

Date of Hearing: June 16, 2026

ASSEMBLY COMMITTEE ON MILITARY AND VETERANS AFFAIRS

Pilar Schiavo, Chair

SB 1407 (Archuleta) – As Amended May 14, 2026

SENATE VOTE: 39-0

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

SUMMARY: Expands California’s Military Services Retirement and Surviving Spouse Benefit Payment Act gross income exclusions for qualifying military retirement pay and United States Department of Defense (DoD) Survivor Benefit Plan (SBP) annuity payments by annually indexing the adjusted gross income (AGI) limits to account for inflation and increasing the current \$20,000 maximum exclusion to \$40,000 for taxable years beginning on or after January 1, 2026, and before January 1, 2037. Specifically, **this bill:**

- 1) Increases, from \$20,000 to \$40,000, the amount of military retirement pay and SBP annuity payments that a qualified taxpayer may exclude from AGI for taxable years beginning on or after January 1, 2026, and before January 1, 2037.
- 2) Requires the Franchise Tax Board to annually index the AGI limits to account for inflation beginning with taxable years on or after January 1, 2027, and before January 1, 2037.
- 3) Includes legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code (RTC).
- 4) Defines several terms and complies with Section 41 of the Revenue and Taxation Code (RTC).
- 5) Takes effect immediately upon enactment as a tax levy.

EXISTING LAW:

- 1) Defines gross income and AGI under the Personal Income Tax Law, except as otherwise provided, and specifies limited modifications to the AGI definition. (RTC §§ 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 SBP by a qualified taxpayer. (RTC §§ 17132.9, 17132.10)
- 3) Defines a qualified taxpayer for purposes of those exclusions as a taxpayer whose federal AGI does not exceed \$250,000 for a surviving spouse or spouses filing a joint return, or \$125,000 for any other individual. (RTC §§ 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 (RTC § 41)

FISCAL EFFECT: This bill, as amended, has not been analyzed by a fiscal committee. Estimates from the FTB on the previous version of this bill that would have excluded a maximum of \$80,000 in military retirement pay and SBP annuity payments would have resulted 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.

COMMENTS:

- 1) **PURPOSE OF THIS BILL.** 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.”
- 2) **BACKGROUND.** California is losing military retirees and veterans to states like Texas, Georgia, and Florida. Since 2000, the number of military retirees in California has dropped by 27.4%, while the overall U.S. military retiree population has grown by 17%. For veterans in the workforce, there's been a 53% decrease in California over the past 20 years, which is higher than the 36% decrease seen nationwide and much more than the 12-27% drops in places like Texas and Florida. This trend is largely due to California's tax policies on veterans’ benefits, along with high housing costs and the overall cost of living, which push veterans to seek better opportunities in other states that actively attract them.
 - a) **San Diego Military Advisory Council (SDMAC) study.** In 2018, SDMAC published a study titled “Ending Taxation of Military Retiree Pay in California (revalidated in 2024): An Analysis of the Costs and Benefits,” which evaluated the potential effects of exempting retired military pay from state taxes, as if it had been implemented in 2015. The study found that while the state would initially experience some revenue loss from taxing military pensions (averaging \$31,369 in 2022), this loss would be offset by the retention of retirees. These individuals and their families would contribute to state revenue through personal income and corporate taxes, sales taxes, and other fees.

By 2025, the projected economic benefits for California were significant, including the creation of 12,600 jobs, an increase of \$830 million in personal income, a boost of \$1.27 billion to gross state product, and an additional \$2 billion in business sales. The study indicated that the overall fiscal impact on state and local finances would be highly positive, estimating a net gain of \$28.4 million in state tax revenue and \$56.3 million in combined state and local taxes annually.

In conclusion, the 2018 study determined that while California might face an initial revenue decline from ending taxation on military pensions, the long-term economic advantages—such as job creation and increased income—would greatly exceed this initial loss.

