California State Board of Equalization

Legislative Bill Analysis

Senate Bill 723 (Choi)
Date: May 7, 2025 (amended)
Program: Property Taxes
Revenue and Taxation Code section 155.20
Effective: Upon enactment, immediately

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Summary: This bill would, until January 1, 2036, increase the exemption limit from $10,000 to $25,000 for properties having a total base year value or a full value too low to justify the costs of assessment and collection of taxes, special assessments, and applicable subventions.

Summary of Amendments: The May 7 amendment, for lien dates occurring on or after January 1, 2026, and before January 1, 2036, increases the exemption limit from $10,000 to $25,000 (previously proposed to be $50,000 in the prior version of the bill) for properties having a total base year value or a full value too low to justify the costs of assessment and collection of taxes, special assessments, and applicable subventions.

Fiscal Impact Summary: Total annual revenue loss is expected to be $4.1 million. This revenue estimate is specific to property tax, and does not account for any potential economic changes or revenue shifts that might occur as a result of the potential exemption increase contemplated in this bill.

Existing Law: Section 1(a) of Article XIII of the California Constitution provides that all property is taxable unless otherwise provided by the Constitution or the laws of the United States. Section 7 of article XIII provides that the Legislature may authorize a county board of supervisors to exempt real property having a full value so low that, if not exempt, the total taxes and applicable subventions on the property would amount to less than the cost of assessing and collecting them. Revenue and Taxation Code[1] (RTC) section 155.20 implements this constitutional authorization and the exemption permitted under this section of the law is commonly referred to as the "low value" exemption.

The amount of the low value exemption may not exceed $10,000, except that the limit was increased to $50,000 (SB 1527, Ch. 498, statutes of 2024) in the case of all possessory interests for lien dates occurring on or after January 1, 2020, and before January 1, 2030. However, the $50,000 possessory interest limit for a temporary and transitory use in a publicly owned fairground, fairground facility, convention facility, or cultural facility, is scheduled to continue indefinitely.

In administering the low value exemption, the Assessor enrolls and then exempts property subject to the low value ordinance. If the Assessor has been specifically authorized by the county board of supervisors, the Assessor can administer the low value exemption by not enrolling property subject to the exemption.[2]

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[1] All statutory references are to the Revenue and Taxation Code, unless otherwise provided.
[2] Section 155.20(b)(3).

Each approved low value exemption is authorized for an inflation adjustment (pursuant to subdivision (f) of RTC section 110.1) if approved below the statutory limit, but not to exceed it.

Proposed Law:

This bill would, until January 1, 2036, amend RTC section 155.20 to increase from $10,000 to $25,000, the maximum exemption amount that a board of supervisors may authorize.

The bill would also require an enhanced reporting requirement for the State Board of Equalization (BOE), mirroring RTC section 41 requirements applicable to other specified tax matters, to provide the goal, purpose, and objective of legislation proposing certain tax expenditures. BOE would be required, to the extent data is available from County Assessors, to annually collect and report to the Legislature data from Assessors to quantify the additional amount of assessed value exempted and the number and type of taxpayers granted this expanded exemption. The report would be due on or before June 1, 2027, and every June 1 thereafter.

Effective Date: This bill would be effective immediately.

In General:

Low Value Exemption.

The Legislature enacted RTC section 155.20 to provide the necessary statutory implementation of section 7 of Article XIII of the California Constitution. RTC section 155.20 authorizes a county board of supervisors to exempt from property tax real property with a factored base year value and personal property with a full value so low that, if not exempt, "the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them."

In determining the level of the exemption, a county board of supervisors is required to:

> … determine at what level of exemption the costs of assessing the property and collecting taxes, assessments, and subventions on the property exceeds the proceeds to be collected. The board of supervisors shall establish the exemption level uniformly for different classes of property. In making this determination, the board of supervisors may consider the total taxes, special assessments, and applicable subventions for the year of assessment only or for the year of assessment and succeeding years where cumulative revenues will not exceed the cost of assessments and collections.[3]

There are also other provisions of law related to property tax amounts that are not cost effective to pursue.

- RTC section 75.55 provides that the county board of supervisors may, by ordinance, provide for the cancellation of any supplemental tax bill in which the amount of taxes to be billed is less than the cost of assessing and collecting them, if the amount of taxes does not exceed $50. Alternatively, the board may adopt an ordinance allowing the assessor to

[3] Section 155.20(b)(2).

cancel the supplemental assessments in the first place, if the amount of taxes does not exceed $50.

