

[Senate Bill 1183](#) (Bates)

Date: 05/10/16

Program: Property Taxes

Sponsor: Author

Revenue and Taxation Code Section 205.5

Effective: Upon enactment, but operative commencing with the lien date for the 2017-18 fiscal year.

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Summary: Exempts from property tax the home of any person eligible for the disabled veterans' exemption, with a \$1 million cap in assessed value that will be adjusted annually for inflation.

Summary of Amendments: The amendments since the previous analysis cap the exemption amount at \$1 million in assessed value and revise the "totally disabled" definition.

Purpose: To exempt from the property tax the homes of most 100% disabled veterans or their unmarried surviving spouses.

Fiscal Impact Summary: Annual revenue loss of \$65.9 million.

Existing Law: The California Constitution¹ authorizes the Legislature to exempt partially or fully from property tax, the home of a person or spouse, including an unmarried surviving spouse, if the person has incurred certain injuries, including blindness in both eyes, lost use of 2 or more limbs, or total disability. The exemption also applies if a person's death is from a service-connected injury or disease, or if a person's death occurs while on active duty in military service. This exemption is commonly referred to as the "disabled veterans' exemption."

Statutory Exemption Amount. Current law contains a partial exemption.² For the 2017-18 fiscal year, for persons with household incomes below \$58,754, the exemption amount is \$196,262. For all other eligible persons, the exemption amount is \$130,841.³ The law requires an annual inflation adjustment of the exemption amount provided, as specified.

Blind Definition. For the disabled veterans' exemption, the RTC defines being "blind in both eyes" to mean having a visual acuity of 5/200 or less, or concentric contraction of the visual field to 5 degrees or less.⁴ The USDVA disability rating for this level of vision is 100%.

Proposed Law:

Exemption Amount. This bill increases the exemption amount for the home of any person qualified to receive the disabled veterans' exemption to up to \$1 million adjusted annually for inflation. The measure of the annual inflation adjustment remains unchanged. This bill also removes any income-based exemption amount variation, thereby eliminating the need for claimants to annually reapply to receive the income-based exemption amount.

Blind Definition. The definition of "blind in both eyes" is amended to mean a blind person as defined by cross reference to Welfare and Institutions Code [Section 19153](#) as it currently reads:

"[A] person who has not more than 20/200 central visual acuity in the better eye after correction, or a person who has visual acuity greater than 20/200 but with a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater

¹ [Section 4\(a\)](#) of Article XIII of the California Constitution.

² RTC Section [205.5](#).

³ This is the current exemption amount. Since 2006, RTC 205.5(h) allows a compounding inflation factor to apply to the \$150,000 and \$100,000 amounts. This is the current income threshold. Since 2002, RTC 205.5(g) allows a compounding inflation factor to apply to the \$40,000 income threshold. [Letter to Assessors 2016/017](#), dated May 3, 2016, lists exemption amounts and household income limitations effective for lien dates 2002 through 2017.

⁴ RTC Section 205.5(e).

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than 20 degrees. Such blindness shall be certified by a licensed physician and surgeon who specializes in diseases of the eye or a licensed optometrist."

The USDVA disability rating at this level of vision is 70%.

Mobility: Assisted Devices. This bill adds an additional "totally disabled" condition which is the "veteran is so severely disabled as to be unable to move without the aid of an assistive device." The Vehicle Code⁵ uses this definition in a list of disabilities that qualifies a veteran for various fee waivers⁶ and a special parking placard.⁷ (Under the Vehicle Code, mobility is the basis for various fee-waivers and, unlike the property tax exemption, fee waivers don't apply to veterans with 100% disability compensation.)

Effective Date. As a tax levy, this bill is effective immediately upon enactment. However, it includes provisions to delay the operative date until the lien date for the 2017-18 fiscal year.

In General: California law provides qualified disabled veterans and their unmarried surviving spouses with a property tax exemption that applies to their home's assessed value. 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 spouse's death was service-connected. To be eligible for the exemption, surviving spouses must receive a USDVA determination that the spouse's death was service-connected. A USDVA determination is necessary for (1) active duty personnel deaths (i.e., the service person was not a "veteran") and (2) veterans without a 100% rating when alive, but whose cause of death is deemed service-connected. Surviving spouses of veterans with a 100% disability rating during their lifetime continue to receive the exemption after the veteran's death so long as they do not remarry.

The exemption amount depends upon the claimant's income. For the 2017-18 fiscal year, the basic exemption adjusted for inflation will be \$130,841. If the claimant's income is less than \$58,754, the exemption amount will be \$196,262. For the fiscal year 2015-16, 37,653 disabled veterans or their unmarried surviving spouses were granted the exemption.

