



Legislative Bill Analysis

[Senate Bill 1357](#) (Archuleta)

Date: April 18, 2022 (Amended)

Program: Property Taxes

Revenue and Taxation Code section 205.5.1

Effective: Immediately

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Summary: Adds Revenue and Taxation Code (RTC)¹ section 205.5.1 which makes the following changes to the disabled veterans' property tax exemption: (1) exempts from property taxation property that is the principal place of residence owned by a veteran who is blind in both eyes or has lost the use of two or more limbs as a result of injury or disease incurred in military service and has a 100% disability rating from the United States Department of Veterans Affairs (USDVA); (2) exempts from property taxation property that is the principal place of residence owned by a veteran who is totally disabled as a result of injury or disease incurred in military service; (3) provides a partial exemption to a veteran that is blind in both eyes or has lost the use of two or more limbs as a result of injury or disease incurred in military service and the disability rating is in between 10% and 100%. This exemption would be in lieu of the current disabled veterans' property tax exemption authorized under section 205.5.

Summary of Amendments: The **April 18, 2022**, amendments clarify that the exemption for disabled veterans that are totally disabled as a result of an injury or disease incurred in military service or are blind in both eyes or lost the use of two or more limbs as a result of injury or disease incurred in military service and have a 100% disability rating applies to the entire principal residence. Additionally, the amendments make a technical change to correct a reference of "paragraph" to "subparagraph" for purposes of the partial exemption.

Fiscal Impact Summary: Indeterminable, but likely to result in increased local property tax revenue loss statewide.

Existing Law: The California Constitution² authorizes the Legislature to exempt partially or fully from property tax, the principal residence of a veteran and/or a veteran's spouse, including an unmarried surviving spouse, that has incurred certain injuries during military service, including blindness in both eyes, lost use of 2 or more limbs, or totally disabled. The exemption also applies if a person has, because of a service-connected injury or disease, died while on active duty in military service. This exemption is commonly referred to as the "disabled veterans' exemption." Under current law, there is a basic disabled veteran's exemption and a low-income disabled veteran's exemption.

Section 277³ requires that anyone claiming the disabled veterans' exemption must file a claim with the County Assessor.

Currently, a disabled veteran must have a USDVA disability rating of 100 percent to be eligible for the exemption.

¹ All statutory references are to the Revenue and Taxation Code, unless otherwise provided.

² Article XIII, [Section 4\(a\)](#) of the California Constitution and RTC section 205.5.

³ [RTC section 277](#).

This staff analysis is provided to address various administrative, cost, revenue, and policy issues; it is not to be construed to reflect or suggest the BOE's formal position.

Proposed Law: A New Disabled Veterans' Exemption. This bill adds section 205.5.1 which would provide a new disabled veterans' property tax exemption in lieu of the current disabled veterans' property tax exemption that is authorized under section 205.5 and provided by subdivisions (o), (p), (q), and (r) of section 3 of article XIII of the California Constitution, and any other real property tax exemption to which the claimant may be entitled.

Provides a Full Exemption. This bill provides that if a veteran is blind in both eyes or has lost the use of two or more limbs as a result of injury or disease incurred in military service and has a 100% disability rating from the USDVA or if a veteran is totally disabled as a result of injury or disease incurred in military service then the veteran's property that constitutes the principal place of residence shall be exempt from property taxation.

Provides a Partial Exemption. This bill authorizes a partial disabled veterans' property tax exemption if the disabled veteran has a disability rating between 10% and 100%. The amount of the partial exemption available would be calculated by the product of the veteran's disability rating percentage and the \$700,000 exemption amount.

Adjusted for Inflation. Commencing on January 1, 2024, the new partial exemption amount of \$700,000 shall be compounded annually by an inflation factor that is the annual percentage change, measured from February to February of the two previous assessment years, rounded to the nearest one-thousandth of 1 percent, in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations.

Qualification of Principal Residence. This bill 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. The bill defines that a family member who resides at the residence is not considered a third party.

Provides Exemption to Unmarried Surviving Spouse. This bill provides that an unmarried surviving spouse of a deceased veteran shall receive the exemption in the same amount that the veteran received if: (1) the deceased veteran qualified for the exemption or would have qualified under the bill effective January 1, 2023 and was a resident of California on January 1 of the year in which they died; (2) the veteran died from an injury or disease that was service-connected as determined by the USDVA, and the veteran was a resident of California on January 1 of the year in which they died.

Provides Exemption to Unmarried Surviving Spouse Confined to Hospital or Care Facility. This bill provides that property is deemed to be the principal place of residence of an unmarried surviving spouse of a veteran, who is confined to care, if that property would have been the surviving spouse's place of residence if it were not for their confinement to a hospital or care facility. To receive the exemption, the principal residence cannot be rented or leased to a third party.

Operative Lien Dates. The increase in the disabled veterans' property tax exemption amount shall apply for the property tax lien dates on or after January 1, 2023.

County Assessors. To receive the exemption provided by this bill, a claimant shall provide the County Assessor documentation, including a letter from the USDVA or the military service from which the veteran was discharged demonstrating the veteran's disability rating.

Definitions. This bill defines several terms relating to veterans, principal residence, and the exemption.

No Reimbursement. The state shall not reimburse any local agency for any property tax revenues lost by the act.

Effective Immediately. The bill shall go into immediate effect if signed.

