Date of Hearing: August 5, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 1407 (Archuleta) – As Amended May 14, 2026

Policy Committee:	Military and Veterans Affairs	Vote:	8 - 0
	Revenue and Taxation		7 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill doubles the amount of retirement and annuity payments that a qualifying military retiree or surviving spouse may exclude from gross income under the Personal Income Tax (PIT) Law.

Specifically, this bill:

1) Increases, from $20,000 to $40,000, for taxable years beginning on or after January 1, 2026, and before January 1, 2037, the amount of military retirement and annuity payments excluded from a qualified taxpayer's gross income.

2) Requires the Franchise Tax Board (FTB) to recompute, for taxable years beginning on or after January 1, 2027, the income limitation of a qualified taxpayer to account for inflation, and requires the Department of Industrial Relations (DIR) to annually transmit certain California Consumer Price Index (CPI) data to FTB for this purpose.

3) Declares the goal of the exclusion and finds that there is no available data to collect or report with respect to the exclusion.

FISCAL EFFECT:

1) General Fund revenue loss of approximately $60 million in fiscal year (FY) 2026-27, $39 million in FY 2027-28, and $39 million in FY 2028-29.

   By reducing state PIT revenue, this bill also likely decreases Proposition 98 GF spending by approximately 40% of the revenue loss (the exact amount depends on the operative test of the annual Proposition 98 guarantee).

2) Likely absorbable costs to FTB to administer the expanded gross income exclusion and annually adjust for inflation the income limitation of a qualified taxpayer.

3) Minor and absorbable costs to DIR to provide FTB with CPI data.

COMMENTS:

1) **Purpose.** 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…Veterans staying in California will pay for sales, property, and use taxes, benefitting 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) **Military Benefits.** Generally, a service member may retire from active duty at any age once they have completed at least 20 years of service. In addition, an individual who meets retirement requirements through reserve or National Guard service may receive retirement pay after age 59. The Survivor Benefit Plan 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. Aside from the nine states that do not have PIT, 29 states do not tax military retirement pay, with the 12 remaining states, including California, providing various levels of exclusions or deductions for such income.

   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. After decades without an exclusion, SB 132 (Committee on Budget and Fiscal Review), Chapter 17, Statutes of 2025, excludes up to $20,000 of uniformed services retirement pay and Survivor Benefit Plan annuity payments from gross income for a qualified taxpayer for tax years 2025 through 2030. A qualified taxpayer's adjusted gross income (AGI) must not be in excess of $250,000 if filing jointly or $125,000 as a single filer. This bill doubles the amount of the exclusion to up to $40,000, requires FTB to adjust the AGI of a qualified taxpayer for inflation, and extends the exclusion through tax year 2036.

3) **Support and Opposition.** This bill is sponsored by State Treasurer Fiona Ma, who argues, "While the enactment of a $20,000 exemption in 2025 marked important progress, it does not go far enough. Many veterans continue to see their retirement savings diminished year after year." This bill is also supported by a range of veterans, public safety, and business groups.

   This bill is opposed by a labor organization and the California Tax Reform Association, the latter of which argues, "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."

4) **Related Legislation.** SB 888 (Seyarto) excludes service-connected disability payments from the calculation of household income when determining whether a veteran qualifies for the low-income disabled veterans' property tax exemption. SB 888 is pending hearing by this committee.

5) **Prior Legislation.** AB 46 (Ramos), of the 2023-24 Legislative Session, would have excluded, for 10 taxable years, retirement pay and annuity payments that a qualifying military retiree or surviving spouse may exclude from gross income under the PIT Law. AB 46 was held on the Senate Appropriations Committee's suspense file.

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