeles County Assessor Prang issued a statement clarifying that "city and county programs that allow property owners to rebuild to 110% do not exempt the additional square footage from property assessment and the accompanying property taxes." AB 2013's predecessor, AB 885 (Irwin, 2019), would have applied a safe harbor of 120% of size; however, Governor Newsom vetoed the measure.

4. Mandate. The California Constitution requires the state to reimburse local governments for the costs of new or expanded state mandated local programs. Because SB 663 changes the way that assessors value real property, Legislative Counsel says that this bill 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.

5. Special legislation. The California Constitution prohibits special legislation when a general law can apply (Section 16 of Article IV). SB 663 contains findings and declarations explaining the need for legislation that applies only to transaction and use taxes imposed within the Counties of Los Angeles and Ventura.

6. Related legislation. SB 663 is related to two other measures currently under consideration by the Legislature.

- SB 293 (Pérez) extends the current deadline for taxpayers to retroactively apply a Proposition 58, 193, or 19 intergenerational transfer from six months to three years under specified circumstances resulting from the 2025 Los Angeles Fires. The measure is currently pending on the Assembly Floor.
- AB 245 (Gipson) enacts two property tax relief provisions to assist taxpayers affected by the 2025 Los Angeles County Fires. The measure is currently pending on the Senate Floor.

7. 29.10(d). As approved by the Senate, SB 663 makes three changes to assist taxpayers affected by the 2025 Los Angeles Fires. The author amended the bill in the Assembly to add its disabled veteran's exemption provisions. Because this topic was never heard in the Senate, the Senate Rules Committee referred the amended bill under Senate Rule 29.10(d) to the Senate Revenue & Taxation Committee for a hearing on the Assembly's amendments. At its hearing, the Committee can:

- Hold the bill;
- Recommend that the Assembly amendments be concurred in;
- Recommend that the Assembly amendments not be concurred in;
- Recommend that the Assembly amendments be taken up for consideration; or
- Re-refer the measure to the Committee on Rules.

Assembly Actions

Assembly Revenue & Taxation Committee:	5-0
Assembly Appropriations Committee:	15-0
Assembly Floor:	80-0

Support and Opposition (9/9/25)

Support: California Apartment Association
California Assessors' Association
California Democratic Party, Rural Caucus
California State Board of Equalization
California Taxpayers Association

Opposition: None received.

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