

[Senate Bill 562](#) (Morrell)

Date: June 19, 2019 (Amended)

Program: Property Taxes

Sponsor: Author

Revenue and Taxation Code Section 205.5

Effective: Upon chaptering

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**Summary:** For the 2020-21 through 2029-30 fiscal years, this bill would increase the disabled veterans' exemption amounts to (1) \$200,000 for the basic exemption, and (2) \$250,000 for the lower income exemption, and increases the household income limit to \$65,000. This bill also requires the State Board of Equalization (BOE) to consolidate assessor-provided information in an annual report to the Legislature on the use of the increased property tax exemption.

**Summary of Amendments:** Since our last analysis this bill has been amended to (1) provide that the increases in the exemption amounts and the household income limit are for a 10-year period, and (2) require the BOE consolidate assessor-provided information in an annual report to the Legislature on the use of the increased property tax exemption.

**Fiscal Impact Summary:** This bill would result in a potential annual revenue loss of \$21.5 million.

**Existing Law:** The California Constitution<sup>1</sup> authorizes the Legislature to exempt partially or fully from property tax, the home of a veteran or veteran's spouse, including a veteran's unmarried surviving spouse, if the veteran has incurred certain injuries, including blindness in both eyes, lost use of 2 or more limbs, or is totally disabled. The exemption also applies if a veteran'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> contains a partial<sup>3</sup> exemption. For the 2019-20 fiscal year, persons with household incomes below \$62,614 may receive an exemption of \$209,156 (called the "lower income" exemption). For all other eligible persons, the exemption amount is \$139,437 (called the "basic" exemption).<sup>4</sup>

**Proposed Law:** For a 10-year period beginning with the 2020-21 fiscal year, this bill increases the limits for the disabled veterans' exemption as follows:

- The basic exemption of \$100,000 is increased to \$200,000.
- The lower income exemption of \$150,000 is increased to \$250,000.

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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> This may be considered a full exemption for some veterans, depending on the assessed value of the home.

<sup>4</sup> This is the current exemption amount and income threshold. Since 2002, RTC section 205.5(g) allows a compounding inflation factor to apply to the \$40,000 income threshold. Since 2006, RTC section 205.5(h) allows a compounding inflation factor to apply to the \$150,000 and \$100,000 amounts. Letter To Assessors No. [2018/021](#), dated May 4, 2018, lists exemption amounts and the household income limitations effective for lien dates 2002 through 2019.

*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.*

- The household income limit for the lower income exemption is increased from \$40,000 to \$65,000.

These new limits will be annually adjusted by an inflation factor beginning with the 2021-22 fiscal year and ending with the 2029-30 fiscal year.

**Annual Report.** This bill requires county assessors to report to the BOE regarding the use of the expanded disabled veterans' exemption. The BOE must consolidate the information and provide an annual report to the Legislature.

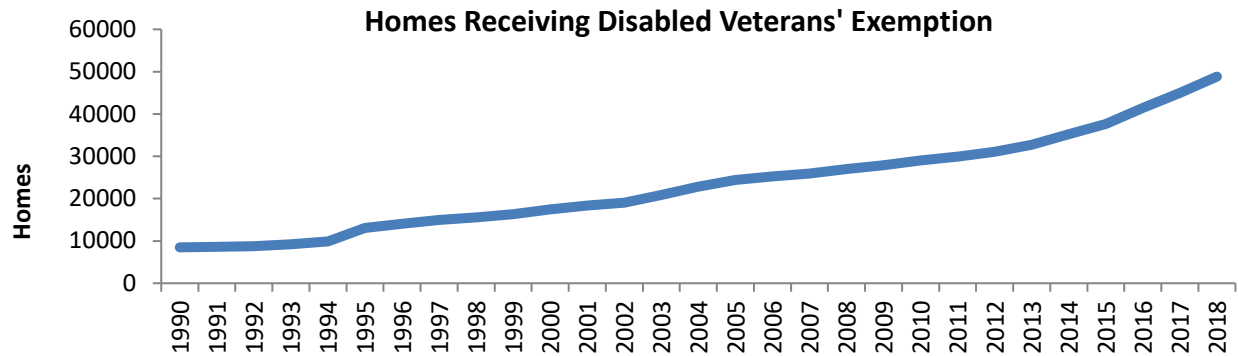
**In General:** California law provides qualified disabled veterans, their spouses, or their unmarried surviving spouses with a property tax exemption that applies to their home's assessed value. To be eligible, the claimant must obtain a United States Department of Veterans Affairs (USDVA) disability 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 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 (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 the surviving spouse does not remarry.