Qualification	Basic Exemption Amount	Lower Income Exemption Amount \$40,000 adjusted for inflation \$58,754
<p>Disabled Veteran</p> <ul style="list-style-type: none"> • Disability Rating = 100% • Disability Compensation = 100% • Blind • Lost Two or More Limbs 	<p>\$100,000 adjusted for inflation</p> <p>\$130,841</p>	<p>\$150,000 adjusted for inflation</p> <p>\$196,262</p>
<p>Spouse of Military Personnel</p> <ul style="list-style-type: none"> • Surviving Spouse: Disabled Veteran • Surviving Spouse: Active Duty Death • Surviving Spouse: Posthumous service-connected death finding 		
Claims Granted: 37,653	33,196	4,457

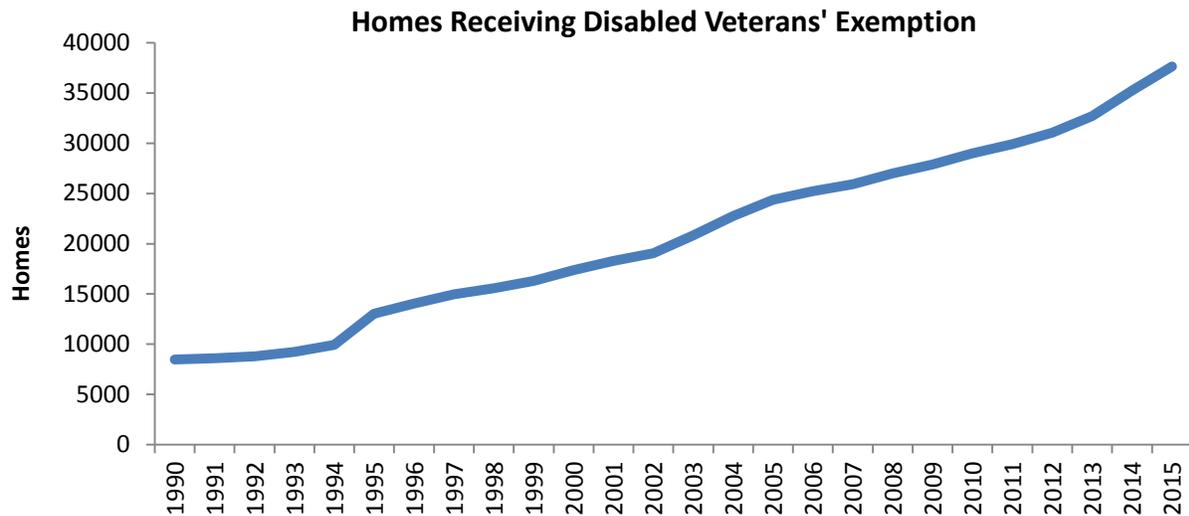
⁵ Vehicle Code [Section 295.7](#) A "disabled veteran" is any person who, as a result of injury or disease suffered while on active duty service with the armed forces of the United States, suffers any of the following:...is so severely disabled as to be unable to move without the aid of an *assistant* device." Note "assistant" rather than "assistive."

⁶ Vehicle Code [Section 9105](#), DMV [Form Reg 256A](#).

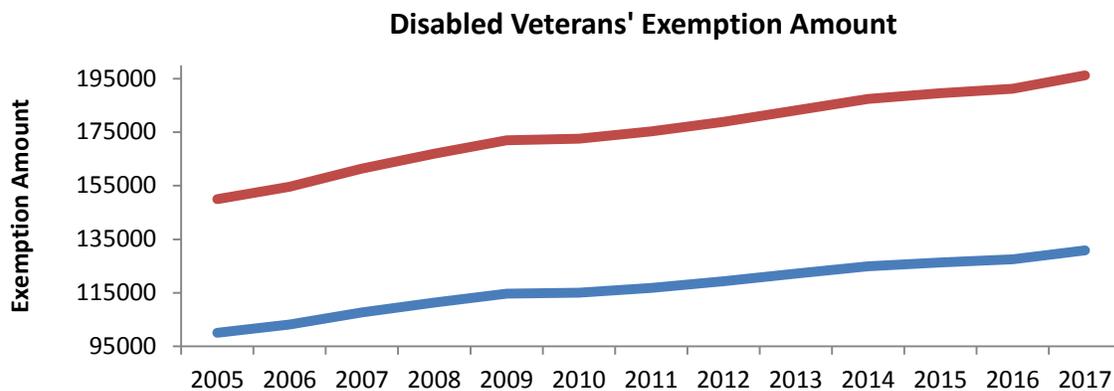
⁷ Vehicle Code [Section 5007](#), DMV Regulation Handbook [21.070](#).

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In 1990, 8,483 disabled veterans' exemptions were provided to eligible homeowners. For 2015, there were 37,653 eligible homeowners. In the last 25 years, this is a 344% increase.



