



Date:	As proposed to be amended	Bill No:	<u>Senate Bill 1113</u>
Tax Program:	Property	Author:	Knight
Sponsor:	BOE Member Runner	Code Section:	RTC 5097 Military & Veterans 890.3
Related Bills:		Effective Date:	01/01/15

BILL SUMMARY

This bill extends the statute of limitations from four to eight years on property tax refunds related to the disabled veterans’ exemption.

ANALYSIS

CURRENT LAW

Refunds. The statute of limitations bars the refund of property taxes related to the disabled veterans’ exemption unless a claim for refund is filed within four years after making the payment sought to be refunded.¹

Disabled Veterans’ Exemption. California law provides qualified disabled veterans and their unmarried surviving spouses with a property tax exemption that applies to their home’s assessed value.² Exemption eligibility provisions require that the claimant obtain a United States Department of Veterans Affairs (USDVA) disability rating that either (1) rates the veteran’s disability at 100% or (2) rates the veteran’s disability compensation at 100% because the veteran is unable to secure and maintain gainful employment.

The law also allows surviving spouses to receive the exemption if the death is service-connected. Surviving spouse exemption eligibility provisions require that the claimant receive a USDVA determination that the non-surviving spouse’s death was service-connected. A USDVA determination is necessary for (1) active duty personnel deaths (i.e., the service person had not yet become a “veteran”) and (2) veterans who die without a prior 100% rating, but whose cause of death is deemed service-connected. Surviving spouses of veterans with a 100% rating during their lifetime continue to receive the exemption after the veteran’s death so long as they do not remarry.

Exemption Eligibility Date. California law specifies that a home becomes eligible for the disabled veterans’ exemption as of the effective date of a 100% disability rating. In the case of death, a home becomes eligible on the day the active duty service person dies.³

However other provisions can prevent the receipt of the exemption as of these dates.

¹ Revenue and Taxation Code (RTC) Section [5097](#)

² California Constitution Article XIII, [Section 4](#) and RTC Section [205.5](#)

³ RTC Section [279](#)

Specifically, claimants must comply with the statutory filing requirements and counties⁴ must comply with the limitation periods for issuing property tax refunds.

Exemption Filing Requirements. The law requires the disabled veteran (or surviving spouse who has not remarried) to file an exemption claim with the local county assessor.⁵ Generally, the law provides that any exemption not claimed within the time specified by statute is deemed waived for that year.⁶ However, the law allows a 90% or 85% partial disabled veterans' exemption for a claim filed after the deadline.⁷ The exception to this general rule relates to claims filed late because of delayed USDVA disability ratings.⁸ In this case, the exemption amount provided is not reduced.

PROPOSED LAW

In the case of property tax refunds related to the disabled veterans' exemption, this bill increases the number of years open to refund to the last eight years of taxes paid. It also corrects a statutory cross reference in the Military and Veterans Code to the property tax refund law.

The provisions apply to any claim for refund filed with the Board of Supervisors after January 1, 2015 that relates to the disabled veterans' exemption.

BACKGROUND

Exemption Amounts. California law provides qualified disabled veterans and their unmarried surviving spouses with a property tax exemption that applies to their home's assessed value.⁹ For 2014, the exemption amount is \$124,932. The exemption amount increases to \$187,399 for households with incomes under \$56,101.¹⁰ At the 1% tax rate, the exemption reduces annual property taxes by up to \$1,249, or \$1,874, depending on income. Each year, 31,055 homes in California receive the disabled veterans' exemption¹¹ and 5.5 million homes receive the homeowners' exemption in the lesser amount of \$7,000.¹²

RELATED LEGISLATION

Legislation enacted to provide the disabled veterans' exemption retroactively include:

Bill Number	Legislative Session	Section	Type
AB 2314	Stats. 2010, Ch. 150	§276.1	Eliminate "pending" USDVA application requirement. Additional time to file claim.
SB 1637	Stats. 2006, Ch. 677	§276.1 §276.2	Exemption eligibility start date.

⁴ Many county departments (the assessor, auditor-controller, and tax collector) and the county board of supervisors have duties related to processing property tax exemptions, property tax refunds, tax bill corrections, and assessment roll corrections.

