Date of Hearing: July 14, 2025

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

SB 56 (Seyarto) – As Amended June 19, 2025

Majority vote. Tax levy. Fiscal committee.

SENATE VOTE: 38-0

SUBJECT: Property taxation: disabled veterans' exemption: household income

SUMMARY: Excludes service-connected disability income as household income when determining if a homeowner qualifies for the low-income veterans' property tax exemption. Specifically, **this bill**:

1) Provides that, until January 1, 2036, "household income" does not include service-connected disability payments for purposes of the low-income veterans' property tax exemption.

2) Finds and declares the following for purposes of satisfying Revenue and Taxation Code (R&TC) Section 41:

   a) The goals, purposes, and objectives of this bill are to do all of the following:

      i) Remove the counterproductive requirement that also disqualifies;

      ii) Provide that, under the law, the act of qualifying should never disqualify an individual from support or well-deserved benefits; and,

      iii) Authorize veterans who qualify for this tax exemption to receive this tax exemption.

   b) The detailed performance indicators for the Legislature to use in determining whether this expenditure meets these goals, purposes, and objectives are the number of qualified claims under the disabled veterans' tax exemption reported each year by the State Board of Equalization (BOE) using existing methods to track the number of claims.

   c) Requires the BOE, on or before January 1, 2035, to submit to the Legislature and publish on its website a comparison of the number of claims for the low-income disabled veterans' property tax exemption for each taxable year from 2024 to 2033.

3) Reverts the provisions of the low-income disabled veterans' exemption to current law on January 1, 2036.

EXISTING LAW:

1) Provides that all property is taxable unless explicitly exempted by the California Constitution or the laws of the United States. (California Constitution, Article XIII, Section 1.)

2) Limits the maximum amount of *ad valorem* property taxation to 1% of the full cash value of the property. Generally, the Constitution restricts the full cash value of a property to the assessed value upon a change of ownership in, or new construction on, the property. This is referred to as the base year value, which may be adjusted upwards for inflation at no more than 2% annually. (California Constitution, Article XIIIA, Section 1 and 2.)

3) Exempts $7,000 of the full value of an individual's principal residence from property taxation, unless the residence benefits from another real property tax exemption. This exemption is often referred to as the "homeowner's exemption". (California Constitution, Article XIII, Section 3, Subdivision (k).)

4) Authorizes a property tax exemption of $4,000 for a veteran discharged under honorable conditions from specified armed service branches if that veteran has property valued in the aggregate of less than $5,000 if single, and $10,000 if married, commonly referred to as the "veteran's exemption". This exemption may also be claimed by the unmarried spouse of a deceased veteran or the surviving parents, as defined, of a deceased veteran, subject to the same limitation on the value of aggregate ownership in property. (California Constitution, Article XIII, Section 3, Subdivision (o), (p), and (q).)

5) Authorizes the Legislature to exempt the home of a disabled veteran, or their eligible surviving spouse, from property taxation. (California Constitution, Article XIII, Section 4.) In implementing this authorization, the Legislature exempts $100,000 of the value of an eligible disabled veteran's principal residence from property taxation, or $150,000 if the disabled veteran has a household income of $40,000, or less. These amounts are all adjusted for inflation beginning on specified dates and this exemption is also known as the "disabled veteran's exemption". A disabled veteran meets the qualifications of the exemption if they are rated by the U.S. Department of Veterans Affairs (USDVA) as 100% disabled or unemployable as a result of a service connected injury or disease. (R&TC Section 205.5.)

4) Provides that qualifying taxpayers can file a claim for the exemption when they receive a rating letter from the USDVA indicating a 100% disability rating or that the disability compensation is at the 100% level, so long as they provide:

   a) Proof of the veteran's disability, which is generally a letter from the USDVA; and,

   b) Proof that the character of service was under "other than dishonorable" conditions, such as a DD-214, or other letter from the USDVA indicating the character of service. (R&TC Section 205.5.)

5) Requires a county assessor to accept an electronically generated letter of service-connected disability in lieu of an original letter of service-connected disability. (R&TC Section 205.5.)

FISCAL EFFECT: According to the BOE, this bill would result in a $59 million reduction in annual property tax revenues. Reductions in local property tax revenues, in turn, can increase General Fund (GF) Proposition 98 spending by roughly 40% (the exact amount depends on the specific amount of the annual Proposition 98 guarantee, which in turn depends upon a variety of economic, demographic, and budgetary factors).