- b) Other states.** Thirty-eight states currently fully exempt military retirement pay. That includes nine states that do not have personal income tax (Alaska, Florida, Nevada, New Hampshire, South Dakota, Texas, Washington, Wyoming, and Tennessee) and 29 states that do not tax military retirement pay (Alabama, Arizona, Arkansas, Connecticut, Hawaii, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Utah, West Virginia, and Wisconsin). The remaining states are as follows:
- i) California:** Up to \$20,000 excluded for taxpayers with an income of up to \$125,000 for those filing single or head-of-household, and up to \$250,000 for those filing jointly.
 - ii) Colorado:** Military retirees under age 55 can exclude up to \$15,000; retirees ages 55-64 can exclude up to \$20,000; and, those 65 and over can exclude up to \$24,000.
 - iii) Delaware:** Up to \$12,500 of military retirement excluded for retirees under 60.
 - iv) Georgia:** Beginning in the 2026 tax year, retirees of any age can receive a \$65,000 exemption from their military pay.
 - v) Idaho:** Tax-free for disabled retirees and retirees age 62 and older.
 - vi) Kentucky:** Up to \$31,110 is tax-free. You may be able to exclude more in some situations.
 - vii) Maryland:** The first \$12,500 is tax-free; that amount increases to \$20,000 at age 55.
 - viii) Montana:** Residents who work may deduct up to 50% of military retirement or SBP for up to the first five years of meeting the eligibility requirements. Taxpayers 65 and over receive a \$5,500 subtraction from their federal taxable income.
 - ix) New Mexico:** Up to \$30,000 of military retirement is tax-free.
 - x) Oregon:** If you had military service before Oct. 1, 1991, you may be able to deduct a portion of your retirement pay.
 - xi) Vermont:** Starting in the 2025 tax year, military retirement pay is exempt for residents with an AGI of \$125,000 or less and partially exempt for retirees with an AGI between \$125,000 and \$175,000.
 - xii) Virginia:** Retirees receive a \$40,000 exemption in the 2025 tax year and beyond.

- c) **Military retirement pay.** According to the most recent 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).

All Federal Military Retirees Retired as of September 30, 2022, and Receiving Retired Pay by Rank <i>Sorted Lowest to Highest by Average Gross Pay</i>			
Rank / grouping	Number of retirees	Gross monthly average	Gross annual average
E-2	1,510	\$702	\$8,424
E-1	581	\$734	\$8,808
E-3	5,681	\$832	\$9,984
UNKNOWN RANK	21	\$973	\$11,676
E-4	25,205	\$1,037	\$12,444
E-5	96,221	\$1,248	\$14,976
O-1	502	\$1,545	\$18,540
E-6	396,636	\$1,658	\$19,896
W-1	277	\$1,959	\$23,508
O-2	3,333	\$2,210	\$26,520
E-7	570,949	\$2,231	\$26,772
W-2	10,188	\$2,536	\$30,432
E-8	247,649	\$2,715	\$32,580
W-3	22,461	\$3,088	\$37,056
O-3	42,281	\$3,257	\$39,084
O-4	127,571	\$3,675	\$44,100
W-4	25,774	\$3,887	\$46,644
E-9	105,376	\$3,959	\$47,508
O-5	192,699	\$4,417	\$53,004
W-5	5,467	\$5,811	\$69,732
O-6	110,518	\$6,355	\$76,260
O-7	3,321	\$7,500	\$90,000
O-8	2,998	\$9,793	\$117,516
O-9	970	\$14,408	\$172,896
O-10	263	\$17,020	\$204,240
All Commissioned	484,456	\$4,625	\$55,500
All Warrant	64,167	\$3,549	\$42,588
All Officers	548,623	\$4,499	\$53,988
All Enlisted	1,449,808	\$2,189	\$26,268
All retirees	1,998,452	\$2,823	\$33,876

- 3) **HOUSE RESOLUTION 39.** HR 39 (Gipson), adopted in 2021, encourages the Assembly to assess the equity impact of bills and include information about the potential harms and

benefits of proposed legislation for vulnerable communities in committee and floor analyses. Although not specifically listed, veterans are considered a vulnerable population due to the cumulative impacts of military service, including high rates of trauma, service-connected physical disabilities, and systemic challenges adjusting to civilian life. These compounding biopsychosocial stressors elevate their risk for mental health crises, substance abuse, chronic pain, unemployment, and homelessness. Veterans encounter numerous challenges that can impact their lives, including mental health struggles, financial difficulties, and the transition back to civilian life. Financial insecurity, particularly regarding retirement pay or survivor benefits, can heighten these challenges. This bill would ease the financial strain on veterans and their families, ultimately helping to alleviate stress. Furthermore, surviving spouses often face significant financial difficulties following the loss of a partner. State income tax on survivor benefits can jeopardize a family's economic stability during such a difficult time and this bill could help them achieve greater financial security.