⁵ RTC Section [277](#) and RTC Section [255](#)

⁶ California Constitution Article XIII, [Section 6](#) and RTC Section [260](#)

⁷ RTC Section [276](#)

⁸ RTC Section [276.1](#) added by [SB 1362](#) (Stats. 2000, Ch. 1085) and Military and Veterans Code Section 890.3 added by [AB 2092](#) (Stats. 2000, Ch. 575)

⁹ California Constitution Article XIII, [Section 4](#) and Revenue and Taxation Code (RTC) Section [205.5](#)

¹⁰ Letter to Assessors [2013/027](#) "Disabled Veterans' Exemption Increase for 2014"

¹¹ BOE Annual Report, [Table 8](#)

¹² California Constitution Article XIII, [Section 3\(k\)](#) and RTC Section [218](#)

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 Board's formal position.

Bill Number	Legislative Session	Section	Type
SB 2092	Stats. 2002, Ch. 775	§276 §276.1	Additional time to file claims. Correct statute of limitations cross reference.
SB 1362	Stats. 2000, Ch. 1085	§276 §276.1	Authorized partial retroactive exemptions. Authorized full retroactive exemptions for pending USDVA applications.
AB 2562	Stats. 2000, Ch. 922	§276	Authorized partial retroactive exemptions for prior tax years
AB 2092	Stats. 2000, Ch. 575	MV §890.3	Delayed USDVA-Disability Ratings

COMMENTS

1. **Sponsor and Purpose.** BOE Member George Runner is sponsoring this bill to “give veterans better access to the full benefit offered to them by a grateful state.”
2. **The existing statute of limitations on refunds can undercut the provision of law allowing the disabled veteran to receive their exemption as of their disability effective date.** This tends to occur when (1) a veteran successfully appeals or litigates their rating; (2) the USDVA issues a new rating to correct an initial rating error; or (3) the USDVA experiences processing backlogs or lost paperwork. On occasion, veterans or their advocates contact the BOE with backdated disability effective dates of more than 20 years, seeking help to obtain refunds beyond the allowable four years. These disabled veterans are disheartened that, after years of struggling with the federal government to obtain a 100% disability rating, California law limits available property tax relief. These disabled veterans express frustration that another level of government is preventing them from receiving the benefits to which they understood they were entitled.
3. **Most first-time claimants for the disabled veterans’ exemption with back-dated disability effective dates are not negatively impacted.** This is because either the taxes were paid within the existing 4-year limitations period or, as first-time homeowners, they have no property taxes.
4. **This bill changes the statute of limitations on refunds associated with the disabled veterans exemption from the last four to the last eight years of taxes paid.** This bill seeks to balance the veteran’s need to receive added property tax relief with the state and local government’s need for certainty and closure on property tax revenue receipts.
5. **Escape assessments can be assessed within eight years.** Opening up the last eight years of taxes paid to possible refund parallels the law requiring eight years of back taxes to be collected from taxpayers for escape assessments related to unrecorded changes in ownership.¹³
6. **This bill applies to any claim for refund filed with the Board of Supervisors after January 1, 2015.** Any impacted veteran could file a claim after January 1, 2015 (including refiling a previously denied refund claim) to receive refunds of taxes paid within the last eight years.

¹³ RTC [Section 532](#) Generally, the escape assessment statute of limitations limits the imposition of additional tax for escaped or under-assessed property to the last four years, but in certain circumstances eight years of back taxes are sought from property owners.

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COST ESTIMATE

Counties administer the disabled veterans' exemption. The BOE would incur some minor absorbable costs to inform and advise county assessors, the public, and staff of the law changes and address ongoing implementation issues and questions. These costs are estimated to be under \$10,000.

REVENUE ESTIMATE**BACKGROUND, METHODOLOGY, AND ASSUMPTIONS**

Based on discussions with counties that have the greatest number of disabled veterans' exemption claims, we estimate that annually, 116 disabled veterans (2 per county) would be able to receive a refund for 2 additional years of property taxes paid. While this bill allows 4 additional years of refunds, situations requiring 4 additional years are infrequent.

The average disabled veterans' exemption is \$110,000. Deducting the \$7,000 homeowners' exemption previously granted on the same property, results in \$103,000 in assessed value subject to additional exemption.

REVENUE SUMMARY

At the 1% basic property tax rate, the average refund would be \$1,030 per year.

$$116 \text{ veterans} \times 2 \text{ years} \times \$1,030 = \$238,960$$

Therefore, the annual property tax revenue loss associated with this measure is estimated to be \$240,000.

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

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