California State
Board of Equalization

Legislative Bill Analysis

Senate Bill 1073 (Grove)
Date: February 15, 2022 (Introduced)
Program: Property Taxes
Revenue and Taxation Code section 205.5
Effective: Immediately

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Summary: Provides a partial exemption for property owned by, and that constitutes the principal place of residence of, a veteran who is partially disabled, the veteran's spouse, or the veteran and the veteran's spouse, jointly. Requires that the amount of exemption be the percentage of the full amount of exemption, equivalent to the partially disabled veteran's disability rating percentage by the United States Department of Veterans Affairs (USDVA) or the military service from which the veteran was discharged.

Fiscal Impact Summary: Annual local property tax revenue loss could amount to an estimated $194 million statewide.

Existing Law: Revenue and Taxation Code section 205.5[1] exempts fully or partially from property tax, the principal place of residence of a veteran, that is owned by the veteran, the veteran's spouse, or jointly by the veteran and the veteran's spouse, if the veteran because of injury or disease incurred in military service, is blind in both eyes, has lost the use of 2 or more limbs, or is totally disabled. The exemption also applies to property that is owned by, and is the principal place of residence of, the unmarried surviving spouse of a deceased veteran if the veteran died from a disease that was service connected as determined by the United States Department of Veterans Affairs (USDVA).

Revenue and Taxation Code (RTC) section 277[2] requires that anyone claiming the disabled veterans' exemption must file a claim with the County Assessor.

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

Proposed Law: **Partially Disabled.** This bill adds the term "partially disabled" meaning that the USDVA or the military service from which the veteran was discharged has rated the disability at less than 100 percent or has rated the disability compensation at less than 100 percent by reason of being unable to secure or follow a substantially gainful occupation.

Partial Exemption. This bill allows a partially disabled veteran to receive a portion of the disabled veterans' property tax exemption based on their USDVA disability ratings percentage. Their property tax exemption percentage will equal their USDVA disability rating percentage.

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[1] Section 4(a) of Article XIII of the California Constitution authorizes the Legislature to exempt from property taxation in whole or in part: (a) The home of a person or a person's spouse, including an unmarried surviving spouse, if the person, 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 person has, as a result of a service-connected injury or disease, died while on active duty in military service.

[2] RTC section 277

Technical Changes. This bill also makes minor technical changes.

In General: California law provides a qualified disabled veteran, their spouse, a qualified disabled veteran and their spouse, jointly, or an unmarried surviving spouse, with a property tax exemption that applies to their eligible principal residence's assessed value. Exemption eligibility provisions require that the claimant obtain a USDVA disability rating that either (1) rates the veteran's disability at 100 percent or (2) rates the veteran's disability compensation at 100 percent because the veteran is unable to secure and maintain gainful employment.

The law also allows surviving spouses to receive the exemption if the veteran spouse's death was service connected. To be eligible for the exemption, surviving spouses must receive a USDVA determination that the spouse's death was service connected. A USDVA determination is necessary for (1) active-duty personnel deaths or (2) veterans without a 100 percent rating when alive, but whose cause of death is deemed service connected. Surviving spouses of veterans with a 100 percent disability rating during their lifetime continue to receive the exemption after the veteran's death, so long as they do not remarry.

The exemption amount depends upon the claimant's income. For the 2022 lien date, the basic exemption amount, adjusted for inflation, is $149,993. However, if the claimant's annual household income is less than $67,355, the low-income exemption amount is $224,991.[3] For the 2021 assessment year 63,968 disabled veterans, their spouses, or their unmarried surviving spouses were granted the exemption.[4]

Commentary:

1. **Reintroduction.** The **February 15, 2022,** introduced version of SB 1073 is a reintroduction of **SB 658,** as it was amended on **March 5, 2021. SB 658** was held on the Senate Appropriations Committee's suspense file.

2. **Constitutional Issues.** Section 4 of Article XIII provides that the Legislature may provide a full or partial exemption for a veteran or spouse, including an unmarried surviving spouse, who has incurred certain injuries during military service, including blindness in both eyes, lost use of 2 or more limbs, or totally disabled. Does this constitutional authorization allow for a partial disability?

