



Legislative Bill Analysis

[Assembly Bill 2898](#) (Vince Fong)

Date: April 26, 2022 (Amended)

Program: Property Taxes

Revenue and Taxation Code section 205.5

Effective: Immediately

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Summary: Increases the disabled veterans' property tax exemption on or after the effective date of the act and before January 1, 2033, to \$200,000, or \$300,000 if the household income of the claimant does not exceed \$40,000 (as adjusted for inflation since 2002), with exemption amounts adjusted for inflation commencing on the effective date of this act, and for each assessment year thereafter. The exemption before the effective date of this act and on or after January 1, 2033, would remain the current statutory exemption amounts as annually adjusted for inflation.

Summary of Amendments: The **April 26, 2022**, amendments specify the increased exemption amounts of \$200,000 and \$300,000 for low-income households, annually adjusted for inflation, apply to the property tax lien dates commencing on and after the effective date of the act and before January 1, 2033. Property tax lien dates occurring before the effective date of the act and on and after January 1, 2033, would receive the current statutory exemption amounts that have been annually adjusted for inflation. The household income limit for the low-income exemption would also be adjusted annually for inflation. The amendments additionally require the State Board of Equalization (BOE) to prepare a written report on specified data relating to the exemption and annually submit the report to the legislative budget committees, appropriations committees, and the tax committees.

Fiscal Impact Summary: Annual local property tax revenue loss estimated up to \$33.2 million statewide.

Existing Law: The California Constitution¹ authorizes the Legislature to exempt partially or fully from property tax, the principal residence of a veteran or 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."

Revenue and Taxation Code (RTC) section 277² requires that anyone claiming the disabled veterans' exemption must file a claim with the County Assessor.

Currently, a disabled veteran must have a United States Department of Veteran Affairs (USDVA) disability rating of 100 percent to be eligible for the exemption.

Proposed Law: Increases Exemption Amount for Ten Years. This bill increases the current disabled veterans' property tax exemption amount from \$100,000 to \$200,000 for qualified claimants and increases the low-income disabled veterans' property tax exemption amount from \$150,000 to \$300,000

¹ Article XIII, [Section 4\(a\)](#) of the California Constitution and RTC section 205.5.

² [RTC section 277](#)

for qualified claimants whose household income does not exceed \$40,000, with all amounts as adjusted for inflation. The **April 26, 2022**, amendments limit the increased exemption to property tax lien dates commencing on and after the effective date of the act and before January 1, 2033.

Current Exemption. The **April 26, 2022**, amendments specify for property tax lien dates occurring before the effective date of this act and on and after January 1, 2033, the disabled veterans' property tax exemption shall be the current statutory exemption amounts annually adjusted for inflation as specified in subdivision (a)(1).

Operative Lien Dates. The increase in the disabled veterans' property tax exemption amount shall apply for the property tax lien dates on and after the effective date of this act and before January 1, 2033. The exemption would remain at the current statutory amounts for lien dates occurring before the effective date of this act and those occurring on and after January 1, 2033.

Adjusted for Inflation. Commencing on or after the effective date of the act and for each assessment year thereafter until January 1, 2033, the new exemption amounts of \$200,000 and \$300,000 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. The current statutory exemption amounts shall continually be updated with inflation annually.

BOE Reporting Requirements. The **April 26, 2022**, amendments require the BOE to prepare a written report on the dollar amount of taxes not collected in each city and county due to the exemption, as claimed by the eligible taxpayer, and the number of taxpayers that have applied for and received the property tax exemption. The BOE would be required to annually submit this report commencing July 1, 2024, and each July 1 thereafter until July 1, 2033, to the legislative budget committees, appropriations committees, and tax committees with the report in compliance of Government Code section 9795.

Technical Changes. This bill also makes minor technical changes.

In General: California law provides a qualified disabled veteran, 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 2023 lien date, the basic exemption amount adjusted for inflation, is \$161,083. However, if the claimant's household income is less than \$72,335, the low-income exemption amount is \$241,627.³ For the 2021 assessment year, a total of 63,968

³ Board of Equalization, [Letter To Assessor No. 2022/018](#), April 28, 2022.

disabled veterans, their spouses, or their unmarried surviving spouses were granted the exemption.⁴

Commentary:

1. **BOE Annual Reporting Requirement.** The **April 26, 2022**, amendments to comply with RTC section 41 requirements, would require the BOE to annually submit a report to specific legislative committees in compliance with GC section 9795, reporting the dollar amount of taxes not collected in each city and county due to the exemption, as claimed by each eligible taxpayer, and the number of taxpayers that have applied for and received the property tax exemption, commencing January 1, 2024, and each subsequent July 1 until December 1, 2033.