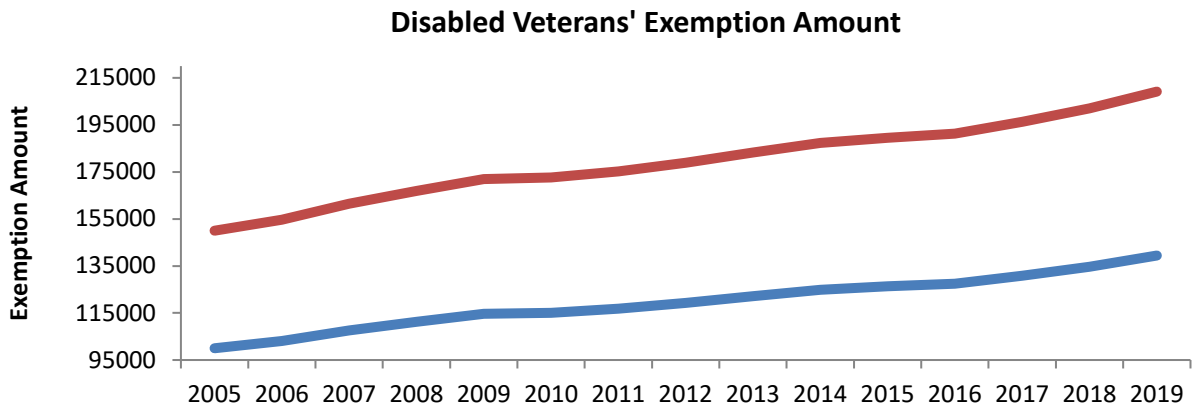
The exemption amount depends upon the claimant's income. For the 2018-19 fiscal year, 48,829 disabled veterans or their unmarried surviving spouses were granted the exemption. For those persons, the basic exemption adjusted for inflation was \$134,706. If the claimant's income was less than \$60,490, the exemption amount was \$202,060.

Qualification	Basic Exemption Amount	Lower Income Exemption Amount
	No income limit	Income is less than \$60,490
<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>\$134,706</b></p>	<p>\$150,000 adjusted for inflation</p> <p><b>\$202,060</b></p>
<b>Claims Granted: 48,829</b>	<b>44,292</b>	<b>4,537</b>

In 1990, there were 8,483 disabled veterans' exemptions provided to eligible homeowners, while in 2018, there were 48,829. In the last 28 years, this is a 475 percent increase.



After 2005, the law allowed the \$100,000 and \$150,000 exemption amounts to annually increase by an inflation factor.



**Background:** The California Constitution provides that all property is taxable unless exempted by either the Constitution or federal law. The Constitution (1) limits the maximum amount of any ad valorem tax on real property at one percent of full cash value, plus any locally-authorized bonded indebtedness, and (2) provides that assessors can only reappraise property whenever it is purchased, newly constructed, or when ownership changes (Proposition 13, 1978). Proposition 13 also limits the inflationary growth of real property assessed value to two percent per year.

