



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

DRAFT

Date Amended:	05/15/06	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.

Summary of Amendments

The amendments address technical issues outlined in the prior analysis.

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 California 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.

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

Proposed Law

This proposed constitutional amendment, if approved by the voters, would amend the California Constitution to establish a “Military and Veterans’ Homeowners’ Exemption” 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 California 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 California 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.

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).

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.

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

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 provide a military and 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. **The May 15 amendments** redraft this bill to address certain technical concerns.
 - **Military Service.** It eliminates language relating to when a veteran serves in the military. In practical application, the prior language requiring that a veteran serve "in a time of peace" or "in a time of war" as specified would have had no effect and did 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.
 - **Reimbursement.** Amends Section 25 to expressly provide reimbursement to local governments for the revenue loss.
 - **Unintended Impact.** As introduced, this bill deleted the current veterans' exemption provided in subdivision (o) of Section 3 of Article XIII of the California Constitution. This exemption can apply to any property (real or personal) owned by a veteran and has a wealth cap. The May 15 amendments restore the original exemption. Veterans currently claiming the veterans' exemption would not have likely been able to claim the replacement "Military and Veterans' Homeowners" Exemption because they probably do not own homes (due to the wealth cap). Thus, as introduced, the elimination of the \$4,000 veterans' exemption would have deprived them of any exemption from property tax based on their status as veterans. The amendments restore the provisions of subdivision (o).
3. **The Proposed New Exemption Does Not Include Any 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 not establishing a personal wealth cap, this measure fully achieves the author's goal of providing veterans and active duty military personnel with a

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.

greater property tax exemption than those persons who ~~did not serve~~ in the armed forces.

4. **Suggested Technical Amendments.** The language concerning lien date residence is not necessary in the California Constitution and would prevent the granting of the exemption on new home purchases via supplemental assessments.

Sec. 3 (s)(2) For purposes of this subdivision, “qualified person” means either 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 active or reserve forces of the California National Guard, or of the United States Army, Navy, Air Force, Marine Corps, or Coast Guard.

(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.

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

Background, Methodology and Assumptions

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 property tax law 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.

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%.

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 x 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.

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.

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, of which 143,310 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 1,249,451 (82,400 + 1,167,051). The estimated increase in the homeowners' exemption reimbursement is then:

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

Revenue Summary

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. About 84% of potential veterans from current conflicts are described as enlisted and 6% as officers, reducing the likelihood that veterans from current conflicts are homeowners.

There were 22,791 regular disabled veterans' exemptions granted in 2003-04. Existing property tax law provides for an exemption in the amount of \$100,000 for the principal

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.

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, 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 could number in the tens of thousands. If the spouse remarries, this exemption does not apply.

Data was solicited from federal government agencies for this estimate.

Analysis prepared by:	Rose Marie Kinnee	(916) 445-6579	06/01/06
Revenue estimate by:	Chris Butler	(916) 445-0840	
Contact:	Margaret S. Shedd	(916) 322-2376	

mcc

sca14-2rk.doc

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.