- 4) **SUPPORT.** This bill is sponsored by California State Treasurer Fiona Ma and supported by numerous veterans' organizations, several chambers of commerce, counties, the Peace Officers Research Association of California, and others. Supporters highlight that many military retirees successfully transition into second careers, establish businesses, and actively engage in civilian roles, public service, and community leadership. Despite the national growth in retiree populations since 2000, California's military retiree community has seen a significant decline. The current \$20,000 partial tax exclusion is a step forward, but it pales in comparison to incentives offered in other states and overlooks certain higher-income households. These veterans, if properly incentivized, could generate substantial earnings, tax revenue, and economic activity through their second careers. Expanding tax relief measures would empower California to retain its veteran families, ensuring that their vital contributions to the economy, workforce, and civic life endure for the long term.
- 5) **OPPOSITION.** Opponents voice concerns regarding the fiscal implications and the equity of the proposed tax exclusion expansion. The California Teachers Association warns that this would diminish General Fund revenue, which is crucial for funding state priorities, notably Proposition 98 for education. Similarly, the California Tax Reform Association points out that California already offers significant benefits to veterans, including a current retirement pay exclusion. They argue that broadening this exclusion would unfairly grant military retirees a tax advantage not available to other public servants like teachers, police officers, firefighters, and nurses and also that a more extensive exclusion could disproportionately benefit higher-income retirees.
- 6) **DOUBLE REFERRAL.** This bill is double referred; upon passage in this committee, this bill will be referred to the Assembly Committee on Revenue and Taxation.
- 7) **RELATED LEGISLATION.**
 - a) AB 53 (Ramos, et al) from 2025 would have excluded, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, up to \$20,000 of uniformed services retirement pay and annuity payments from an SBP. AB 53 was referred to but has not been set for hearing in the Senate Revenue and Taxation Committee.
 - b) SB 1 (Seyarto) of 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 an SBP. SB 1 was held under submission on the Suspense File of the Senate Appropriations Committee.

- c) 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 an SBP for qualified taxpayers with AGI levels under specified limitations.

8) PREVIOUS LEGISLATION.

- a) AB 46 (Ramos) of 2023, was similar to AB 53, but would have provided a full gross income exclusion with no AGI cap. AB 46 was held on the Senate Appropriations Committee's suspense file.
- b) AB 1623 (Ramos) of 2022, was similar to AB 46, 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 the Assembly Appropriations Committee's suspense file.
- c) AB 1629 (Seyarto) of 2022 would have excluded from gross income survivor benefits or payments, not to exceed \$20,000 per taxable year, received under the federal Survivor Benefit Plan for a period of five taxable years. AB 1629 was set for hearing, but not heard by the Assembly Revenue and Taxation Committee.
- d) AB 291 (Seyarto), of the 2021-22 Legislative Session, would have excluded from gross income survivor benefits and payments received under the federal Survivor Benefit Plan for five taxable years. AB 291 was never set for hearing in the Assembly Revenue and Taxation Committee.
- e) AB 427 (Brough) of 2019 would have excluded from gross income specified amounts of retirement pay for 10 taxable years. AB 427 was held on the Assembly Appropriations Committee's Suspense File.
- f) AB 2380 (Choi) of 2020 would have excluded from gross income survivor benefits or payments received under the federal Survivor Benefit Plan for five taxable years. AB 2380 was not heard by the Assembly Revenue and Taxation Committee.
- g) SB 1007 (Hueso) of 2020 would have excluded from gross income military retirement pay for 10 taxable years. SB 1007 was not heard due to the shortened 2020 Legislative Calendar as a result of the COVID-19 pandemic.
- h) SB 1071 (Wilk) of 2020 would have excluded from gross income a percentage of military retirement pay for 10 taxable years. SB 1071 was never heard due to the shortened 2020 Legislative Calendar as a result of the COVID-19 pandemic.

REGISTERED SUPPORT / OPPOSITION:**Support**

California State Treasurer Fiona Ma (sponsor)
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
General Atomics Electromagnetic Systems
Military Officers Association of America, California Council of Chapters
Monterey; County of
National University
Peace Officers Research Association of California (PORAC)
San Diego Military Advisory Council (SDMAC)
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
VFW
Vietnam Veterans of America, California State Council
Western States Regional Council of Carpenters
Workshops for Warriors
YMCA of San Diego County

Opposition

California Tax Reform Association
California Teachers Association

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