
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

Bill No: SB 888
Author: Seyarto
Version: 1/14/26
Consultant: Grinnell

Hearing Date: 3/25/26
Tax Levy: Yes
Fiscal: Yes

PROPERTY TAXATION: DISABLED VETERANS' EXEMPTION: HOUSEHOLD INCOME

Provides that "household income" does not include service-connected disability payments when determining whether the low-income disabled veterans' exemption applies.

Background

The California Constitution provides that all property is taxable unless explicitly exempted by the Constitution or federal law. The Constitution limits the maximum amount of any ad valorem tax on real property at 1% of full cash value, plus any locally authorized bonded indebtedness. Assessors reappraise property whenever it is purchased, newly constructed, or when ownership changes.

The 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 U.S. Department of Veterans Affairs (USDVA) determination that the spouse's death was service-connected. The exemption applies instead of other real property exemptions, like the homeowners' exemption. Unlike the homeowners' exemption, the state does not backfill property tax revenue losses that accrue to local agencies.

State law implementing the exemption doesn't fully exclude the value of a disabled veteran's property. Instead, it allows an exemption of two different amounts that depend on whether the disabled veteran's income is above or below a specified threshold: \$100,000 if the disabled veteran's income is above \$40,000 a year, or \$150,000 if their income is below \$40,000 a year. These amounts are adjusted for inflation by the Department of Industrial Relations using the California Consumer Price Index for all items. The inflation-adjusted amount for 2025 is \$180,671 for disabled veterans with income above \$81,131, and \$271,009 for those with income below that amount.

Taxpayers claiming the exemption for the first time file Board of Equalization (BOE) form 261-G, Claim for Disabled Veterans' Property Tax Exemption. After the disabled veteran files the initial claim, they 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, and

are therefore entitled to the higher exemption amount. Income from the prior calendar year determines eligibility for the year in which they claim the exemption.

While not specified in statute, the BOE and Assessors have generally applied the definition of “household income,” used for the Senior Citizens’ and Disabled Citizens’ Property Tax Postponement Program, ever since the Legislature allowed a greater exemption (\$15,000 at the time) for disabled veterans with lower income (AB 955, Mangers, 1978). Under the definition, the following items must be included in income:

- Wages, salaries, tips, and other employee compensation.
- Social Security, including the amount deducted for Medicare premiums.
- Railroad retirement.
- Interest and dividends.
- Pensions, annuities, and disability retirement payments.
- Supplemental Security Income/State Supplemental Plan.
- Aid to the Blind and Totally Disabled.
- Aid to Families with Dependent Children.
- Aid to the Potentially Self-Supporting Blind.
- Rental income (or loss).
- Net income (or loss) from a business.
- Income (or loss) from the sale of capital assets.
- Life insurance proceeds that exceed expenses.
- Veterans’ benefits received from the Veterans’ Administration.
- Gifts and inheritances over \$300, except between members of the household.
- Unemployment insurance benefits.
- Worker’s compensation for temporary disability (not for permanent disability).
- Amounts contributed on behalf of the claimant to a tax sheltered or deferred compensation plan.
- Sick leave payments.
- Nontaxable gain from the sale of a residence.
- Income received by all other household members while they lived in the claimant’s home during the last calendar year; does not include income received by a minor, student, or renter.

The Board of Equalization’s (BOE’s) Assessor’s Handbook also provides that Assessors may wish to use a “Household Income Worksheet” to aid claimants in identifying the sources of income that must be included, and may request the worksheet be attached to the claim form. The Assessor can request additional information or documents to support the income reported on this worksheet (for example, the first page of IRS Form 1040, a veterans’ benefit statement, or a social security statement).

Veteran disability compensation. USDVA offers a monthly tax-free payment to veterans who got sick or injured while serving in the military and whose service made existing conditions worse. The monthly payment amount is based on the veteran’s disability rating and number of dependent family members. For a veteran with a 100% disability rating, compensation ranges from \$3,938.50 to \$4,510.65 in 2026, depending on the number of dependents. For a surviving spouse, the amount is \$4,158.17.

