

THIRD READING

Bill No: SB 1407
Author: Archuleta (D), et al.
Amended: 5/14/26
Vote: 21- Urgency

SENATE REVENUE AND TAXATION COMMITTEE: 5-0, 4/8/26
AYES: McNerney, Alvarado-Gil, Ashby, Becker, Grayson

SENATE MILITARY & VETERANS COMMITTEE: 4-0, 4/20/26
AYES: Archuleta, Grove, McNerney, Umberg
NO VOTE RECORDED: Menjivar

SENATE APPROPRIATIONS COMMITTEE: 7-0, 5/14/26
AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

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

SOURCE: California State Treasurer Fiona Ma
Veterans of Foreign Wars

DIGEST: This bill expands the Military Services Retirement and Surviving Spouse Benefit Payment Act by annually indexing the adjusted gross income limits to account for inflation and increasing the current \$20,000 maximum exclusion to \$40,000.

ANALYSIS:

Existing law:

- 1) Allows various income tax credits, deductions, exemptions, and exclusions.
- 2) Includes, in conformity with federal law, as gross income all income from any source, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically

excluded.

- 3) Excludes from gross income amounts received as a gift or inheritance, certain compensation for injuries and sickness, qualified scholarships, educational assistance programs, foster care payments, and interest received on certain state or federal obligations.
- 4) Excludes certain types of military income from tax, including military death benefits paid to qualified survivors and pay for time served in combat zones.
- 5) Enacts the Military Services Retirement and Surviving Spouse Benefit Payment Act (SB 132, Committee on Budget & Fiscal Review, Chapter 17, Statutes of 2025).
 - a) Allows up to \$20,000 to be excluded from income for state income tax purposes by a “qualified taxpayer” for retirement pay received from the federal government for services in the uniformed services, or annuity payments received pursuant to a Department of Defense Survivor Benefit Plan.
 - b) Defines “qualified taxpayer” to mean a surviving spouse or spouses filing a joint return with an adjusted gross income (AGI) of \$250,000 or less, or any other individual with an AGI of \$125,000 or less.
 - c) Sunsets on January 1, 2030.

This bill:

- 1) Expands the Military Services Retirement and Surviving Spouse Benefit Payment Act by annually indexing the adjusted gross income limits to account for inflation, and increases the \$20,000 maximum exclusion cap to \$40,000, commencing in the 2026 taxable year.
- 2) Extends the exclusion through the 2036 taxable year.
- 3) Defines several terms.
- 4) Includes legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

Background

Military retirement income. Generally, military service members can retire from active duty at any age after 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. 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.

The Survivor Benefit Plan (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.

According to the most recent publicly available data from the DOD, as of September 30, 2022, there were 1,998,452 military retirees; the average gross monthly military retirement pay was \$2,823 (\$33,876 annually).

Economic impact of the exodus of military retirees and survivors. Comparing U.S. Census reports with DoD data for 2021 to 2024, California is losing military retirees at a rate forty times greater than its overall population decline. Since 2016, California has slipped from 3rd to 4th in terms of the largest population of military retirees, with a median annual loss rate of 2,698 and a loss of \$472.9 million in taxable income from retirement pay from 2016 to 2022. Since 2016, California has gone from having the highest population of survivors in the country to just the third highest, with a median loss rate of 1,078 per year and a loss of \$86 million in taxable income from survivor benefits from 2016 to 2022. According to the DoD, as of December 31, 2022, the 127,657 military retirees in California received a combined total of monthly payments over \$333.7 million, or about \$4.0 billion annually from the DoD. In addition, as of December 31, 2022, the 26,036 survivors in California received total monthly Survivor Benefit Plan payments of \$35.8 million or about \$429 million annually.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee, the Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue losses of \$60 million in 2026-27, \$39 million in 2027-28, and \$39 million in 2028-29. FTB's implementation costs have yet to be identified.

SUPPORT: (Verified 5/16/2026)

California State Treasurer Fiona Ma (Co-source)
Veterans of Foreign Wars (Co-source)
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 Retirees
China Lake Alliance
County of Monterey
County of Shasta
General Atomics Electromagnetic Systems
Military Officers Association of America, California Council of Chapters
National University
Peace Officers Research Association of California
San Diego Regional Chamber of Commerce
Schneider Electric
Veterans Beer Club; the
Ventura County Chapter of the Military Officers Association of America
Veterans Village of San Diego
VetFund Foundation
Vietnam Veterans of America, California State Council
Western States Regional Council of Carpenters
Workshops for Warriors
YMCA of San Diego County
Two Individuals

OPPOSITION: (Verified 5/16/2026)

California Tax Reform Association
California Teachers Association

ARGUMENTS IN SUPPORT: 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 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 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."

ARGUMENTS IN OPPOSITION: According to the California Tax Reform Association, "California already provides generous benefits to veterans, particularly for disabled veterans, and a substantial retirement pay exclusion for military retirement pay. The choice of long-term military service is similar to other valuable public servants, such as teachers, police, firefighters, and nurses, who receive no exclusions for their retirement pay. Excluding far more and eliminating income restrictions provides tax benefits that other public servants do not receive, and rewards those that may already have high incomes after serving long-term in the military."

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