

SUPPORT BACKGROUND

Support for AB 3209 (Frazier), Property Tax: Disabled Veterans Exemption.

According to the U.S. Department of Veterans Affairs, there are currently about 53,000 California veterans who qualify as 100 percent disabled. Veterans who return home with a full disability have sacrificed their livelihoods to in the service of protecting our country.

The California Board of Equalization estimates about 45,000 disabled veterans qualify for the current property tax exemption, which reduces the property tax liability for qualified veterans who, due to a service-connected injury or disease, have been rated 100 percent disabled or are being compensated at the 100 percent rate due to lack of employability.

The rising costs of home prices are driving veterans out of California. This measure would provide a significant benefit to those veterans that were seriously injured in service to the nation and to their families. California must recognize the sacrifice of those who served our nation and create opportunities and support for surviving spouses and their families to remain in California. AB 3209 would help ensure our disabled veterans remain in California and that the option of living near medical and base facilities, as well as cemeteries and places of final interment is balanced against the cost of living in California. Maintaining our veteran population also will support local economies by virtue of the flow of federal dollars to veterans that is expended in California.

This bill's proposed increase to the state's existing property tax exemption will help our veterans and families remain in our Golden State.

RECENTLY PASSED THE COMMITTEE ON REV AND TAX:

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Autumn R. Burke, Chairwoman

ABPCA Bill Id:AB 3209 (

Author:Frazier) – As Introduced Ver:February 16, 2018

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Property tax: exemption: principal residence: disabled veterans

SUMMARY: Exempts from property tax the personal residence of a totally disabled veteran. Specifically, **this bill:**

- 1) Exempts the full value of a totally disabled veteran's residence from the ad valorem property tax.
- 2) Retains the existing partial exemption for an unmarried surviving spouse's residence in the amount of \$100,000 or \$150,000 (for low-income households) of assessed value.
- 3) Makes other technical and conforming changes to the disabled veterans' property tax provisions.
- 4) Specifies that no appropriation is made and the state will not reimburse local agencies for property tax revenues lost by them pursuant to this bill.
- 5) Takes effect immediately as a tax levy, but applies beginning with fiscal year (FY) 2019-20.

EXISTING LAW:

- 1) Authorizes the Legislature to provide a full or partial exemption from property tax for the home of a veteran who is totally disabled because of injury or disease incurred in military service and, after the veteran's death, to the home of his/her unmarried surviving spouse (called the disabled veterans' exemption). Existing law also extends the exemption to include the unmarried surviving spouse of a person who died as a result of service-connected injuries while on active military duty. (Article XIII, Section 4, California Constitution.)
- 2) Implements the constitutional authorization by providing a flat exemption amount depending on household income. (Revenue and Taxation Code (R&TC) Section 205.5.)
 - a) The "basic" exemption amount is \$100,000, adjusted annually for inflation (\$134,706 for FY 2018-19).
 - b) The "low-income" exemption amount is \$150,000, adjusted annually for inflation (\$202,060 for FY 2018-19). The low-income exemption applies if the veteran's

household income does not exceed \$40,000, adjusted annually for inflation (below \$60,490 for FY 2018-19).

- 3) Defines a "totally disabled veteran" as a veteran who has a disability rating at 100% from the United States Department of Veterans Affairs (USDVA), or the military service from which the veteran was discharged, or has a disability compensation rating at 100% because the veteran is unable to secure or follow a substantially gainful occupation.
- 4) Extends the constitutional exemption by statute to the surviving unmarried spouse of a non-100% rated disabled veteran, if the veteran's subsequent death is service-connected, as determined by the USDVA.
- 5) Requires one-time claim filing with the local county assessor to receive the basic exemption.
- 6) Requires annual claim filing to receive the low-income exemption to verify continued income eligibility.

FISCAL EFFECT: The State Board of Equalization (BOE) estimates this bill will result in a statewide annual property tax revenue loss of \$91.1 million.

