

[Assembly Bill 3209](#) (Frazier)

Date: Amended (4/30/2018)

Program: Property Taxes

Sponsor: Author

Revenue and Taxation Code Section 205.5

Effective: Upon enactment, but operative for the 2019-20 fiscal year

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**Summary:** This bill exempts from property tax the principal residence of any person eligible for the disabled veterans' exemption.

**Summary of Amendment:** Since the previous analysis, Assembly Bill 3209 was amended to apply the full exemption to the surviving unmarried spouse of a disabled veteran.

**Purpose:** To provide a full property tax exemption on the principal residence of a disabled veteran or the surviving unmarried spouse of a disabled veteran.

**Fiscal Impact Summary:** Annual revenue loss of \$91.1 million.

**Existing Law:** The California Constitution<sup>1</sup> authorizes the Legislature to exempt, partially or fully, from property tax the home of a person or spouse, including an unmarried surviving spouse, if the person has incurred certain injuries in military service, including blindness in both eyes, lost use of two or more limbs, or is totally disabled. The exemption also applies if a person's death is from a service-connected injury or disease, or occurs while on active duty in military service. This exemption is commonly referred to as the "disabled veterans' exemption."

**Statutory Exemption Amount.** Current law<sup>2</sup> allows an exemption to all qualified disabled veterans' exemption claimants in the amount of \$100,000 (called the basic exemption). If the claimant's household income is below \$40,000, this amount is increased to \$150,000 (called the low-income exemption). The law also requires an inflation factor to be applied to all amounts annually. Thus, for the 2018-19 fiscal year, those claimants with household incomes below \$60,490 may receive an exemption of \$202,060. For all other eligible claimants, the exemption amount is \$134,706.<sup>3</sup>

**Proposed Law:** This bill provides a full exemption for the principal residence of any qualified disabled veteran or the surviving unmarried spouse of a disabled veteran.

**Effective Date.** As a tax levy, this bill is effective immediately upon enactment. However, the bill provides that it applies commencing with the lien date for the 2019-20 fiscal year. *RTC section 205.5(a)(2)*

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<sup>1</sup> [Section 4\(a\)](#) of Article XIII of the California Constitution.

<sup>2</sup> Revenue and Taxation Code (RTC) section [205.5](#).

<sup>3</sup> Since 2006, RTC section 205.5(h) allows a compounding inflation factor to apply to the \$150,000 and \$100,000 amounts.. Since 2002, RTC section 205.5(g) allows a compounding inflation factor to apply to the \$40,000 income threshold. Letter to Assessors No. [2017/014](#), dated April 7, 2017, lists exemption amounts and household income limitations effective for lien dates 2002 through 2018.

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**In General:** California law provides qualified disabled veterans and their unmarried surviving spouses with a property tax exemption that applies to their home's assessed value. To be eligible, the claimant must obtain a United States Department of Veterans Affairs (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'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 (i.e., the service person was not a "veteran") 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 do not remarry.

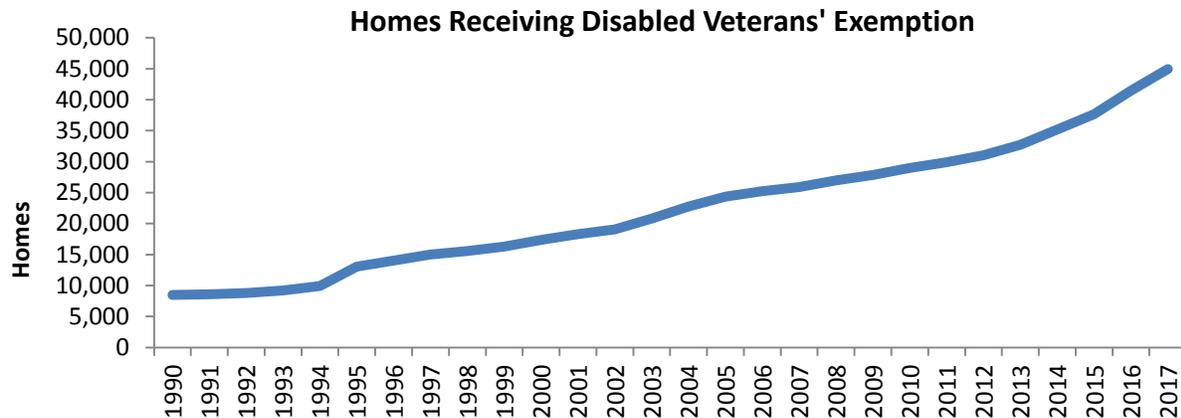
The exemption amount depends upon the claimant's income. For the 2018-19 fiscal year, the basic exemption adjusted for inflation will be \$134,706. If the claimant's income is less than \$60,490, the low-income exemption amount will be \$202,060. For the fiscal year 2017-18, 44,963 disabled veterans or their unmarried surviving spouses were granted the exemption.<sup>4</sup>