After 2005, the \$100,000 and \$150,000 exemption amounts annually increased by an inflation factor. For 2017, the exemption amounts will be \$130,841 and \$196,262.



Background: The following table lists the most recent legislative attempts to increase the disabled veterans' exemption.

Year	Bill	Proposal
2008	AB 2568 (Houston)	Full Exemption
2007	AB 1485 (Jefferies)	Full Exemption, as introduced
2007	AB 1485 (Jefferies)	Increase to \$200,000 and \$250,000, as amended
2005	SB 1005 (Florez)	Full Exemption for Spouses if Active Duty Death Full Exemption for Spouses if Public Safety Officer Death
2004	SB 764 (Morrow)	Inflation factoring commences January 1, 2006 (Enacted)
2003	SB 764 (Morrow)	Increase to \$200,000 and \$250,000, as introduced

Commentary:

1. **This bill exempts from property tax up to \$1,000,000 in assessed value for the home of a disabled veteran and their unmarried surviving spouse.** The California Constitution provides that the Legislature may exempt these homes in whole or in part. This bill increases the current exemption amounts to \$1,000,000 of assessed value for all qualifying claimants. This should result in a full exemption for all qualifying claimants. 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.

exemption for most qualified claimants given that assessed values are generally factored base year values that are unrelated to current market value. Additionally, by eliminating the income-based exemption amount, it eliminates the need for these claimants to annually reapply to verify their continued eligibility for the higher exemption amount.

2. **The May 10, 2016** amendments delete the initially proposed full exemption and instead increase the current exemption amounts to \$1,000,000 in assessed value. This cap will fully exempt most homes but addresses concerns that without any cap a full exemption could result in an inappropriately excessive exemption. A review of the largest counties indicates that around 10% of single family residences (with or without the homeowners' exemption) have assessed values over \$1,000,000. Because of the methodology used to develop the revenue estimate, as long as the exemption amount proposed exceeds \$356,370 (the average assessed value of homes receiving the homeowners' exemption), the BOE's revenue estimate remains unaffected. The methodology subtracts the current exemption amount from the average assessed value of properties claiming the homeowners' exemption and multiplying the difference by the number of disabled-veteran owned homes estimated to be partially subject to tax under current law. **The May 4, 2016** amendments revised and restructured the "totally disabled" definition to address a comment in the BOE's prior analysis that the USDVA, not the veteran, sets a veteran's disability compensation percentage.
3. **The author notes high housing costs in California locales where veterans live.** The author states that Los Angeles and San Diego Counties have the highest concentration of veterans. This bill is intended to help ensure that California's disabled veterans and their spouses receive the care and assistance needed to live within the state.
4. **Top 10 Counties.** For 2015, counties with the most disabled veterans' exemptions in descending order include: (1) San Diego: 5,391; (2) Riverside: 3,732; (3) Sacramento: 2,422; (4) San Bernardino: 2,373; (5) Los Angeles: 2,092; (6) Solano: 1,764; (7) Orange: 1,691; (8) Contra Costa: 1,147; (9) Monterey: 990; and (10) Fresno: 959.
5. **Unlike the homeowners' exemption, the state does not reimburse local governments for the property tax revenue loss from the Disabled Veterans' Exemption.** The state fully reimburses local governments for the homeowners' exemption.
6. **To transition to the new exemption amounts at the least possible administrative cost, this bill delays the operative date to coincide with the lien date.** As a tax levy, this bill would take effect immediately. Subdivision (h) of Section 205.5 delays the operative date of this bill's provisions to the lien date for the 2017-18 fiscal year (i.e., January 1, 2017).
7. **The purpose and intent of adding the assisted mobility definition is unclear and might expand exemption eligibility.** Existing "totally disabled" definitions are based on pre-existing USDVA-determinations. As currently drafted, the new assisted mobility definition lacks a link to a USDVA-related finding. It would seem that the USDVA would issue a 100% disability rating to a veteran who is "unable to move without the aid of assistive device." Is the intent of this bill to extend the exemption to veterans that are currently ineligible? Such as veterans that become immobile for non-service-connected reasons? To properly administer the changes this bill intends requires further clarification. The revenue estimate below does not include an expansion of the veterans that might qualify by adding new eligibility criteria. If the author does not intend to change exemption eligibility, the following amendment is suggested:

At Page 5, line 16, delete "(C) The veteran is so severely disabled as to be unable to move without the aid of an assistive device."

