



Date Introduced:	04/07/05	Bill No:	SCA 14
Tax:	Property	Author:	Morrow
Related Bills:			

BILL SUMMARY

This constitutional amendment, if approved by the voters, would establish the “Military and Veterans’ Homeowners’ Exemption” in an amount that is 10% greater than the homeowners’ exemption.

ANALYSIS

Current Law

Homeowners’ Exemption. Article XIII, Section 3(k) of the California Constitution exempts the first \$7,000 of assessed value of an owner occupied principal place of residence. This exemption is called the “homeowners’ exemption.” Section 25 of Article XIII requires the state to reimburse local government for the resulting property tax revenue loss.

Existing law, pursuant to Section 3 of Article XIII, authorizes the Legislature to increase the homeowners’ exemption if:

- local governments are reimbursed for the revenue loss; and,
- benefits to renters, currently provided via the renters’ income tax credit, are increased by a comparable amount.

Veterans’ Exemption. Article XIII, Section 3(o) of the Constitution provides that qualified veterans may receive a property tax exemption in the amount of \$4,000 on any property subject to property tax (i.e., real property, personal property used in a trade or business, boats, or planes). Because eligibility is limited to veterans with a personal wealth of less than \$5,000, if single, or \$10,000, if married, the veterans’ exemption has become effectively obsolete.

There is no prohibition against claiming both the veterans’ exemption and the homeowners’ exemption where a veteran owns both a home and other property subject to property tax. However, because of the wealth limitations on eligibility, it is unlikely that any veteran could qualify to receive both exemptions.

The State is required to reimburse local governments for property tax revenue lost as a result of the homeowners’ exemption but not for the veterans’ exemption.

Proposed Law

This proposed constitutional amendment, if approved by the voters, would amend the California Constitution to delete the current veterans’ exemption provided in the constitution and instead establish the “Military and Veterans’ Homeowners’ Exemption”

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in an amount that is 10% greater than the homeowners' exemption. The amount of the exemption would be \$7,700 (110% of the homeowners' exemption).

In General

There are two property tax exemptions available for persons who have served in the military: (1) the veterans' exemption and (2) the disabled veterans' exemption.

Veterans' Exemption. The veterans' exemption applies to any property subject to property tax (for instance, real property; property used in a trade, profession or business; boats; or planes) owned by an eligible veteran. The exemption is also available to the unmarried surviving spouse of the veteran and the parents of a deceased veteran. The exemption is in the amount of \$4,000 of full cash value, providing up to \$40 of tax savings. However, the exemption is nearly extinct. At its peak, from 1956 through 1962, over one million persons received the veterans' exemption. Today, fewer than 40 veterans receive the exemption.

The decline of the veterans' exemption is due to two factors. First, the homeowners' exemption was increased in 1974 to an amount greater than the veterans' exemption.¹ The homeowners' exemption, in the amount of \$7,000 of full cash value, provides tax savings of up to \$70. Consequently, veterans who own homes instead switched to the homeowners' exemption available to any Californian. Secondly, the remaining non-home owning veterans are unable to qualify for the veterans' exemption due to strict wealth limitations fixed in the Constitution. Those limitations are a personal wealth cap of \$5,000 for an unmarried veteran and \$10,000 for a married veteran, as specified. (See Revenue and Taxation Code §205 and Section 3 of Article XIII of the Constitution.)

Disabled Veterans' Exemption. Section 4(a) of Article XIII of the California Constitution grants the Legislature the authority to exempt from property tax, in whole or in part, the home of a person (or a person's spouse) who is injured in military service. This exemption is commonly referred to as the "disabled veterans' exemption." Injuries that qualify a veteran for the exemption include: (1) a disability rating at 100%, (2) blindness, and (3) lost use of two or more limbs. Additionally, a veteran who has a disability compensation rating at 100% because he or she is unable to secure or have continual employment in a substantially gainful occupation is also eligible for the disabled veterans' exemption. The spouse of a disabled veteran is able to maintain the exemption after the veteran's death as long as the spouse is unmarried. Additionally, since 1994, pursuant to a constitutional amendment, (Proposition 160, November 1992) the unmarried spouse of a person who dies as a result of a service-connected injury or disease while on active duty is able to qualify for the disabled veterans' exemption.

Section 205.5 of the Revenue and Taxation Code implements the amendment that provides a property tax exemption for disabled veterans and/or their unmarried surviving spouses.

