



## **Bill Analysis**

Author: Melendez

Sponsor:

Bill Number: SB 1411

Related Bills: See Legislative  
History

Introduced: February 18, 2022

## **SUBJECT**

Gross Income Exclusion for Retirement Pay of Members of Uniformed Services

## **SUMMARY**

Under the Personal Income Tax Law (PITL), this bill would exclude from gross income retirement pay received by a taxpayer from the federal government for service in the uniformed services.

## **RECOMMENDATION**

No position.

## **SUMMARY OF AMENDMENTS**

Not applicable.

## **REASON FOR THE BILL**

The reason for this bill is to exclude retirement pay of members of uniformed services from personal income tax.

## **ANALYSIS**

This bill would, under the PITL, for taxable years beginning on or after January 1, 2022, exclude from gross income retirement pay received by a taxpayer from the federal government for service in the uniformed services.

“Uniformed services” means the Armed Forces of the United States, the Army National Guard, and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty, and the commissioned corps of the United States Public Health Service.

The bill states the intent of the Legislature to comply with section 41 of the Revenue and Taxation Code (RTC).

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### *Effective/Operative Date*

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2022.

### *Federal/State Law*

Existing federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded.

Existing federal and state laws provide that certain types of income are excluded from gross income, such as 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.

Under existing federal law, members of the uniformed services may elect to reduce their retirement pay to provide an annuity to their survivors. Under federal and state tax laws, the reduction is excluded from gross income. Also, certain annuities paid to survivors are included in the survivors' gross income for tax purposes.

### *Implementation Considerations*

None noted.

### *Technical Considerations*

None noted.

### *Policy Considerations*

This bill does not have a sunset date, which is generally provided to allow periodic review of the effectiveness of income tax law changes by the Legislature.

Under RTC section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit. The author may wish to amend the bill to include these goals, purposes, objectives, and performance measures.

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## **LEGISLATIVE HISTORY**

AB 151 (Voepel, 2019/2020), would have allowed an exclusion from gross income a percentage of retirement pay received by a taxpayer from the federal government for service in the uniformed services. AB 151 did not pass out of the Assembly by the constitutional deadline.

AB 427 (Brough et al., 2019/2020), would have allowed an exclusion from gross income a percentage of retirement pay received by a taxpayer from the federal government for service in the uniformed services. AB 427 did not pass out of the Assembly by the constitutional deadline.

AB 1258 (Salas, 2019/2020), as amended, would have excluded active duty pay from gross income of active service members while on duty in this state and excluded military retirement pay from gross income after being honorably discharged. AB 1258 did not pass out the Assembly by the constitutional deadline.

AB 2226 (Voepel et al., 2019/2020), would have allowed an exclusion from gross income a percentage of retirement pay received by a taxpayer from the federal government for service in the uniformed services. AB 2226 did not pass out the Assembly by the constitutional deadline.

SB 1007 (Hueso, 2019/2020), under the PITL, would have excluded from gross income certain retirement pay received for federal military service. SB 1007 did not pass out of the Senate by the constitutional deadline.

## **PROGRAM BACKGROUND**

None noted.

## **FISCAL IMPACT**

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

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**ECONOMIC IMPACT**

*Revenue Estimate*

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1411 as Introduced February 18, 2022  
Assumed Enactment after June 30, 2022

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2022-2023	-\$130
2023-2024	-\$85
2024-2025	-\$85

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

**LEGAL IMPACT**

None noted.

**APPOINTMENTS**

None noted.

**SUPPORT/OPPOSITION**

To be determined.

**ARGUMENTS**

To be determined.

**LEGISLATIVE CONTACT**

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