However, RTC section 41 only applies to bills that would authorize new tax expenditures under Parts 10 and 11 or would authorize an exemption imposed by Part 1 under Division 2 of the RTC.⁵ These code Parts refer to sales and use taxes, personal income tax, and corporation tax. RTC section 41 does not apply to property tax. If the reporting requirement is based on RTC section 41, then there is no basis for imposing a reporting requirement since this section does not apply to property tax.

Additionally, some data being requested may not be available from the County Assessors. While the BOE's Open Data Portal Table 8 reports the number of disabled veterans granted the exemption and the amount of exemption granted on a countywide basis, this data does not include the number of taxpayers that applied for the exemption. It is unknown if County Assessors track the number of taxpayers that apply for and do not receive the exemption. Furthermore, data reported by the County Assessors regarding the exemption is on a countywide basis and does not include city-specific data. It is also unknown if County Assessors track exemption data for each city located in a county and if County Assessors have a technology system in place to track this specific data. This would impose an administrative burden on County Assessors as some may have to program their systems to track this data to the city level, while counties without such systems would need to develop a system resulting in increased workloads and costs on those counties.

2. **Current Exemption Amounts.** The original \$100,000 and \$150,000 exemption amounts have been annually updated for inflation. For the 2023 lien dates, the disabled veterans' basic exemption amount is \$161,083 and the low-income exemption amount is \$241,627 for disabled veterans with an annual household income of less than \$72,335. This bill would represent a net increase in exemption amounts of \$38,917, and \$58,373, for disabled veterans and low-income disabled veterans respectively.
3. **Low-Income Threshold.** The two exemption amounts have been increased and will be annually adjusted for inflation commencing on January 1, 2024, and for each assessment year thereafter. However, the original household income threshold of \$40,000 remains unchanged and has been adjusted annually for inflation since January 1, 2002. The current household income limit that has been adjusted for inflation is \$72,335. Should this annual household income limit also be updated in statute?
4. **Related Legislation.** **SB 1073** (Grove) would allow a partial disabled veterans' property tax exemption based upon a veteran's disability rating percentage from the USDVA or the military service from which the veteran was discharged. **SB 1073** does not increase the exemption

⁴ Board of Equalization, Open Data Portal, [Table 8](#).

⁵ RTC section [41 \(a\)](#).

amounts, whereas **AB 2898** would increase the base exemption amounts that would then be adjusted for inflation. **SB 1357** (Archuleta) is a bill relating to the disabled veterans' property tax exemption that would authorize a partial exemption and fully exempt property for certain disabled veterans.

Costs: The 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, Assessors' Handbook Section [267](#), *Welfare, Church, and Religious Exemptions*; and [Publication 149](#), *Property Tax Welfare Exemption*.

Revenue Impact: This estimate is based on the 2022 exemption amounts and the 2021-22 number of veterans receiving the exemption. The 2022 basic exemption amount is \$149,993 with 58,990 veterans receiving the exemption. Factoring in the proposed basic exemption of \$200,000, the result is an estimated \$2.9 billion in increased exempt value $((\$200,000 - \$149,993) \times 58,990 \text{ exemptions})$.

The 2022 low-income exemption amount is \$224,991 with 4,978 exemptions. Factoring in the proposed basic exemption of \$300,000, the result is an estimated \$0.37 billion in increased exempt value $((\$300,000 - \$224,991) \times 4,978 \text{ exemptions})$.

Total estimated increase in exempt value is \$3.3 billion (\$2.9 billion basic + \$0.37 billion low-income).

The estimated revenue loss at the 1 percent tax rate is \$33.2 million $(1\% \times \$3.3 \text{ billion})$.

Qualifying remarks:

The 2023 exemption amount increased to \$161,083 for the basic exemption \$241,627 for the low-income exemption for households with an income of \$72,335 or less. However, updated 2022-23 exemption data for the number of disabled veterans receiving the exemption will not be available until the fall of 2022. Depending upon the number of disabled veterans receiving the exemption, the impact may be higher or lower than the current revenue estimate.