¹ The homeowners' exemption was first adopted via constitutional amendment (Proposition 1A; 1968 Cal. Res. 9, extra session in 1968, SCA 1). The exemption increased from \$3,000 to its current level of \$7,000 via a second constitutional amendment in 1974 (Proposition 6, 1974 Cal. Res. 77 SCA 26).

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Background

In 1997, ACA 9 and AB 551 (Morrissey and House) would have increased the amount of the veterans' property tax exemption from \$4,000 to \$7,700 (110% of the homeowners' exemption) and eliminate the \$5,000/\$10,000 personal wealth cap. This bill was held in the Assembly Appropriations Committee. In 1996, similar measures, ACA 39 and AB 2790 (Morrissey), failed in the Senate. These bills did not include an exemption for current military personnel.

COMMENTS

1. **Sponsor and purpose.** This measure is sponsored by the California Association of Veterans Service Officers and is intended to increase the amount of the veterans' exemption and to assure that it will always exceed the amount of the homeowners' exemption. Providing veterans and active duty military personnel with a slightly higher exemption is intended to recognize their efforts and contributions to our society.
2. **Eliminating the Wealth Cap.** This bill deletes the \$5,000/\$10,000 personal wealth cap. Currently, there are only 37 veterans claiming the veterans' exemption because so few veterans have been able to qualify for the exemption due to the personal wealth cap. (There are no wealth or income restrictions affecting eligibility for the homeowners' exemption.) By deleting the personal wealth cap, this measure fully achieves the author's goal of providing veterans and active duty military personnel with a greater property tax exemption than those persons who did not serve in the armed forces.
3. **Unintended Impact.** It is likely that the 37 veterans currently claiming the veterans' exemption would not be able to claim the Military and Veterans' Homeowners' Exemption because these individuals probably do not own homes (due to the wealth cap). In that event, the elimination of the \$4,000 veterans' exemption would deprive them of any exemption from property tax based on their status as veterans. (That is, unless these veterans are able to claim the newly created exemption on a low value principal place of residence, such as a mobilehome or a boat.)
4. **Suggested Technical Amendments.** In practical application of the veterans' exemption and the disabled veterans' exemption, the language requiring that a veteran serve "in a time of peace" or "in a time of war" as specified has no practical effect and does not limit the exemption to certain veterans. All persons serving in the military, regardless of when or where, can qualify for the disabled veterans' exemption. Thus, this language is not needed and unnecessarily complicates the exemption. In addition, the language concerning lien date residence is not necessary in the Constitution and would prevent the granting of the exemption on new home purchases via supplemental assessments. Also, conforming amendments to Section 25, related to homeowners' exemption subvention payments to local governments would be helpful.

Sec. 3 (o) (1) For a dwelling that is owned and occupied as the principal residence of a qualified person, an amount that is 10 percent greater

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than the amount of the homeowners' exemption granted under the authority of subdivision (k). This exemption is known and may be cited as the Military and Veterans' Homeowners' Exemption.

(2) For purposes of this subdivision, "qualified person" means both of the following:

(A) A person ~~who resides in California on the lien date and~~ who is serving in, or who has served in and has been discharged under honorable conditions from service in, the United States Army, Navy, Air Force, Marine Corps, Coast Guard, or Revenue Marine (Revenue Cutter) Service, ~~during either of the following:~~

~~—— (i) A time of war or in a time of peace in a campaign or expedition for which a medal has been issued by Congress.~~

~~—— (ii) A time of peace and because of a service-connected disability was released from active duty.~~

(B) The unmarried surviving spouse, ~~who resides in California on the lien date,~~ of a deceased person who met the requirements of subparagraph (A) ~~on the lien date immediately~~ preceding his or her death.

Sec. 25. The Legislature shall provide, in the same fiscal year, reimbursements to each local government lost because of Section 3(k) and (o).

COST ESTIMATE

This proposed constitutional amendment in and of itself would not affect administrative costs, but rather the costs would be incurred if voters approve the measure.

REVENUE ESTIMATE

This proposed constitutional amendment in and of itself would not affect the state's revenues. However, if voters approved this constitutional amendment the revenue would be as follows:

Existing Veterans' Property Tax Exemption. Existing property tax law exempts property in the amount of \$4,000 for a veteran who meets certain military service requirements, or a deceased veteran's unmarried surviving spouse. This exemption does not apply if the value of the total property holdings of a veteran exceed a specified amount.

The total exempt value of property in this category for 2004-05 was \$115,345 on 37 claims. The repeal of this exemption will result in an annual revenue increase to local government of \$115,345 x 1%, or \$1,153.