COMMENTS:

1) The author has provided the following statement in support of this bill:

   SB-56 seeks to remove the counterproductive inclusion of disability compensation from the calculation of the Low Income Exclusion of the Disabled Veterans' Property Tax Exemption, as Veterans must receive that compensation in order to qualify for the tax exemption in the first place. Families surviving on only social security and disability pay should qualify for the low income exclusion.

2) Writing in support of this bill, the California Assessors' Association notes, in part:

   This bill proposes to clarify and strengthen the Disabled Veterans' Property Tax Exemption by excluding veterans' disability compensation from the definition of household income when determining eligibility for the low-income exemption tier. SB 56 affirms the State's commitment to supporting 100% disabled veterans and their surviving spouses by ensuring consistent access to meaningful property tax relief.

   Under current law, Revenue and Taxation Code Section 205.5 provides two exemption tiers for 100% disabled veterans and their unmarried surviving spouses: a basic exemption and a higher-value exemption for those with household incomes below a specified threshold. SB 56 clarifies that federal veterans' disability compensation is not to be included when calculating household income for purposes of the low-income exemption. This change promotes uniformity across counties and aligns with the exemption's intended purpose.

3) Committee Staff Comments:

   a) *Double referred*: In addition to this Committee, this bill was referred to the Assembly Committee on Military and Veterans Affairs, which passed this bill on July 1, 2025 on a vote of 8-to-0. For additional discussion regarding issues that fall under that Committee's jurisdiction, please refer to that Committee's analysis.

   b) *What is a "tax expenditure"*? Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).

      As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote.

   c) *How does this work*? The California Constitution allows the Legislature to partially or wholly exempt from property tax the value of a disabled veteran's principal place of residence if the veteran has lost two or more limbs, is totally blind, or is totally disabled as a result of a service-connected injury. The taxpayer must have served in the United States Army, Navy, Air Force, Space Force, Coast Guard, or Marine Corps and been discharged under conditions other than dishonorable. This disabled veterans' exemption is available to disabled veteran taxpayers or their unmarried surviving spouses so long as the surviving spouse receives a USDVA determination that the spouse's death was service-connected.

Current law defines "totally disabled" to mean that either the USDVA or the military service from which the veteran was discharged has rated the disability at 100%, or has rated the disability compensation at 100% because of being unable to secure or follow a substantially gainful occupation. State law also contains specific definitions for blindness and the loss of two or more limbs.

State law implementing the exemption does not entirely exclude the value of a disabled veteran's property. Instead, state law provides a partial exemption of $100,000 for disabled veteran taxpayers with annual household income of more than $40,000, or $150,000 for income lower than that amount, with each threshold adjusted for inflation by the Department of Industrial Relations using the California Consumer Price Index for all items. The current inflation-adjusted value of the exemption for 2025 is $175,298 for disabled veterans with income above $78,718, and $262,950 for those with income below $78,718.

The California Constitution prohibits a taxpayer that claims the homeowners' exemption from also claiming the disabled veterans' or veterans' exemption.

d) *What is considered as household income*? Taxpayers claiming the exemption for the first time must file BOE Form 261-G, Claim for Disabled Veterans' Property Tax Exemption. After the initial claim has been filed, taxpayers must make an additional annual filing between January 1 and February 15 to certify that the claimant's household income continues to meet the income limit restriction. Income from the prior calendar year determines eligibility for the year in which they claim the exemption. The term 'household' includes the claimant and all other persons, except bona fide renters, minors, or students. Household income includes all of the following:

(1) Wages, salaries, tips, and other employee compensation; (2) Social Security, including the amount deducted for Medi-Care premiums; (3) Railroad retirement; (4) Interest and dividends; (5) Pensions, annuities and disability retirement payments; (6) SSI/SSP (Supplemental Security Income/State Supplemental Plan), AB (Aid to the Blind), ATD (Aid to Totally Disabled), AFDC (Aid to Families with Dependent Children), and APSB (Aid to the Potentially Self-Supporting Blind); (7) Rental income (or loss); (8) Net income (or loss) from a business; (9) Income (or loss) from the sale of capital assets; (10) Life insurance proceeds that exceed expenses; (11) Veterans benefits received from the Veterans Administration; (12) Gifts and inheritances in excess of $300, except between members of the household; (13) Unemployment insurance benefits; (14) Workers compensation for temporary disability (not for permanent disability); (15) Amounts contributed on behalf of the claimant to a tax sheltered or deferred compensation plan (also a deduction); (16) Sick leave payments; (17) Nontaxable gain from the sale of a residence; and, (18) Income received by all other household members

while they lived in the claimant's home during the last calendar year except a minor, student, or renter.

