California State
Board of Equalization

Legislative Bill Analysis

Senate Bill 56 (Seyarto)
Date: January 7, 2025 (Introduced), and As Amended 03/05/25
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) to exclude disability payments from the definition of 'household income' for purposes of disabled veterans' exemption.

Fiscal Impact Summary: Removing the disability compensation from the household income calculation as proposed by SB 56 would result in an estimated annual increase in revenue loss of $59 million (SB 56 $200 million versus current law $142 million).

Existing Law: The California Constitution[1] 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 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 veterans[2] 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 2025, the basic exemption amount is $175,298, and the low-income exemption amount is $262,950 for claimants with a household income below $78,718.

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 form BOE-261-G, *Claim for Disabled Veterans' Property Tax Exemption.*

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 Medi-Care 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 Veterans Administration.
- 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. This bill removes a disabled Veteran's disability pay from the personal income calculation when determining their qualification for the low-income exclusion of the disabled veterans' property tax exemption. RTC section 205.5 is amended to state that "household income" shall not include disability payments.

The March 5 amendments add co-authors and clarify that disability payments must be "service related" for purposes of the bill.

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 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.

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 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 loss.

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

56. Staff assumes that disability payment is 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 (LTA)**. The disability payment exclusion from household income is a significant change and would require the State Board of Equalization (BOE) to issue a Letter to Assessors (LTA) to promote conformity with this provision.

5. **Disability Compensation Rates.** VA 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 2025 rate ranges from $3,831 to $4,387.79. For the veteran alone (no dependents), the rate is $3,831.30, and with a spouse, the rate is $4,044.91. Even though the bill does not specifically define disability payment, staff assumes it is referring to the VA 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 the basic exemption pool to the low-income pool takes place.

Costs: There would be an initial estimated cost of $5,000 for BOE to administer this bill.

Revenue Impact:

Current Disabled Exemption

According to 2024-25 BOE data, 79,851 disabled veterans received the basic exemption ($169,769), amounting to an estimated $12.8 billion in basic exempt property value. Based on the 1% property tax rate, the estimated basic exemption revenue loss was $128 million (1% × $12.8 billion). In 2024-25, the low-income limit was $76,235, and 6,069 disabled veterans received the low-income exemption ($254,656), amounting to an estimated $1.4 billion in low-income exempt value. Based on the 1% tax rate, the estimated low-income revenue loss was $14 million (1% × $1.4 billion).

The total number of disabled veteran claims was 85,920, and the total estimated revenue loss was $142 million (basic exemption $128 million + low-income exemption $14 million).

Disability Compensation

The 2025 U.S. Department of Veterans Affairs (VA) monthly disability compensation with the spouse rate is $4,044.91 ($48,539 annually). This spouse rate is the basis for this analysis, as National Association of Realtors (NAR) data indicates that about eighty percent of veterans purchase homes as married couples.

Household Income

According to the Housing Assistance Council (HAC), the median veteran household income in California is $84,675. A 2018 NAR veteran buyer profile estimated household income to be $86,400. Staff estimated that the household income of a disabled veteran household relying on disability compensation and social security would amount to an estimated $92,495 ($48,539 disability compensation + $22,548 average veteran social security + $21,408 spouse social security). Specific research, as discussed and literature review in general, indicates that household income for disabled veterans is in the $80,000 to $100,000 range.

The exceptions are disabled veterans who may actively be working. A 2023 Congressional Budget Office report provided data on male veteran potential worker incomes for age 22 to 54 for a disability rating of '70% or higher', and staff estimated household income to be around $142,000.

Shift from Basic Exemption to Low-Income Exemption

According to VA regulations, total or 100% disability exists when there is present any impairment of mind or body which is sufficient to render it impossible for the average person to follow a substantially gainful occupation. The Americans with Disabilities Act (ADA) national network estimated twenty-five percent of veterans with a disability rating of '70% or higher' are employed. Staff assumes that an estimated seventy-five percent of disabled veterans in the '100% rating' are not working and may solely rely on disability compensation, social security, and other government benefits and that their household income may fall in the $80,000 to $100,000 range as discussed above. This would allow them to qualify for the low-income exemption under SB 56.

Based on the above premise, it is estimated that 59,888 disabled veterans from the current basic exemption pool would qualify for the low-income exemption (75% × 79,851 basic exemption disabled veterans). This equates to an estimated $15.3 billion in low-income exemption value (low-income exemption $254,656 × 59,888 disabled veterans). At the one percent property tax rate, that equates to a $153 million property tax revenue loss.

The shift leaves an estimated 19,963 disabled veterans in the basic exemption pool (79,851 – 59,888), which amounts to an estimated $3.4 billion in basic exemption value (19,963 disabled veterans × basic exemption $169,769). At the one percent property tax rate, that equates to a $34 million property tax revenue loss.

It should be noted that under SB 56, the existing 6,069 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.

The total revenue impact under SB 56 is estimated to be $200 million (low-income exemption $153 million + basic exemption $34 million + existing low-income $14 million).

Removing the disability compensation from the household income calculation as proposed by SB 56 would result in an estimated annual increase in revenue loss of $59 million (SB 56 $200 million versus current law $142 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.