COMMENTS:

- 1) The author has provided the following statement in support of this bill:

This measure would provide a significant benefit to those veterans that were seriously injured in service to this nation and to their families. California must recognize the sacrifice of those who served our nation and create opportunities and support for surviving spouses and their families to remain in California. AB 3209 would help ensure our disabled veterans remain in California and that the option of living near medical and base facilities, as well as cemeteries and places of final interment is balanced against the cost of living in California. This bill's proposed increase to the state's existing property tax exemption will help our veterans and families remain in our Golden State.

- 2) Committee Staff Comments:

- a) *Current disabled veterans' exemption amounts – \$134,706 and \$202,060:* For FY 2017-18, the basic exemption applied to a home's assessed value is \$134,706. For the low-income exemption (household income below \$60,490), the exemption increases to \$202,060 of assessed value. For some, the current exemption amounts suffice to provide a full exemption. BOE estimates that about 21% of homes receiving the basic exemption, and 24% of the homes receiving the low-income exemption, are exempt under current levels.
- b) *California's average assessed value versus home price – \$394,000 v. \$527,800:* BOE estimates that for FY 2017-18, the statewide average assessed value of homes receiving

the homeowners' exemption was about \$394,000. The California Association of Realtors® reports the January 2018 statewide median home price was \$527,800.

- c) *Homes receiving the disabled veterans' exemption – 45,000:* For FY 2017-18, about 45,000 exemptions were granted to homes owned by eligible disabled veterans or their spouses, with just over 9% of the homes receiving the greater exemption amount for low-income households. To provide a reference point, about 5.1 million homes receive the general homeowners' exemption of \$7,000 of assessed value available to any homeowner.
- d) *Excludes unmarried surviving spouses:* This bill does not expand the disabled veterans' exemption from a partial exemption to a full exemption for unmarried surviving spouses. In practical terms, this means that after a 100% disabled veteran dies, the exemption amount on the home would drop from a full exemption to the partial amount of current law, resulting in increased property tax liability for the newly widowed spouse. Also, this means that a spouse of a person who dies on military service active duty (i.e., a non-veteran) will not benefit from a full property tax exemption. Committee staff recommends that this bill be amended to extend its provisions to unmarried surviving spouses.
- e) *The scope of the disabled veterans' exemption:* This bill would eliminate only the *ad valorem* property tax imposed on a disabled veteran's home, but not the direct levies, special taxes, and special assessments that might be due on the property and collected via the annual property tax bill.
- f) *Eliminates annual filing requirements for low-income exemption:* This bill provides a full exemption to all eligible disabled veterans regardless of household income, eliminating the need for low-income households to refile annually to verify continued income eligibility.
- g) *The fiscal impact on local governments:* Unlike for the homeowners' exemption, the California constitution does not require the state to reimburse property tax revenue recipients for the lost tax revenue resulting from the disabled veterans' exemption. This bill would most significantly impact those local governments in counties that have a large number of eligible disabled veterans and surviving spouses.
- h) *Counties with the highest number of claimants:* The five counties with the greatest number of homes receiving the disabled veterans' exemption in descending order are San Diego, Riverside, Los Angeles, San Bernardino, and Sacramento.
- i) *Related legislation:*
 - i) AB 2254 (Lackey) would exempt fully from property tax the personal residence for both a totally disabled veteran and the veteran's unmarried surviving spouse. AB 2254 is pending hearing by the Assembly Appropriations Committee.

ii) SB 404 (Stone) would have similarly provided a full exemption for both parties. SB 404 was held on the Senate Appropriations Committee's Suspense File.

j) *Prior legislation:*

i) SB 1104 (Stone), of the 2015-16 Legislative Session, would have similarly provided a full exemption for both parties. SB 1104 was held on the Senate Appropriations Committee's Suspense File.

ii) AB 1556 (Mathis), of the 2015-16 Legislative Session, would have increased the exemption amount to \$2.1 million of assessed value to both parties. AB 1556 was held on the Assembly Appropriations Committee's Suspense File.

iii) SB 1183 (Bates), of the 2015-16 Legislative Session, would have increased the exemption amount to \$1 million of assessed value to both parties. SB 1183 was held on the Senate Appropriations Committee's Suspense File.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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