

Date of Hearing: May 17, 2023

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Chris Holden, Chair

AB 46 (Ramos) – As Introduced December 5, 2022

Policy Committee: Revenue and Taxation

Vote: 11 - 0

Urgency: No

State Mandated Local Program: Yes

Reimbursable: No

SUMMARY:

This bill provides, for taxable years beginning on or after January 1, 2024, and before January 1, 2034, an exclusion from gross income, under the Personal Income Tax Law, for retirement pay from the federal government for specified military services and annuity payments received from a U.S. Department of Defense Survivor Benefit Plan.

This bill declares the goals and performance indicators for the exclusion and requires, by December 1, 2034, the Legislative Analyst (LAO), in collaboration with the Department of Veterans Affairs (CalVet), to submit a report to the Legislature on the exclusion's effectiveness.

FISCAL EFFECT:

- 1) General Fund (GF) revenue loss of \$50 million in fiscal year (FY) 2023-24, \$85 million in FY 2024-25 and \$85 million in FY 2025-26.
- 2) GF costs of an unknown, but likely absorbable, amount to the Franchise Tax Board (FTB) to administer the gross income exclusion and share data with the LAO.
- 3) Minor and absorbable costs to CalVet to collaborate with the LAO on the report analyzing the effectiveness of the exclusion.
- 4) Costs of an unknown, but likely absorbable, amount to the LAO to write the report. However, this committee sees a wide array of bills that require the LAO to measure different tax expenditures. Generally, a request to prepare an individual report would not generate significant new workload for the LAO. But, taken together, these proposals strain the ability of the LAO fulfill other existing or future legislative mandates and requests, as the LAO's budget is subject to the Legislature's constitutional spending cap.

COMMENTS:

- 1) **Purpose.** According to the author:

The purpose of the bill is twofold; to honor those who dedicated their life to serving their country, and to retain and attract uniformed service retirees to California for the purposes of strengthening the state's skilled workforce, bringing stability to communities, and contributing to the state and local tax base.

This bill is supported by various veterans groups, local governments, Howard Jarvis Taxpayers Association, and Peace Officers Research Association of California.

- 2) **Military Benefits.** According to the Assembly Revenue and Taxation Committee's analysis of this bill, as of December 31, 2021, 132,344 military retirees in California received total monthly payments of over \$340 million, or about \$4.1 billion annually, from the U.S. Department of Defense. Generally, service members can retire from active duty at any age once they have completed at least 20 years of service. In addition, persons who meet retirement requirements partially or entirely through reserve or National Guard service receive retirement pay after age 59. Additionally, as of December 31, 2021, 27,060 individuals in California received total monthly payments of almost \$35 million, or about \$415 million annually, from the Survivor Benefit Plan, which allows a military retiree to ensure, after death, a continuous lifetime annuity for their dependents. A military retiree pays premiums from their gross retired pay for such coverage, which is not taxed at the federal or state level.

California previously offered a military-specific income exclusion until the 1987 tax year, when the tax benefit morphed into a tax credit equal to 4% of the eligible income received by an individual with adjusted gross income under \$27,000. The tax credit sunset on January 1, 1992. This bill excludes uniformed services retirement pay and Survivor Benefit Plan annuity payments from gross income, thus providing a tax benefit for retired members of the uniformed services and their beneficiaries. The exclusion would exist for 10 tax years, which is longer than the five-year timeline usually imposed on new tax expenditures.

- 3) **Prior Legislation.** AB 1623 (Ramos), of the 2021-22 Legislative Session, was substantially similar to this bill, except AB 1623 defined a qualified taxpayer for purposes of the retirement income exclusion to mean a person over age 60. AB 1623 was held on this committee's suspense file.

AB 427 (Brough), of the 2019-20 Legislative Session, would have excluded specified amounts of military retirement pay from gross income over time. AB 427 was held on this committee's suspense file.

AB 1275 (Gray), of the 2015-16 Legislative Session, would have excluded military retirement pay and survivor benefits from gross income if the taxpayer was a Purple Heart or Medal of Honor recipient. AB 1275 was held on this committee's suspense file.

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