



[Senate Bill 888](#) (Seyarto)

Date: January 14, 2026 (Introduced)
Program: Property Taxes
Revenue and Taxation Code section 205.5
Effective: Upon enactment, immediately

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Summary: This bill amends section 205.5 of the Revenue and Taxation Code (RTC) and would, until January 1, 2037, exclude service-connected disability payments from the definition of “household income” for purposes of the Disabled Veterans’ Exemption.

Fiscal Impact Summary: Removing the disability compensation from the household income calculation as proposed by Senate Bill (SB) 888 would result in an estimated annual increase in revenue loss of \$48 million (SB 888 \$214 million versus current law \$166 million).

Existing Law: The California Constitution¹ 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 one or more limbs, is totally blind, or is totally disabled as a result of a service-connected injury. This is known as the Disabled Veterans’ Exemption. The Constitution provides that disabled veterans or an unmarried surviving spouse of a qualified veteran are allowed the Disabled Veterans’ Exemption instead of, but not in combination with, other real property exemptions. The statute allows the exemption for any claimant who has had specified injuries or obtains a United States Department of Veterans Affairs (USDVA) disability rating that either rates their disability at 100% or rates compensation at 100% because the veteran cannot obtain gainful employment. Additionally, the veteran’s character of discharge must have been under other than dishonorable conditions.

Statutory Exemption Amount. Current law allows a partial exemption for disabled veterans² on the value of their principal residence. 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. The law also requires these values to be adjusted annually for inflation. For the lien date 2026, the basic exemption amount is \$180,671, and the low-income exemption amount is \$271,009 for claimants with a household income below \$81,131.

Application. Currently, to receive the exemption, the claimant must apply once to determine if they qualify for the basic exemption and then apply annually to demonstrate eligibility for the low-income exemption. The application is made at the county assessor’s office via the *Claim for Disabled Veterans’ Property Tax Exemption* (BOE-261-G).

Household Income. RTC section 20504 defines household income as all income received by all persons of a household while members of such household. BOE-261-G states that only the

¹ Article XIII of the California Constitution

² Revenue and Taxation Code (RTC) Section [205.5](#)

income of persons who were members of the household during the calendar year prior to the year of the claim should be included. The term “household” includes the claimant and all other persons, except bona fide renters, minors, or students. BOE-261-G describes and itemizes household income as follows:

- 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.
- 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).
- 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 USDVA.
- Gifts and inheritances in excess of \$300, except between members of the household.
- Unemployment Insurance benefits.
- Workers compensation for temporary disability (not for permanent disability).
- Amounts contributed on behalf of the claimant to a tax-sheltered or deferred compensation plan (also a deduction); see (c) below.
- 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 except a minor, student, or renter.

Proposed Law:

Disabled Veterans Disability Compensation Exclusion. 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, 2037, "household income" does not include service-

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connected disability payments for purposes of the low-income veterans' property tax exemption.

2. Finds and declares the following for purposes of satisfying RTC 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' Exemption reported each year by the California State Board of Equalization (BOE) using existing methods to track the number of claims.
 - c. Requires the BOE, on or before January 1, 2036, 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 2025 to 2034.
3. Reverts the provisions of the low-income Disabled Veterans' Exemption to current law on January 1, 2037.

Effective Date: This bill would be effective immediately.

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. To be eligible, the veteran has or had specified injuries, or the claimant must obtain a 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.

Another requirement of the Disabled Veterans' Exemption is that the veteran's character of discharge must have been under other than dishonorable conditions.

The law also allows unmarried surviving spouses of deceased veterans to receive the exemption when the veteran qualified for the exemption during their lifetime or would have qualified for the exemption if they had been alive on January 1, 1977, or died from a service-connected injury or disease. In the case of an unmarried surviving spouse of a veteran who died from a service connected injury or disease, the unmarried spouse may be eligible for exemption even though

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the veteran was not eligible for the exemption during their lifetime. In this case, 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. In addition, surviving spouses of veterans with specified injuries or a 100% disability rating during their lifetime who received the Disabled Veterans' Exemption during their lifetime can continue to receive the exemption after the veteran's death so long as the surviving spouse does not remarry.

The exemption amount depends upon the claimant's income. A basic exemption and a higher low-income exemption are adjusted for inflation annually.

Commentary:

1. **Fiscal Impact.** The exclusion of disability compensation from the household income calculation means there will be a shift from the current basic income pool to the low-income pool as more disabled veterans would qualify for the low-income exemption. This shift would result in increased property tax revenue losses.
2. **Local Tax Losses.** Unlike the homeowners' exemption, the State does not backfill property tax revenue losses resulting from taxpayers receiving the Disabled Veterans' Exemption.
3. **Filing.** Current law requires a one-time filing for the basic exemption and an annual filing for the low-income exemption. This filing protocol remains the same under SB 888. Staff assumes that disability payments are a key component of the '100% rating' disabled veteran's household income. Hence, the BOE-261-G form will need amendments to specifically state the disability payment exclusion.
4. **Letter to Assessor.** The disability payment exclusion from household income is a significant change and would require the BOE to update Assessor Manuals, training materials, the BOE website, and issue a Letter to Assessors to promote conformity with this provision.
5. **Disability Compensation Rates.** USDVA disability compensation (pay) offers a monthly tax-free payment to veterans who got sick or injured while serving in the military and to veterans whose service made existing conditions worse. The monthly payment amount is based on the disability rating and dependent family members. For the '100% rating', depending on the dependent status, the 2026 rate ranges from \$3,938.50 (veteran alone, no dependents) to \$4,510.65 (with spouse and two parents, no children). The monthly spouse rate is \$4,158.17 (\$49,898 annually). Even though the bill does not specifically define disability payment, staff assumes it is referring to the USDVA disability compensation.
6. **County Assessor Workload.** This bill would have a major impact on the number of disabled veterans qualifying for the low-income exemption. At least initially, counties may have to spend more time and resources reviewing applications as the major shift from

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the basic exemption pool to the low-income pool takes place.