Military and Veterans' Homeowners' Exemption. Additional existing property tax law also provides for a regular homeowners' exemption in the amount of \$7,000 of the full value of a "dwelling," as specified. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting local property tax loss. The state reimbursement to the counties for 2003-04 totaled \$424,786,000 on 5.4 million claims.

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The total exempt value on these properties was \$37,957,506,000. Therefore, the average tax rate for properties receiving the homeowners' exemption is: $\$424,786,000 / \$37,958,702,000$, or 1.119%.

This measure defines "qualified persons" as active duty military personnel and veterans who reside in California, and whose service or discharge meets one of two conditions: (1) service occurred during a time of war, or in a time of peace in a campaign or expedition for which a medal has been issued by Congress; or, (2) service occurred during a time of peace and because of a service-connected disability, veteran was released from active duty. Also included are unmarried spouses of deceased veterans who were eligible for exemption prior to their death.

Under this bill, the homeowners' exemption for claimants who are defined as qualified military personnel and veterans would increase by 10%, or \$700, from \$7,000 to \$7,700 for a full exemption. The average increase in the reimbursement is computed as follows: $\$700 \times 1.119\%$, or \$7.83.

Based on information from the Military Family Resource Center (MFRC), there are 166,397 active duty military personnel whose principal place of residence is California. Based on information from the U.S. Department of Veterans Affairs, there are 1,628,523 wartime veterans residing in California.

In order to estimate the number of "qualified persons" who will take advantage of this measure, we will consider homeownership rates for active duty military personnel and veterans.

California is home to 166,397 active duty military personnel. According to the MFRC, 80% of all active duty military personnel are 35 years of age or younger. The U.S. Census reports that for 4th Quarter 2004, the homeownership rate for those 35 years of age and under is 43.3%. The rate for those over 35 years of age is 74.4%. We can compute the number of qualified active duty military personnel under this measure as follows:

California Active Duty Military Personnel 35 and Under:	$133,118 \times 43.3\% =$	57,640
California Active Duty Military Personnel Over 35:	$33,279 \times 74.4\% =$	<u>24,760</u>
Total California Active Duty Qualified Persons		82,400

According to the U.S. Department of Veterans Affairs, there are 1,628,523 wartime veterans residing in California, 143,310 of them are under 35 years of age. Using the same homeownership rates as above, we can compute the number of veterans who would qualify under this measure as follows:

California Veterans Under 35 Years of Age:	$143,310 \times 43.3\% =$	62,053
California Veterans 35 Years of Age and Over:	$1,485,213 \times 74.4\% =$	<u>1,104,998</u>
Total California Veteran Qualified Persons		1,167,051

The estimated total number of active duty military personnel and veterans likely to qualify for this exemption is then $82,400 + 1,167,051$, or 1,249,451. The estimated increase in the homeowners' exemption reimbursement is then:

$$1,249,451 \times \$7.83 = \$9,783,201$$

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Revenue Summary

Repeal of Existing Veterans' Property Tax Exemption. Under this bill, the repeal of the regular veterans' property tax exemption would result in a revenue increase of \$1,153 annually.

Military and Veterans' Homeowners' Exemption. This bill would increase the state reimbursement for the homeowners' exemption by approximately \$9,783,201 annually.

Qualifying Remarks

Data estimates for veterans from the U.S. Department of Veterans' Affairs were generated in December 2002, and are based upon a standard rate of discharge. This does not include the escalated discharge figures for current conflicts Operation Enduring Freedom and Operation Iraqi Freedom. The current average age of all active duty military personnel is 28.2 years old. Over 83% of potential veterans from current conflicts are described as enlisted, only 16% are officers, reducing the likelihood that veterans from current conflicts are homeowners.

There were 22,791 regular disabled veterans' exemptions in 2003-04. Existing property tax law provides for an exemption in the amount of \$100,000 for the principal residence of a disabled veteran generally, but increases that amount to \$150,000, if the claimant's income does not exceed \$40,000 as adjusted by inflation.

For purposes of this measure, staff assumes that disabled veterans would not be able to claim both the regular disabled veterans' homeowners' exemption and the Military and Veterans' Homeowners' Exemption. Consequently, disabled veterans were excluded from this revenue estimate.

Potentially, unmarried surviving spouses of deceased veterans who met the requirements of qualification for this measure on the lien date immediately preceding his or death, could number in the tens of thousands. If the spouse remarries, this exemption does not apply. If the spouse does not own or reside in the same primary residence as at the time of the deceased spouse's death, this exemption does not apply. Families residing in military housing would not qualify.

Data was solicited from federal government agencies for this estimate.

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