Qualification	Basic Exemption Amount	Low-Income Exemption Amount
	No income limit	Income is less than \$58,754 (2017)
<p><b>Disabled Veteran</b></p> <ul style="list-style-type: none"> <li>• Disability Rating = 100%</li> <li>• Disability Compensation = 100%</li> <li>• Blind</li> <li>• Lost the Use of Two or More Limbs</li> </ul> <p><b>Spouse of Military Personnel</b></p> <ul style="list-style-type: none"> <li>• Surviving Spouse: Disabled Veteran</li> <li>• Surviving Spouse: Active Duty Death</li> <li>• Surviving Spouse: Posthumous service-connected death finding</li> </ul>	<p>\$100,000 adjusted for inflation</p> <p><b>\$130,841</b></p>	<p>\$150,000 adjusted for inflation</p> <p><b>\$196,262</b></p>
<b>Claims Granted: 44,963</b>	<b>40,830</b>	<b>4,133</b>

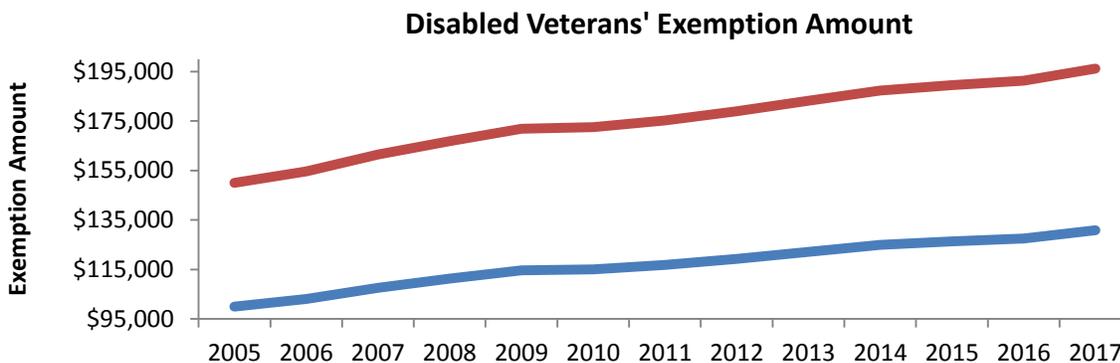
<sup>4</sup> Data on the number of exemptions granted for 2018-19 is not yet available.

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In 1990, 8,483 disabled veterans' exemptions were provided to eligible homeowners. For 2017, there were 44,963 eligible homeowners. In the last 27 years, this is a 430 percent increase.



After 2005, the law allowed the basic (blue line in table below) and low-value (red line) exemption amounts to annually increase by an inflation factor.



**Legislative History:** The following table lists the most recent proposals to increase the disabled veterans' exemption.

Year	Bill	Proposal
2017	<a href="#">SB 404</a> (Stone)	Full Exemption
2016	<a href="#">SB 1104</a> (Stone)	Full Exemption
2016	<a href="#">AB 1556</a> (Mathis)	Increase to \$2.1 million
2016	<a href="#">SB 1183</a> (Bates)	Increase to \$1 million
2008	<a href="#">AB 2568</a> (Houston)	Full Exemption
2007	<a href="#">AB 1485</a> (Jefferies)	Full Exemption, as introduced
2007	<a href="#">AB 1485</a> (Jefferies)	Increase to \$200,000 and \$250,000, as amended
2005	<a href="#">SB 1005</a> (Florez)	Full Exemption for Spouses if Active Duty Death Full Exemption for Spouses if Public Safety Officer Death
2004	<a href="#">SB 764</a> (Morrow)	Inflation factoring commences January 1, 2006 (Enacted)
2003	<a href="#">SB 764</a> (Morrow)	Increase to \$200,000 and \$250,000, as introduced

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## Commentary:

1. **This bill fully exempts from property tax the homes of disabled veterans.** The California Constitution provides that the Legislature may exempt these homes in whole or in part. This bill proposes to modify the current exemption to a full exemption for disabled veteran claimants.
2. **Summary of Amendment.** The **April 30, 2018** amendment extends the full exemption to the unmarried surviving spouse of a disabled veteran.
3. **Filing Requirements.** A one-time filing is required only for the basic exemption; however, annual filing is required for the low-income exemption to ensure the claimant continues to meet the household income limit restriction. Since this bill eliminates the income-based exemption amount, annual filing will not be required of any claimant of the basic exemption.
4. **Annual Notice.** RTC section [278](#) requires assessors to annually mail a notice to all claimants receiving the disabled veterans' exemption informing them of the requirements that must be met in order to be eligible for the exemption, of the penalties if the taxpayer allows the exemption to continue when he or she is not eligible for the exemption, and of his or her duty to inform the assessor when he or she is no longer eligible for the exemption. Under this bill, assessors will still be required to annually send this notice.
5. **The state does not reimburse local governments for the property tax revenue loss from the Disabled Veterans' Exemption.** By contrast, the state fully reimburses local governments for the homeowners' exemption.
6. **Operative Date.** To transition from a partial to a full exemption at the least possible administrative cost, subdivisions (a)(2) of RTC section 205.5 delays the operative date to coincide with the lien date for the 2019-20 fiscal year (i.e., January 1, 2019). Otherwise, as a tax levy, this bill would take effect immediately.
7. **How much is the exemption currently?** The exemption amount depends upon the claimant's income. For the 2018-19 fiscal year, eligible claimants with household incomes below \$60,490 may receive an exemption of \$202,060. For all other eligible claimants, the exemption amount is \$134,706.<sup>5</sup> In some cases, these exemptions amounts may result in a full exemption depending on the assessed value of the property.
8. **How many persons claim the disabled veterans' exemptions?** For 2017, 44,963 exemptions were granted to eligible claimants: 40,830 basic exemptions and 4,133 low-income exemptions.
9. **Top 10 Counties.** For 2016, the counties with the most disabled veterans' exemptions in descending order include: (1) San Diego: 5,868; (2) Riverside: 4,316; (3) Los Angeles: 2,770; (4) San Bernardino: 2,642; (5) Sacramento: 2,518; (6) Solano: 1,902; (7) Orange: 1,822; (8) Contra Costa: 1,207; (9) Kern: 1,088; and (10) Ventura: 1,052.<sup>6</sup>

<sup>5</sup> Since 2006, RTC Section 205.5(h) allows a compounding inflation factor to apply to the \$150,000 and \$100,000 amounts. This is the current income threshold. Since 2002, RTC Section 205.5(g) allows a compounding inflation factor to apply to the \$40,000 income threshold.

<sup>6</sup> State Board of Equalization's *Annual Report 2015-16*, [Table 8](#).

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10. **Related Legislation.** Assembly Bill 2254 (Lackey) proposes a full exemption for a qualified disabled veteran, the qualified disabled veteran's spouse, and an unmarried surviving spouse of a qualified disabled veteran.

**Costs:** BOE would incur absorbable costs to modify forms, publications, and website materials.

**Revenue Impact:** Existing property tax law provides a disabled veterans' exemption to military personnel, or their spouse, 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 household income does not exceed \$40,000, all values adjusted for inflation. The following revenue impact estimate uses Fiscal Year 2017-18 data and exemption amounts for consistency since this is the most recent year where all variables for the same year are available. For 2017-18, the basic exemption amount was \$130,841. The low-income exemption amount was \$196,262 for claimants with a household income below \$58,754.

Staff estimated the number of disabled veteran owned homes currently receiving the exemption. In 2017-18, 44,963 disabled veterans' exemptions were granted: 40,830 at the basic level and 4,133 at the low-income level. Based on a survey of several counties, staff estimates that this bill will not impact 21 percent of homes receiving the basic exemption (8,574 homes) or 24 percent of homes receiving the low-income exemption (992 homes). These homes are already fully exempt because they have an assessed value of less than \$130,841 and \$196,262, respectively. Thus, this bill will exempt from property tax 35,397 homes: 32,256 (40,830 – 8,574) currently receiving the basic exemption and 3,141 homes (4,133 - 992) receiving the low-income exemption.

	Homes Granted Exemption	Homes Already Fully Exempt	Additional Homes Exempted
<b>Basic</b>	40,830	8,574	<b>32,256</b>
<b>Low Income</b>	4,133	992	<b>3,141</b>
<b>Total</b>	44,963	9,566	<b>35,397</b>

Staff then estimated the additional amount of assessed value that this bill will exempt. Staff subtracted the current exemption amounts provided from the average assessed value of properties receiving the homeowners' exemption. For 2017-18, the average was \$393,982. The affected difference in value and revenue loss at the basic 1 percent property tax rate is then:

	Avg. Home Assessed Value	Exemption Current	Exemption Increase	Tax Rate	Tax Savings Per Home	Homes	Local Revenue Loss
<b>Basic</b>	\$393,982	\$130,841	\$263,141	1%	\$2,631	32,256	\$84.9M
<b>Low Income</b>	\$393,982	\$196,262	\$197,720	1%	\$1,977	3,141	\$6.2M
<b>Total</b>						<b>35,397</b>	<b>\$91.1M</b>

**Revenue Summary.** By exempting the home of qualified disabled veterans' exemption claimants, this bill would result in a potential local annual revenue loss of \$91.1 million.

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**Qualifying Remarks.** For 2018, the basic exemption amount increased to \$134,706. The low-income exemption amount increased to \$202,060. The household income limit increased to \$60,490. These amounts will be applied by counties to their FY 2018-19 property tax rolls.

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