e) *What is considered income in other contexts*? This bill advances a recent trend in federal and state housing policy. Last August, the United States Department of Housing and Urban Development (HUD) adopted an alternative definition of annual income for applicants and participants in the HUD-VA Supportive Housing program, which excludes veterans' service-connected disability benefits when determining eligibility. In Revenue Proclamation 24-36, the Internal Revenue Service implemented the change for purposes of the federal Low-Income Housing Tax Credit (LIHTC), which the California Tax Credit Allocation Commission subsequently applied for purposes of the state LIHTC. Furthermore, the Legislature enacted AB 535 (Schiavo), Chapter 918, Statutes of 2024, last year, which made a similar change to the state's Veterans Housing and Homeless Prevention Act.

f) *Committee's tax expenditure policy*: Both R&TC Section 41 and Committee policy require any tax expenditure bill to outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. A tax expenditure bill will not be eligible for a Committee vote unless it has complied with these requirements.

   In its current form, this bill states that the expenditure is designed to remove the counterproductive requirement and authorize veterans who qualify for this tax exemption to receive this tax exemption. In addition, this bill provides that the expenditure's effectiveness shall be measured by the number of taxpayers claiming the exemption. The Committee may wish to consider whether the utilization of the exemption, in and of itself, is a sufficient rubric by which to measure this exemption's effectiveness.

   In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote. According to this policy, an "appropriate sunset provision" means five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" means ten years. This bill, as currently drafted, complies with the Committee's policy on sunset dates.

g) *Related legislation*: SB 296 (Archuleta) completely exempts from taxation the principal residence of a veteran, the veteran's spouse, or the veteran and spouse jointly, when the veteran is 100% disabled. SB 296 is also set to be heard on July 14 by this Committee.

h) *Prior legislation*:

   i) SB 82 (Seyarto), Chapter 773, Statutes of 2023, required a county assessor to accept an electronically generated letter of service-connected disability in lieu of an original letter of service-connected disability.

   ii) AB 1361 (Hoover), Chapter 473, Statutes of 2023, authorized a county assessor to provide written or electronic determination of preliminary eligibility for the disabled veteran's tax exemption.

iii) AB 535 (Schiavo), Chapter 918, Statutes of 2024, prohibited a determination of whether a potential tenant is eligible for supportive, affordable, or transitional housing under the Veterans Housing and Homeless Prevention Act from considering a potential tenant's service-connected disability benefits, and modifies definitions of "secondary tenant" to conform to this exclusion.

iv) AB 1014 (Schiavo), of the 2023-24 Legislative Session, would have allowed a claimant to combine the disabled veteran's exemption with any other real property exemption to which the claimant may be entitled, including the regular veteran's exemptions, as specified. AB 1014 never heard by the Assembly Committee on Military and Veterans Affairs.

v) AB 2898 (Fong and Mathis), of the 2022-23 Legislative Session, would have expanded the disabled veterans' property tax exemption by doubling the allowable exemption amount to $200,000, or $300,000 if the household income of the claimant does not exceed $40,000 (adjusted for inflation). AB 2898 was held on the Assembly Appropriations Committee's Suspense File.

vi) SB 658 (Grove), of the 2020-21 Legislative Session, would have expanded the disabled veterans' exemption to allow a reduced exemption for partially disabled veterans. SB 658 was held on the Senate Appropriations Committee's Suspense File.

vii) SB 562 (Morrell), of the 2019-20 Legislative Session, would have increased the property tax disabled veterans' exemption amounts to $200,000 or $250,000 of assessed value and increased to $65,000 the household income threshold for the higher exemption amount of $250,000. SB 562 was held in this Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

American Legion, Department of California
Amvets, Department of California
California Assessors' Association
California Association of County Veterans Service Officers
California State Board of Equalization
California State Commanders Veterans Council
California State Retirees
City and County of San Francisco
City and County of San Francisco Human Services Agency
Howard Jarvis Taxpayers Association (HJTA)
Military Officers Association of America, California Council of Chapters
Military Order of the Purple Heart USA INC.
Orange; County of
Southwest California Legislative Council
Vietnam Veterans of America, California State Council

Opposition

None on file

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