STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Seyarto, et al.	Sponsor:	Bill Number: SB 1
	Related Bills: See Legislative History	Amended: February 20, 2025

SUBJECT

Gross Income Exclusions: Uniformed Services Retirement Pay & Survivor Benefit Plan Payments

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2025, and before January 1, 2035, exclude from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The February 20, 2025, amendments added coauthors, modified the operative date and repeal dates, added and modified the definition of a qualified taxpayer to include Adjusted Gross Income (AGI) limitations, added a maximum income exclusion amount, removed the definition of “Armed Forces of the United States,” and removed the Section 41 reporting requirement. The amendments resolved all implementation and technical considerations discussed in the Franchise Tax Board’s (FTB) analysis of the bill as introduced December 2, 2024.

REASON FOR THE BILL

The reason for the bill is to provide an income exclusion for retired members of the uniformed services and for survivor benefits paid to beneficiaries.

ANALYSIS

This bill would, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2035, exclude 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.

For retirement pay, the bill defines the following terms:

- "Qualified taxpayer" means a taxpayer that satisfies either of the following:
    - A surviving spouse or spouses filing a joint return with AGI not to exceed $250,000.
    - Any other individual with AGI not to exceed $125,000.
- "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, the commissioned corps of the United States Public Health Service, and the National Oceanic and Atmospheric Administration Commissioned Officer Corps.

This bill would also, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2035, exclude from gross income annuity payments received by a qualified taxpayer during the taxable year, not to exceed $20,000, from a United States Department of Defense Survivor Benefit Plan.

For these annuity payments, the bill defines the following terms:

- "Qualified taxpayer" means the surviving spouse or other named beneficiary of a plan who satisfies either of the following:
    - A surviving spouse or spouses filing a joint return with AGI not to exceed $250,000.
    - Any other individual with AGI not to exceed $125,000.
- "United States Department of Defense Survivor Benefit Plan" means a survivor benefit plan established pursuant to Sections 1447 through 1455 of Title 10 of the United States Code.

Both exclusions would remain in effect until December 1, 2035, and would be repealed as of that date.

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, 2025, and before January 1, 2035.

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 also 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, under federal and state law, certain annuities paid to survivors are included in the survivors' gross income for tax purposes.

Under existing state law, legislation that would create a new tax expenditure, which includes a credit, deduction, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, detailed performance indicators and data collection requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit. Legislation that would create an income exclusion, is not required to provide detailed performance indicators and data collection requirement measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 53 (Ramos, Pacheco et al., 2025/2026) would, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. This bill has been referred to the Assembly Revenue and Taxation Committee.

AB 46 (Ramos, et al., 2023/2024), similar to this bill, would have under the PITL, excluded from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. AB 46 did not pass out of the Senate by the constitutional deadline.

AB 1623 (Ramos, et al., 2021/2022), similar to this bill, would have under the PITL, excluded from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. AB 1623 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1 as Amended February 20, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$110
2026-2027	-$75
2027-2028	-$75

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.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Senate Revenue and Taxation Committee Report, March 7, 2025

Support:

California State Treasurer Fiona Ma American Legion,
Department of California
AMVETS, Department of California
California State Commanders Veterans Council
Military Officers Association of America, California Council of Chapters
Solano County Chapter Military Officers Association of America (MOAA)
Vietnam Veterans of America, California State Council
Three Individuals

Opposition:

None on file.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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