
SENATE COMMITTEE ON MILITARY AND VETERANS AFFAIRS

Senator Bob Archuleta, Chair

2025 - 2026 Regular

Bill No: SB 1407 **Hearing Date:** 4/20/26
Author: Archuleta
Version: 4/9/26 Amended
Urgency: Yes **Fiscal:** Yes
Consultant: Diego Nelson

Subject: Personal Income Tax Law: exclusions: military retirement pay: survivor benefit pay

DESCRIPTION

Summary:

This bill expands California's gross income exclusions for qualifying military retirement pay and federal Survivor Benefit Plan (SBP) annuity payments by increasing the existing annual exclusion cap from \$20,000 to \$80,000, extending the exclusions to taxable years beginning before January 1, 2037, and retaining the existing income thresholds, which would be adjusted annually for inflation beginning in 2027.

Existing law:

- 1) Defines gross income and adjusted gross income under the Personal Income Tax Law, except as otherwise provided, and specifies limited modifications to the adjusted gross income definition (Revenue and Taxation Code §§ 17071, 17072).
- 2) For taxable years beginning on or after January 1, 2025, and before January 1, 2030, excludes from gross income up to \$20,000 in military retirement pay received for service in the uniformed services and up to \$20,000 in annuity payments received pursuant to the United States Department of Defense Survivor Benefit Plan by a qualified taxpayer (Revenue and Taxation Code §§ 17132.9, 17132.10).
- 3) Defines a qualified taxpayer for purposes of those exclusions as a taxpayer whose federal adjusted gross income does not exceed \$250,000 for a surviving spouse or spouses filing a joint return, or \$125,000 for any other individual (Revenue and Taxation Code §§ 17132.9, 17132.10).
- 4) Requires a bill creating a new tax expenditure to include specific goals, detailed performance indicators, and data collection requirements, subject to the exception for certain gross income exclusions when no data is available to collect and report (Revenue and Taxation Code § 41).

This bill:

- 1) Increases, from \$20,000 to \$80,000, the amount of military retirement pay and United States Department of Defense Survivor Benefit Plan annuity payments that a qualified taxpayer may exclude from gross income for taxable years beginning on or after January 1, 2025, and before January 1, 2037.
- 2) Keeps the existing adjusted gross income eligibility limits, while requiring the Franchise Tax Board to adjust those thresholds annually for inflation beginning with taxable years on or after January 1, 2027.

- 3) Extends these exclusions until December 1, 2037, after which they would be repealed.
- 4) Adds the tax expenditure findings required by Section 41 of the Revenue and Taxation Code.
- 5) Take effect immediately as a tax levy.

BACKGROUND

Military retired pay is generally available after a qualifying military career, most often following 20 years of active-duty service. Guard and Reserve members may also qualify based on their service, though they generally begin receiving retired pay at age 60 unless certain active-duty service lowers that age. The federal retirement formula for newer servicemembers also changed under the Blended Retirement System (BRS). Under the prior system, each year of service generally counted for 2.5 percent of the retired pay base, resulting in a 50 percent pension after 20 years. Under BRS, which applies to those entering service on or after January 1, 2018, each year generally counts for 2.0 percent, resulting in a 40 percent pension after 20 years, along with government automatic and matching contributions to the Thrift Savings Plan (TSP). Military retired pay continues to receive annual cost-of-living adjustments, and as of September 30, 2022, average gross annual retired pay was about \$33,876 across all retirees, including about \$26,268 for enlisted retirees and about \$53,988 for officers.

The United States Department of Defense Survivor Benefit Plan (SBP) allows a military retiree to provide continuing financial support to a designated beneficiary after the retiree's death. In most cases, the retiree elects coverage at retirement and pays premiums through a deduction from retired pay. If the retiree dies, the beneficiary, usually a surviving spouse, former spouse, or eligible child, receives a monthly annuity based on the level of coverage selected.

Under California's Personal Income Tax Law, tax relief for military retirement-related income is currently limited. For taxable years beginning on or after January 1, 2025, and before January 1, 2030, qualified taxpayers may exclude up to \$20,000 in military retirement pay and up to \$20,000 in SBP payments. Those exclusions are subject to income limits: adjusted gross income may not exceed \$250,000 for a joint return, surviving spouse, or head of household, or \$125,000 for any other filing status. As a result, current law provides only partial relief, and military retirement pay and SBP income above those amounts remains taxable in California.