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

Year	Bill	Proposal
2016	<a href="#">AB 1556</a> (Mathis)	Increase to \$2.1 million
2016	<a href="#">SB 1183</a> (Bates)	Increase to \$1 million
2007	<a href="#">AB 1485</a> (Jefferies)	Increase to \$200,000 and \$250,000, as amended 5/24/2007
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

The following table lists the most recent proposals to replace the current exemption levels with a full exemption.

Year	Bill	Proposal
2018	<a href="#">AB 2254</a> (Lackey)	Full Exemption
2018	<a href="#">AB 3209</a> (Frazier)	Full Exemption
2017	<a href="#">SB 404</a> (Stone)	Full Exemption
2016	<a href="#">SB 1104</a> (Stone)	Full Exemption
2008	<a href="#">AB 2568</a> (Houston)	Full Exemption
2007	<a href="#">AB 1485</a> (Jefferies)	Full Exemption, as introduced
2005	<a href="#">SB 1005</a> (Florez)	Full Exemption for Spouses if Active Duty Death Full Exemption for Spouses if Public Safety Officer Death

### Commentary:

1. **Author's Statement.** Housing prices in California are continuing to rise, and property taxes rise with them. Many of California's disabled veterans are living off of small pensions and are losing the ability to keep up with a mortgage payment and the associated property taxes. SB 562 would increase property tax exemptions for disabled veterans, in order to keep up with the rising cost of housing in California.
2. **Summary of Amendments.** The **June 19, 2019** amendment (1) provides that the increases in the exemption amounts and the household income limit are for a 10-year period, and (2) requires the BOE consolidate assessor-provided information in an annual report to the Legislature on the use of the increased property tax exemption. The **March 25, 2019** amendment increases the household income limit to \$65,000.
3. **No Reimbursement for the Property Tax Revenue Loss from the Disabled Veterans' Exemption.** The State of California 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.
4. **Operative Date.** To transition to the increased exemption level at the least possible administrative cost, this bill delays the operative date to coincide with the lien date for the 2020-21 fiscal year (i.e., January 1, 2020). Otherwise, as a tax levy, this bill would take effect and become operative immediately upon enactment.
5. **How much is the exemption currently?** For the 2019-20 fiscal year, persons with household incomes below \$62,614 may receive an exemption of \$209,156. For all other eligible persons, the exemption amount is \$139,437.
6. **Household Income Limit Increase.** Effectively, this bill increases the lower income exemption amount from \$209,156 in 2019-20 to \$250,000 for 2020-21, which is a 19.5 percent increase. However, SB 562 increases the household income limit from \$62,614 in 2019-20 to \$65,000 for 2020-21, which is an increase of only 3.8 percent. Thus, increasing the household limit will have a minimal impact on the number of additional qualifying claimants for the lower income exemption.

7. **10-Year Period for Increases in Exemption Amounts and Household Income Limit.** This bill provides that the increases in the exemption amounts and the household income limit are for a 10-year period. Beginning with the January 1, 2030 lien date, exemption amounts and household income limit will revert back to the 2019-20 levels, plus factoring for the 2030-31 fiscal year (which will be the percentage change in the California Consumer Price Index for all items from February 2028 to February 2029, rounded to the nearest one-thousandth of 1 percent).
8. **How many persons claim the disabled veterans' exemptions?** For 2018, 48,829 exemptions were granted to eligible claimants: 44,292 basic exemptions and 4,537 lower income exemptions.
9. **Top 10 Counties.** For 2018, the counties with the most disabled veterans' exemptions in descending order include: (1) San Diego: 7,159; (2) Riverside: 4,961; (3) Los Angeles: 3,477; (4) San Bernardino: 2,908; (5) Sacramento: 2,539; (6) Solano: 2,056; (7) Orange: 1,919; (8) Contra Costa: 1,242; (9) Kern: 1,171; and (10) Ventura: 1,091.
10. **Report to Legislature.** This bill requires (1) county assessors to report to the BOE regarding the use of the expanded disabled veterans' exemption, and (2) the BOE to consolidate the information received from county assessors and provide an annual report to the Legislature. Information about veterans' exemptions is already contained in the BOE's *Annual Report* to the Governor.<sup>5</sup> [Table 8](#) includes the number of veterans' exemptions and the exempt value by county. This table is also posted to the BOE's website via the [Open Data Portal](#).
11. **Related Legislation.** [Senate Bill 364](#) (Stone) was amended to freeze, for a 10-year period, the annual inflation factor-related assessed value increase on homes and manufactured homes owned by income-qualifying veterans 65 years and older, who were honorably discharged.