In General: California law provides a qualified disabled veteran and/or their spouse, or their unmarried surviving spouse with a property tax exemption that applies to their 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 unmarried surviving spouses to receive the exemption if the veteran's death was service connected. To be eligible for the exemption, unmarried surviving spouses must receive a USDVA determination that the veteran's death was service connected. A USDVA determination is necessary for (1) active-duty personnel deaths and (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 are not currently remarried.

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 household income is less than \$67,355, the low-income exemption amount is \$224,991.⁴ For the 2021 assessment year, a total of 63,968 disabled veterans, their spouses, or their unmarried surviving spouses were granted the exemption.⁵

Commentary:

1. **Exemption Amounts.** Under current statute, disabled veterans may receive a basic exemption or a low-income exemption if they meet income requirements. The original \$100,000 basic exemption and \$150,000 low-income exemption amounts have been annually updated for inflation. For the 2022 lien dates, the disabled veterans' basic exemption amount is \$149,993 and the low-income exemption amount is \$224,991 for disabled veterans with an annual household income of less than \$67,355. Veterans who are totally disabled because of an injury or disease incurred in military service or who are blind or lost the use of two or more limbs and have a 100% disability rating would have their property exempt from taxation. These veterans would benefit under the increased exemption.

For veterans with a partial disability rating, some veterans may receive less benefit than if they were eligible under current statute. Veterans with a partial disability that would be eligible for the basic exemption would need a rating of 22% or greater ($22\% * \$700,000 = \$154,000$) to receive a greater benefit under this bill while those who would meet the qualifications of the low-income exemption would need a 33% or greater rating ($33\% * \$700,000 = \$231,000$) to receive a better benefit under this bill.

2. **Code Section Clean-Up.** Should SB 1357 be signed into law, references to RTC section 205.5 in RTC sections 69.5 and 69.6, relating to change in ownership, would need to be updated to also reflect the new code section 205.5.1 as proposed in this bill.

⁴ Board of Equalization, [Letter To Assessors No. 2021/018](#), May 10, 2021.

⁵ Board of Equalization, Open Data Portal, [Table 8](#).

3. **Who is Family?** The bill provides the disabled veterans' exemption to a veteran or a surviving unmarried spouse if they are confined to a hospital or care facility if that property would have been their principal residence if they were not confined to care and if the property is not currently rented or leased to a third party. The bill specifies a family member is not a third party but does not specify what family members qualify. Is the intent to apply this to only immediate family members like spouses, children, and grandchildren? For distant relatives, would the claimant be required to submit extensive family documentation to County Assessors to prove familial relationships? Other property tax benefits such as those under Proposition 19 are limited based on certain family relationships. The author may wish to consider defining family members for purposes of this exemption.
4. **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.
5. **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.
6. **Related Legislation. SB 1073** (Grove) would allow a partial disabled veterans' exemption based upon a veteran's disability rating percentage from the USDVA or the military service from which the veteran was discharged. **AB 2898** (Vince Fong) would increase the base exemption amounts that would then be adjusted for inflation.

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 annual exemption amounts, adjusted for inflation, and the annual household income limit, adjusted for inflation; update the Disabled Veterans' page on the BOE's website; and update Assessors' Handbook [Section 260, General Exemptions](#).

Revenue Impact:

Current Exemption

Existing property tax law provides a disabled veterans' exemption to military personnel and/or their spouses, or their unmarried surviving spouse, in the event of a service-connected injury, disease, or death, as specified. The law provides a basic exemption amount of \$100,000 and a low-income exemption amount of \$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. The total qualifying basic exemption value reported by BOE for FY 2020-21 was \$8.1 billion, and low-income exemption value was \$1 billion, adding to total \$9.1 billion. At the 1% basic rate, this amounts to an estimated \$91 million in revenue loss (1% × \$9.1 billion).

Analysis

SB 1357 would exempt from taxation property that is the principal place of residence owned by a veteran who is blind in both eyes or has lost the use of two or more limbs as a result of injury or disease incurred

in military service and has a 100% disability rating from the USDVA and to veterans that are totally disabled as a result of injury or disease incurred in military service.

Under current statute, these veterans either receive the basic exemption or the low-income exemption, if they meet household income requirements. It is unknown the full value of these properties that currently receive the exemption and the difference between the exemption amount currently received and the new exemption amount proposed by this bill. It is difficult to estimate increased local property tax revenue loss from the increased exemption to these veterans, but it is likely these properties have a full value greater than the current exemption amounts.

Additionally, SB 1357 authorizes a partial disabled veterans' property tax exemption if the disabled veteran is blind in both eyes or has lost the use of two or more limbs as a result of injury or disease incurred in military service and if the veteran has a disability rating between 10% and 100%. The amount of the partial exemption available would be calculated by the product of the veteran's disability rating percentage and the \$700,000 exemption amount set by the bill, which would be annually adjusted for inflation.

While there is sufficient data from the National Center for Veterans Analysis and Statistics (NCVAS) on the number of veterans in each partial disability percentage category, staff is unsure of the universe of veterans that would meet the requirements of being blind in both eyes or lost the use of two more limbs in service, but only receive a partial disability rating from the USDVA. While staff could provide a revenue estimate based upon the partial disability ratings, it is likely the estimate would be substantially overstated since the universe of veterans that would qualify for a partial exemption under this bill is likely very narrow. For these reasons, staff is unable to provide a revenue estimate, but would likely result in increased local property tax revenue loss statewide.