COMMENT

According to the author: "For too long our veterans have been faced with a difficult decision: stay in this beautiful state while struggling to make ends meet with rising costs of living or move to a state that financially incentivizes them to join their labor force and feed federal dollars into their economy. I've heard from far too many of my brothers and sisters who say California has become too expensive for them to live in and say a tax exemption on their retirement pay would be the determining factor on whether they stay or leave. California's current tax structure discourages long-term service and drives away mid-career leaders, weakening our state's ability to meet homeland defense, wildfire, disaster response, and civil support missions. As retention challenges grow, we must recognize that fiscal policy plays a role in long-term enlistment decisions. SB 1407 is crucial in strengthening California's commitment to supporting its veterans. Veterans staying in California will pay for sales, property, and use taxes, benefiting local governments. By exempting military retirement pay for retirees, SB 1407 will ensure

California retains these highly skilled professionals and keeps the reinvestment of federal dollars and wages from second careers.”

SB 1407 raises the question of whether expanding California’s existing tax exclusion for military retirement pay, and Survivor Benefit Plan annuity payments could serve as a more effective veteran retention tool. Although the bill would not create a full exemption, it would increase the amount of income that may be excluded and extend the benefit for additional years, providing broader tax relief to military retirees, surviving spouses, and other beneficiaries who choose to remain in California. California has been losing military retirees and veterans to states such as Texas, Georgia, and Florida, and tax policy is one of several factors that may shape where veterans and military families decide to live after leaving military service, along with housing costs, employment opportunities, and the overall cost of living.

Supporters argue that many military retirees go on to second careers, start businesses, and continue contributing through civilian employment, public service, and community leadership. California’s military retiree population has declined significantly since 2000 even as the national retiree population grew, and the current \$20,000 partial exclusion is viewed as a welcome but still limited incentive, because it remains relatively limited compared to other states and does not apply to some higher-income households that may later contribute significant earnings, tax revenue, and economic activity through second careers. Broader tax relief could help California retain veteran households and maintain their long-term economic, workforce, and civic contributions.

Opponents raise fiscal and equity concerns. The California Teachers Association argues that expanding this tax exclusion would reduce General Fund revenue that could otherwise support state priorities, including Proposition 98 funding for education. The California Tax Reform Association similarly contends that California already provides substantial veterans’ benefits, including an existing retirement pay exclusion, and argues that expanding it further would give military retirees a tax benefit not available to other public servants such as teachers, police officers, firefighters, and nurses. The California Tax Reform Association also argues that a broader exclusion could provide larger benefits to higher-income retirees.

Pervious Legislation

AB 2016 (Gonzalez) would have excluded from gross income all military retirement pay and Survivor Benefit Plan annuity payments for taxable years from January 1, 2025, through January 1, 2030. The bill was held in the Assembly Committee on Revenue and Taxation.

AB 53 (Ramos, 2025) would have allowed qualified taxpayers to exclude up to \$20,000 in military retirement pay and up to \$20,000 in Survivor Benefit Plan payments from California taxable income from 2025 through 2036, subject to income limits of \$125,000 for single filers and \$250,000 for joint filers.

POSITIONS

Sponsor: California State Treasurer, Fiona Ma
San Diego Military Advisory Council (SDMAC)

Support: Alaska Airlines
American Legion, Department Of California
Amvets, Department Of California
Armed Services Ymca San Diego

Burnham Center For Community Advancement
Cal Fire Local 2881
California Association Of County Veterans Service Officers
California Association Of Highway Patrolmen
California Conference Of Carpenters
California Hispanic Chambers Of Commerce
California State Commanders Veterans Council
California State Treasurer
California State Treasurer Fiona Ma
China Lake Alliance
General Atomics Electromagnetic Systems
Military Officers Association Of America, California Council Of Chapters
National University
Peace Officers Research Association Of California (Porac)
San Diego Regional Chamber Of Commerce
Schneider Electric
Shasta County Board Of Supervisors
Shasta; County Of
The Veterans Beer Club
Ventura County Chapter Of The Military Officers Association Of America (Vcc-
Moaa)
Veterans Of Foreign Wars
Veterans Village Of San Diego
Vetfund Foundation
Veterans of Foreign Wars
Vietnam Veterans Of America, California State Council
Western States Regional Council Of Carpenters
Workshops For Warriors
Ymca Of San Diego County

Oppose: California Tax Reform Association
California Teachers association

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