**Costs:** BOE would incur absorbable costs to modify forms, publications, and website materials. The creation of the new annual report to the Legislature would be absorbable.

**Revenue Impact: Background, Methodology, and Assumptions.** Existing property tax law provides a disabled veterans' exemption to military personnel, their spouses, or their unmarried surviving 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 household income does not exceed \$40,000, with all amounts adjusted for inflation. For 2018-19, the basic exemption amount was \$134,706. The lower income exemption amount was \$202,060 for claimants with a household income below \$60,490. SB 562 increases the basic exemption amount to \$200,000 and the lower income exemption amount to \$250,000 if the claimant's household income is below \$65,000, beginning with the 2020-21 fiscal year. Under SB 562, these new amounts will be adjusted beginning with the 2021-22 fiscal year.

Staff estimated the number of disabled veteran owned homes currently receiving the exemption. In 2018-19, 48,829 disabled veterans' exemptions were granted: 44,292 at the basic level and 4,537 at the lower income level. Based on a survey of several counties, staff estimates that this bill will not impact 31 percent of homes receiving the proposed basic exemption (13,731 homes), nor 30 percent of homes receiving the proposed lower income exemption (1,361 homes). These homes would be fully exempt because they have assessed values less than \$200,000 and \$250,000, respectively. As illustrated in the table below, this bill

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<sup>5</sup> The BOE's *Annual Report* is posted to the BOE's website at <http://www.boe.ca.gov/annual/annualrpts.htm>.

will further exempt 33,737 homes: 30,561 homes (44,292-13,731) currently receiving the basic exemption and 3,176 homes (4,537-1,361) currently receiving the lower income exemption.

Disabled Vet Exemption Type	Total Homes Currently Granted Disabled Vet Exemption	Estimated Number of Homes Already Fully Exempt	Estimated Number of Homes Affected by the Increased Exemption Limits in SB 562
<b>Basic</b>	44,292	13,731	30,561
<b>Lower Income</b>	4,537	1,361	3,176
<b>Total</b>	48,829	15,092	<b>33,737</b>

Staff then estimated the additional amount of assessed value that this bill will exempt by subtracting the current exemption limits from the limits proposed by SB 562. The affected difference in value and revenue loss at the basic 1 percent property tax rate is then:

Disabled Vet Exemption Type	SB 562 Proposed Disabled Vet Exemption Limits	Current Disabled Vet Exemption Limits	Proposed Exemption Increase	Basic Tax Rate	Estimated Tax Savings Per Home	Estimated Number of Homes Affected by the Increased Exemption Limits in SB 562	Estimated Annual Revenue Loss
<b>Basic</b>	\$200,000	\$134,706	\$65,294	1%	\$653	30,561	\$20.0 Million
<b>Lower Income</b>	\$250,000	\$202,060	\$47,940	1%	\$479	3,176	\$1.5 Million
<b>Total</b>						<b>33,737</b>	<b>\$21.5 Million</b>

**Revenue Summary.** SB 564 would result in a potential annual revenue loss of \$21.5 million.

**Qualifying Remarks.** Increasing the household income limit for the 2020-21 fiscal year will have minimal impact on the number of additional qualifying claimants for the lower income exemption, as the 2018-19 household income limit increased to \$60,490, and the 2019-20 limit increased to \$62,614. The revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.