- RTC section 4986.8 allows the county auditor, upon the tax collector's recommendation, to cancel any tax bill, if the amount is so small as not to justify the cost of collection.

- RTC section 2611.4 provides that "any county department, officer, or employee may refrain from collecting any tax, assessment, penalty or cost" when the amount to be collected is $20 or less.

Background: The authorization for the low-value ordinance exemption was established by a constitutional amendment, Proposition 8, in November 1974. Proposition 8 also revised various articles of the State Constitution relating to taxation generally, as recommended by the Constitution Revision Commission. According to documents related to the legislation that added section 155.20 to the Revenue and Taxation Code to implement this constitutional amendment, many County Assessors had decided not to assess certain properties such as undeveloped mining interests, where the values of the properties were de minimis. The constitutional amendment, therefore, was intended to provide some legal authority for the actual assessment practice.

Commentary:

1. **County participation optional.** The increase in the exemption amount authorized by this measure would only take effect if a county board of supervisors subsequently amended its ordinance to increase the exemption level above its current amount. According to BOE 2024-25 roll data, there are currently fifty-two counties (out of fifty-eight) with low-value ordinances. Eight counties have the $10,000 maximum exemption. Thirty counties reported other exemption values, and the low-value property exemption amounted to $164 million in 2024-25.

2. **Counties determine their maximum exemption amount.** Counties are charged with setting the appropriate level of the exemption. The manner of preparing the cost-benefit analysis in each county may vary. Where the analysis is identical, the actual break-even point will still likely vary because of unique cost factors in each respective county. In addition, the philosophies of the elected officials towards the low-value exemption, as well as its level, may affect whether an ordinance is adopted.

3. **What types of property could qualify?** Real property that could have a value less than $25,000 includes mining or mineral rights, timeshare estates in timeshare projects, and leased tenant improvements. Personal property that could have a value under $25,000 includes personal property used in a trade, profession or business, and boats, planes, and mobile homes.

4. **Past Legislation.** AB 608 (Petrie-Norris) in 2019 amended the low-value exemption under Revenue and Taxation Code section 155.20 by expanding the $50,000 limit for possessory interests to include all possessory interests, rather than only those with a temporary and transitory use in a publicly owned fairground, fairground facility, convention facility, or cultural facility through lien date 2024. The BOE, via LTA 2021/029, requested information from County Assessors regarding each county's low-value ordinance. Of the 58 counties, 48 counties stated that they had a low-value ordinance. In relation to making an amendment to include all possessory interests as allowed by AB 608 (2019), 50 counties responded to the question, and forty-four (88%) stated no amendments or changes to their low-value ordinance.

5. **State-County Property Tax Administration Loan Program.** In some contracts between the Department of Finance and counties, one element in approving the loan was a restriction against increasing the county's low-value exemption threshold.

Costs: Costs to BOE to comply with SB 723 are estimated at $8,000 in fiscal year 2025-26 and $10,500 annually thereafter.

Revenue Impact:

According to BOE 2024-25 roll data, there are currently fifty-two counties (out of fifty-eight) with low-value ordinances. Thirty counties reported values, and the low-value property exemption amounted to $164 million in 2024-25. At the 1% property tax rate, this amounts to $1.6 million in property tax revenue loss (1% × $164 million).

Of the fifty-two counties, only eight counties have approved the maximum $10,000 exemption. The proposal to increase the exemption from $10,000 to $25,000 is a 150% increase in the total maximum exemption amount for properties other than possessory interests. If an assumption is made that all thirty counties would increase their exemption to $25,000, and assuming the same distribution of assessment across the value, then the estimated low-value property exemption, based on the -150% increase, amounts to $410 million, and the potential annual revenue loss is estimated to be $4.1 million (1% × $410 million).

Revenue Summary:

Total annual revenue impact is estimated to be $4.1 million.

Qualifying Remark:

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.

As discussed above, there are currently fifty-two counties (out of fifty-eight) with low-value ordinances, and only eight counties have adopted the $10,000 maximum exemption. Most counties with a low-value ordinance in place seem to have adopted maximum limits of between $1,000 and $7,500.

It should also be noted with AB 608 in 2019, only six out of fifty counties made amendments to their low-value ordinances in relation to possessory interests. Based on these observations, an assumption can be made that it is unlikely that county boards of supervisors will suddenly vote in large numbers to raise their exemption limits to $25,000 under SB 723.

Of the fifty-two counties with low-value ordinances, thirty reported values in the roll year 2024-25. BOE staff does not know the assessed value of qualifying low-value exempt property in the other twenty-eight counties, in which case this revenue estimate may be understated.

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