7. **Different Types of 100% Ratings.** Veterans with a 100% permanent and total disability rating can earn any amount of income from full-time employment, part-time employment, or self-employment without risking their total disability rating. There are no restrictions on how much one can earn that would impact USDVA disability benefits. While many 100% permanent and total disabled veterans may work without income restrictions, some may not. The USDVA grants Total Disability Individual Unemployability status for veterans unable to maintain substantial gainful employment due to several service-connected disabilities. Other ratings include the Permanent and Total (P&T) and Temporary. Staff assumes that SB 888 applies to all ratings within the 100% rating.
8. **Related Legislation.** SB 296 (Archuleta) proposed to fully exempt from property tax the principal residence of a veteran, the veteran's spouse, or the veteran and spouse jointly, when the veteran is 100% disabled. Additionally, SB 56 (Seyarto) proposed a virtually identical exclusion of disability payments from the definition of 'household income' for purposes of Disabled Veterans' Exemption - as is proposed in SB 888. Both SB 296 and SB 56 were held on the suspense file in the Assembly Revenue and Taxation Committee last year.

Costs: The costs related to implementation of this bill would be an initial cost of approximately \$11,000 and ongoing costs of approximately \$2,000 per year until FY 2030-31.

Revenue Impact:

The exclusion of service-connected disability payments from the definition of "household income" for purposes of the Disabled Veterans' Exemption will have an impact in terms of more disabled veterans qualifying for the low-income higher exemption tier (i.e., there will be a shift from the basic exemption pool to the low-income exemption pool). It should be noted that the disabled veteran's data reported to BOE by the counties only includes the number of disabled veterans and the exempt value. There is no other demographic data available, such as employment status or household income. Such limitations make it difficult to estimate a likely revenue shift that might occur under this proposal.

As discussed in the Commentary item (7) above, regarding rating percentages, because there are different types of 100% disability ratings, staff is unaware how that might interface with the current disabled veteran's basic exemption pool under existing law - hence making it difficult to estimate the likely shift from basic to low-income exemption pool amounts.

Current Disabled Exemption

According to 2025-26 BOE data, 91,545 disabled veterans received the basic exemption (\$175,298), amounting to an estimated \$15.2 billion in basic exempt property value. Based on the 1% property tax rate, the estimated basic exemption revenue loss was \$152 million (1% × \$15.2 billion). 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

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value. Based on the 1% tax rate, the estimated low-income revenue loss was \$14 million (1% × \$1.4 billion).

Based on the above data and analysis, the current disabled exemption results in total estimated revenue impact of \$166 million (basic exemption \$152 million + low-income exemption \$14 million).

Shift from Basic Exemption to Low-Income Exemption

According to the 2024 American Community Survey data, of the 1.2 million veterans in California, 18% are in the age group 65 to 74 years, and 32% are in the age group 75 years and over, totaling 50% of veterans over the age of 65. BOE staff assumes that 50% is a reliable indicator of the current basic exemption pool of disabled veteran homeowners that may not be in the active workforce, and that their household income is mostly composed of government benefits (e.g., social security disability compensation). Therefore, this segment, when a service-connected disability payment is excluded from “household income,” could potentially have household income drop below the low-income limit and qualify for the low-income exemption under SB 888.

Based on the above staff assumption, it is estimated that 45,773 (50% × 91,545) disabled veteran homeowners from the current basic exemption pool would qualify for the low-income exemption. This equates to an estimated \$12 billion in low-income exemption value (low-income exemption \$262,950 × 45,773 disabled veterans). At the 1% property tax rate, that equates to a \$120 million property tax revenue loss.

The shift leaves an estimated 45,773 disabled veterans in the basic exemption pool (91,545 – 45,773), which amounts to an estimated \$8 billion in basic exemption value (45,773 disabled veterans × basic exemption \$175,298). At the 1% property tax rate, that equates to \$80 million property tax revenue loss.

It should be noted that under SB 888, the existing 5,749 disabled veterans in the low-income pool will not be impacted, and as discussed above, the property tax revenue loss is estimated to be \$14 million.

Total revenue impact under SB 888 is estimated to be \$214 million (existing low-income \$14 million + SB 888 low-income \$120 million + SB 888 basic \$80 million). In comparison to the current existing exemption in place, the revenue impact sees an increase of \$48 million (\$214 million - \$166 million).

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Revenue Summary:

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).

Qualifying Remark:

For calculating revenue impact, staff assumes the total number of disabled veteran exemptions includes all that qualify pursuant to RTC 205.5(e).

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.