Arguing that counting service-connected disability payments towards income for purposes of determining eligibility for the low-income exemption is unfair to disabled veterans, the author wants to exclude such payments from income for the purpose of this low-income property tax exemption.

Proposed Law

Senate Bill 888 provides that “household income” does not include service-connected disability payments when determining whether the low-income disabled veterans’ exemption applies. The measure’s provisions last ten years, expiring on January 1, 2037, on which date the law reverts to its current state. The bill also makes conforming changes, and legislative findings and declarations to comply with Section 41 of the Revenue & Taxation Code.

State Revenue Impact

According to BOE, “removing the disability compensation from the household income calculation as proposed by SB 888 would result in an estimated annual increase in revenue loss of \$48 million (SB 888 \$214 million versus current law \$166 million).”

Comments

1. Purpose of the bill. According to the author, “SB 888 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. Advancing trend. SB 888 advances a recent trend in federal and state housing policy of excluding disabled veterans’ service-connected pay from income calculations for purposes of determining eligibility for means-tested programs. Last August, the United States Department of Housing and Urban Development (HUD) adopted an alternative definition of annual income for applicants and participants of the HUD-USDVA Supportive Housing program that excludes veterans’ service-connected disability benefits when determining eligibility. In Revenue Proclamation 24-36, the Internal Revenue Service applied the change for purposes of the federal Low-Income Housing Tax Credit (LIHTC), which the California Tax Credit Allocation Commission applied for purposes of the *state* LIHTC soon after. Furthermore, the Legislature enacted AB 535 (Schiavo, 2024), which made a similar change to the state’s Veterans’ Housing and Homeless Prevention Act.
3. Have we met before? SB 888 is functionally identical to SB 56 (Seyarto, 2025). The Senate approved the measure unanimously, but the bill was held on the Assembly Revenue & Taxation Committee’s Suspense File.
4. Section 41. Section 41 of the Revenue and Taxation Code requires any bill enacting a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve and detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). To comply with Section 41, SB 888:

- States that its goal is to remove the counterproductive requirement that also disqualifies, provide that under the law the act of qualifying should never disqualify an individual from support or well-deserved benefits, and to authorize veterans who qualify for this tax exemption to receive this tax exemption.
- Identifies, as performance indicators for the Legislature to use in determining whether the exclusion achieves its goal, the number of qualified claims under the disabled veterans' tax exemption reported each year.
- Directs BOE to report a comparison of the number of disabled veteran exemption claims, using existing methods.

However, the Committee may wish to consider amending SB 888 to clarify its Section 41 findings, specifically:

- Replace the current goal, purpose, and objective, to instead state that it is to “ensure that service-connected veteran disability payments do not unfairly deny disabled veterans a greater property tax exemption amount.”
- Modify the performance indicator and the information BOE must report to be the change in the ratio between the low-income exemption and the standard exemption, instead of the total number of exemptions.

5. Mandate. The California Constitution requires the state to reimburse local governments for the costs of new or expanded state mandated local programs. Because SB 888 could change the duties of County Assessors, Legislative Counsel says that this bill imposes a new state mandate. The measure provides that the state shall not reimburse local agencies for property tax revenue losses, instead stating that should the Commission on State Mandates determine that the bill imposes a reimbursable mandate, reimbursement must be made pursuant to existing statutory provisions.

6. Coming and going. The Senate Rules Committee ordered a double referral of SB 888: first to the Revenue & Taxation Committee to consider its tax implications, and second to the Military & Veterans' Affairs Committee.

Support and Opposition (3/20/26)

Support: Los Angeles County Assessor Jeffrey Prang
California State Retirees
Peace Officers Research Association of California

Opposition: None received.

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