3. **Disability Ratings.** If a veteran's disability rating changes, continued eligibility for property tax exemption may require that they obtain an updated USDVA rating, which could be time consuming and cumbersome for both the veteran and the county assessor.

4. **County Assessors.** County Assessors may potentially have to reassess properties on a more frequent basis due to changes in disability ratings. How will county assessors get notification of ratings change? Will there be a requirement to implement a ratings review on a regular basis? There will likely be additional workload for county assessors at the onset of implementation as well as on an ongoing basis.

5. **Related Legislation. AB 2898** (Fong) increases the disabled veteran's exemption from $100,000 to $200,000, and $150,000 to $300,000 for low-income disabled veterans. The bill does not authorize a partial exemption. **SB 1357** (Archuleta) is bill relating to the disabled veteran's exemption.

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[3] Board of Equalization, Letter To Assessor No. 2021/018, May 10, 2021.
[4] Board of Equalization, Open Data Portal, Table 8.

Costs: The State Board of Equalization (BOE) would incur costs of approximately $1,734 and 21 personnel hours to update claim forms; amend the annual Letter To Assessors, which provides the annual exemption amounts, adjusted for inflation, and the annual household income limit, adjusted for inflation; Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*; and Publication 149, *Property Tax Welfare Exemption*.

Revenue Impact: Existing property tax law provides a disabled veterans' exemption to military personnel, or their spouses, in the event of a service-connected injury, disease, or death, as specified. The law provides a basic exemption amount of $100,000, but increases that amount to $150,000 if the claimant's annual household income does not exceed $40,000, with all amounts adjusted for inflation. For the 2022 lien date, the basic exemption amount is $149,993. The low-income exemption amount is $224,991 for claimants with an annual household income below $67,355.

Service-connected disability ratings data ascertained from the National Center for Veterans Analysis and Statistics (NCVAS) provided staff guidance in preparing the revenue estimate for SB 1073. The 2020 disability compensation recipients by county data for California was broken into the following ratings: 0% to 20% (120,579), 30% to 40% (64,104), 50% to 60% (63,010), 70% to 90% (127,852), and 100% (81,603).

Given the intent of SB 1073 is to provide a partial exemption to veterans who are partially disabled, staff analyzed all the ratings except those with a 100 percent rating, assuming those veterans are already granted the exemption. The approach taken was as follows:

- For each disability ratings category, staff assumed that 78 percent of disabled veterans owned their principal residence. In a 2020 *Urban Institute* research report, it was highlighted that about 78 percent of veteran households were homeowners.

- Based on BOE's current 100 percent ratings exemption data, staff estimated that 92 percent of partial disabled veterans would qualify for the basic exemption amount and 8 percent would be eligible for the low-income exemption amount.

- For those qualifying for the basic exemption, the pertinent rating was applied to $149,993 (2021-22) to estimate the exemption value. For those qualifying for the low-income exemption amount, it was applied to $224,991 (2021-22). The exemption value assumes that the taxable value of the home is greater than $149,993 and $224,991, respectively, for disabled and low-income disabled veterans.

70% to 90% Rating: The NCVAS data indicated 127,852 disabled veterans receiving disability compensation under the 70% to 90% rating. 78% of 127,852, or 99,725, are estimated to be homeowners.

Of the 99,725 homeowners, 92%, or 91,964 would qualify for the basic exemption. Using 80% as the average for the 70% to 90% rating, it was applied to the basic exemption amount of $149,993, and then multiplied by 91,964 homeowners, resulting in a basic exemption value of $11 billion (80% × $149,993 × 91,964 homeowners).

Applying the same methodology to the low-income exemption amount, the total exemption value was estimated at $1.4 billion (80% × $224,991 × 7,761 homeowners). Total exemption value for the 70% to 90% rating was estimated to be $12.4 billion (basic $11 billion + low-income $1.4 billion).

Applying this methodology to all disabled veteran ratings (under 70% disability rating), staff estimates the total exemption value under SB 1073 amounts to $19.4 billion. Annual revenue loss at the basic 1%

property tax rate amounts to an estimated $194 million (1% × $19.4 billion exemption value = $194 million).

Qualifying remarks:

- This amount could increase over time as exemption limits are annually adjusted for inflation.

This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.