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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair  
2025 - 2026 Regular Session

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**SB 1407 (Archuleta) - Personal Income Tax Law: exclusions: military retirement pay: survivor benefit pay**

**Version:** April 9, 2026

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

**Urgency:** No

**Mandate:** No

**Hearing Date:** April 27, 2026

**Consultant:** Robert Ingenito

**Bill Summary:** SB 1407 would expand the State's gross income exclusion for qualifying military retirement pay and federal Survivor Benefit Plan (SBP) annuity payments, as specified.

**Fiscal Impact:** The Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue losses of \$85 million in 2026-27, \$55 million in 2027-28, and \$55 million in 2028-29. FTB's implementation costs have yet to be identified.

**Background:** Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed \$94 billion annually.

Military retirement pay received by a taxpayer is usually taxable for federal and state purposes. However, federal and state law exclude certain types of military income from tax, including military death benefits paid to qualified survivors and pay for time served in combat zones.

SBP is a United States Department of Defense (DoD) sponsored and subsidized program that allows a military retiree to ensure, after death, a continuous lifetime annuity for their dependents. Under existing federal law, members of the uniformed services may elect to reduce their retirement pay to provide an annuity to their survivors, and the reduction is excluded from gross income. However, payments received by beneficiaries of the survivor annuity accounts are included in the gross income calculation for those beneficiaries. Publicly available DoD data indicate that, as of September 30, 2022, there were nearly 2 million military retirees, with an average annual gross military retirement pay of nearly \$34,000.

The Military Services Retirement and Surviving Spouse Benefit Payment Act, enacted as part of the 2025-26 state budget (SB 132, 2025), excluded up to \$20,000 of military retirement pay and survivor benefit pay for taxpayers with an adjusted gross income (AGI) of (1) \$250,000 or less, in the case of a surviving spouse or spouses filing a joint return, and (2) \$125,000 or less, for any other individual. This exclusion is in effect for taxable years 2025 through 2029.

**Proposed Law:** This bill would, among other things, do the following:

- Expand the Military Services Retirement and Surviving Spouse Benefit Payment Act by (1) increasing, 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 2025 through 2036.
- Keep the existing adjusted gross income eligibility limits, while requiring FTB to adjust those thresholds annually for inflation beginning in taxable year 2027, as specified.

**Related Legislation:**

- AB 53 (Ramos, 2025) would, for taxable years 2027 through 2036, exclude from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. The bill is currently pending in the Senate Revenue and Taxation Committee.
- SB 1 (Seyarto, 2025) would have, for taxable years 2025 through 2034, excluded from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. The bill was held under submission on the Suspense File of this Committee.
- SB 132 (Senate Committee on Budget and Fiscal Review, Chapter 17, Statutes of 2025), among other provisions, for taxable years 2025 through 2029, excludes from gross income retirement pay received by a qualified taxpayer during the taxable year, not to exceed \$20,000, from the federal government for service in the uniformed services and up to \$20,000 of annuity payments received from the US Department of Defense Survivor Benefit Plan for qualified taxpayers with AGI levels under specified limitations.
- AB 46 (Ramos, 2023), would have, for taxable years 2024 through 2033, excluded from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. The bill was held under submission on the Suspense File of this Committee.

**Staff Comments:** FTB assumes (using DoD data) that, under the bill, about 100,000 uniformed service members in 2026 would receive \$4.3 billion in retirement payments that would be excluded from income. This accounts for the majority of the estimated revenue loss. The revenue loss associated with the change to taxation of survivor benefits would be much smaller.

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