
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 888 (Seyarto) - Property taxation: disabled veterans' exemption: household income

Version: March 26, 2026

Policy Vote: REV. & TAX. 5 - 0, M.&V.A.
4 - 0

Urgency: No

Mandate: Yes

Hearing Date: April 27, 2026

Consultant: Robert Ingenito

Bill Summary: SB 888 would exclude service-connected disability payments from the definition of "household income" for purposes of the Disabled Veterans' Exemption.

Fiscal Impact:

- The Board of Equalization (BOE) indicates that this bill would reduce annual property tax revenues by \$48 million. Reductions in local property tax revenues, in turn, can increase General Fund Proposition 98 spending by up to roughly 50 percent (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). BOE's administrative costs would be minor and absorbable.
- By changing the duties of local tax officials, this bill creates a state-mandated local program. To the extent the Commission on State Mandates determines that the provisions of this bill create a new program or impose a higher level of service on local agencies, local agencies could claim reimbursement of those costs. The magnitude is unknown (General Fund).

Background: Under the California Constitution, all property is taxable unless explicitly exempted by itself or federal law. The Constitution limits the maximum amount of any ad valorem tax on real property at one percent of full cash value, plus any locally-authorized bonded indebtedness (Proposition 13, 1978). Assessors reappraise property whenever it is purchased, newly constructed, or when ownership changes (as defined by both statute and the Constitution). Current law generally sets a property's value as its sales price when purchased or, when there is no sales price, at its fair market value when ownership changes (base year value). Thereafter, existing law requires an annual inflation adjustment to that value that cannot exceed 2 percent (factored base year value).

Current law authorizes 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, as specified. 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.

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 percent, or has rated the disability compensation at 100 percent by reason 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 doesn't fully exclude the value of a disabled veteran's property, instead originally enacting 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 \$180,671 for disabled veterans with income above \$81,131, and \$271,009 for those with income below \$78,718.

While not specified in statute, BOE and county 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: (1) wages, salaries, tips, and other employee compensation, (2) Social Security, including the amount deducted for Medicare premiums, (3) railroad retirement, (4) interest and dividends, (5) pensions, annuities and disability retirement payments, (6) Supplemental Security Income/State Supplemental Plan, (7) Aid to the Blind and Totally Disabled, (8) Aid to Families with Dependent Children, (9) Aid to the Potentially Self-Supporting Blind, (10) rental income (or loss), (11) net income (or loss) from a business, (12) income (or loss) from the sale of capital assets, (13) life insurance proceeds that exceed expenses, (14) veterans' benefits received from the Veterans Administration, (15) gifts and inheritances over \$300, except between members of the household, (16) unemployment insurance benefits, (17) workers compensation for temporary disability (not for permanent disability), (18) amounts contributed on behalf of the claimant to a tax sheltered or deferred compensation plan, (19) sick leave payments, (20) nontaxable gain from the sale of a residence, and (21) income received by all other household members while they lived in the claimant's home during the last calendar year, excluding income received by a minor, student, or renter.

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).

Proposed Law: This bill would provide, until January 1, 2037, that "household income" does not include service-connected disability payments when determining whether the low-income disabled veterans' exemption applies.

Related Legislation: SB 56 (Seyarto, 2025) was very similar to this bill, and was held under submission on the Suspense File of the Assembly Revenue & Taxation Committee.

Staff Comments: BOE data indicate that, in 2025-26, 91,545 disabled veterans received the basic property tax exemption (\$175,298), amounting to an estimated \$15.2 billion in basic exempt property value. Based on the one property tax rate, the basic exemption revenue loss was \$152 million. In 2025-26, the low-income limit was \$78,718, and 5,749 disabled veterans received the low-income exemption (\$262,950), amounting to an estimated \$1.4 billion in low-income exempt value. Based on the one percent tax rate, the low-income revenue loss was \$14 million. Thus, the total estimated property tax revenue loss (under current law) was \$166 million.

Based on available data from various sources, BOE assumes that 45,773 disabled veterans from the current basic exemption pool would qualify for the low-income exemption under the bill, resulting in \$12 billion in low-income exemption value. At the one percent property tax rate, that equates to a \$120 million property tax revenue loss.

BOE further assumes that an equivalent 45,773 disabled veterans would remain in the basic exemption pool under the bill, which amounts to an estimated \$8 billion in basic exemption value. At the one percent property tax rate, the result is a \$80 million property tax revenue loss.

BOE finally notes that under the bill, the existing 5,749 disabled veterans in the low-income pool would not be impacted, and as discussed above, the property tax revenue loss is estimated to be \$14 million. Thus, under the bill, the total property tax revenue loss is \$214 million, or (in rounded terms) \$48 million higher compared to current law.

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