8. **The BOE does not have any information regarding how many more veterans might qualify by changing the definition of blind from 5/200 to 20/200.** The USDVA rates 20/200 visual acuity at 70% and 5/200 at 100%. Thus, veterans who do not currently have a 100% rating would become eligible for the property tax exemption. However, the BOE has no information on which to base an

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estimate. The revenue estimate below does not include an expansion of the veterans that might qualify by this change. In administering this provision, it is unclear whether the USDVA would provide the vision diagnosis or if any optometrist could provide the vision rating, which raises the issue if the vision loss must be service-connected. If the author does not intend to change exemption eligibility, the following amendment is suggested:

At page 5, line 1, delete “is a blind person, as that term is defined in Section 19153 of the Welfare and Institutions Code as that section read on January 1, 2016.” after “veteran” and add “has a visual acuity of 5/200 or less, or concentric contraction of the visual field to 5 degrees or less.”

9. **The need to modify the property tax exemption to incorporate DMV definitions is unclear.** The laws are not identical. For instance, persons receiving 100% disability compensation benefits are ineligible for the DMV-related benefits, but they are eligible for the property tax exemption. The above suggested amendments effectively restore existing definitions and will neither expand nor restrict existing exemption eligibility.
10. **Related Legislation.** Current legislation proposing to amend RTC Section 205.5 includes:

AB-1556	Mathis	Increases Exemption to \$2.1. Otherwise identical to this bill
SB-1104	Stone	Full Exemption. Includes delayed operative date to the lien date. Freezes Assessed Values. Eliminates annual assessed value inflation for all honorably discharged veteran's 65+
SB-1458	Bates	Discharge Classification. Extends exemption to a disabled veteran discharged under other than dishonorable conditions if the USDVA finds the veteran eligible for federal veterans' health and medical benefits.

Costs: BOE would incur absorbable costs to modify forms, publications, and website materials.

Revenue Impact:

Background, Methodology, and Assumptions. Existing property tax law provides a disabled veterans' exemption to military personnel, or their spouses, in the event of a service-connected injury, disease, or death, as specified. The law provides a basic exemption amount of \$100,000, but increases that amount to \$150,000 if the claimant's household income does not exceed \$40,000, with all amounts adjusted for inflation.

The following revenue impact estimate uses FY 2015-16 data and exemption amounts for consistency since this is the most recent year where all variables for the same year are available. For 2015-16, the basic exemption amount was \$126,380. The lower income exemption amount was \$189,571 for claimants with a household income below \$56,751.

To begin, staff estimated the number of disabled veteran owned homes currently receiving the exemption. In 2015-16, 37,653 disabled veterans' exemptions were granted: 33,196 at the basic level and 4,457 at the lower income level. Based on a survey of several counties, staff estimates that this bill will not impact 21% of homes receiving the basic exemption (6,971 homes) or 24% of homes receiving the lower income exemption (1,070 homes). These homes are already fully exempt because they have an assessed value of less than \$126,380 and \$189,571, respectively. Thus, this bill will exempt from the property tax 29,612 homes: 26,225 (33,196-6,971) currently receiving the basic exemption and 3,387 homes (4,457-1,070) receiving the lower income exemption.

	Homes Granted Exemption	Homes Already Fully Exempt	Additional Homes Exempted
Basic	33,196	6,971	26,225
Lower Income	4,457	1,070	3,387
Total	37,653	8,041	29,612

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Staff then estimated the additional amount of assessed value that this bill will exempt. Staff subtracted the current exemption amounts provided from the average assessed value (AV) of properties receiving the homeowners' exemption. For 2015-16, the average was \$356,370. The affected difference in value and revenue loss at the basic 1% property tax rate is then:

	Average Home AV	Exemption Current	Exemption Increase	Homes	Tax Rate	Tax Savings Per Home	Revenue Loss
Basic	\$356,370	\$126,380	\$229,990	26,255	1%	\$2,299	\$60.3 Million
Lower Income	\$356,370	\$189,571	\$166,799	3,387	1%	\$1,667	\$5.6 Million
Total				29,612			\$65.9 Million

Revenue Summary. This bill would result in a potential annual revenue loss of \$65.9 million.

Qualifying Remarks. For 2017, the basic disabled veterans' exemption amount increases to \$130,841, the lower income disabled veterans' exemption amount increases to \$196,262, and the household income limit increased to \$58,754. These amounts will be applied by counties to their FY 2017-18 property tax rolls.

As explained in Comment 2, under the methodology used, any exemption increase in excess of \$356,370, does not impact the BOE's revenue estimate since the foundation of the revenue estimate is based on the statewide average assessed values for homes, not actual assessed values of homes owned by disabled veterans. The BOE does not have this detailed level of data available.

The revenue estimate is predicated on the existing property tax law requirement of either a 100% disability compensation rating for unemployability or a 100% disability rating. Thus, this revenue estimate does not account for newly eligible claimants under the proposed blindness definition or mobility definition. Nor does it account for any changes in economic activity that may or may not result from enactment of the proposed law.

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