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SB-1 Personal income taxes: exclusion: Military Services Retirement and Surviving Spouse Benefit Payment Act. (2025-2026)

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AMENDED IN SENATE FEBRUARY 20, 2025

CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

SENATE BILL

NO. 1

Introduced by Senator Seyarto
(Coauthors: Senators Dahle, Jones, Ochoa Bogh, and Valladares)
(Coauthors: Assembly Members Alanis, Davies, DeMaio, Lackey, and Sanchez)

December 02, 2024

An act to add and repeal Sections 17132.9 and 17132.10 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 1, as amended, Seyarto. Personal income taxes: exclusion: Military Services Retirement and Surviving Spouse Benefit Payment Act.

The Personal Income Tax ~~Law imposes a tax on individual taxpayers measured by the taxpayer's taxable income for the taxable year, but excludes certain items of income from the computation of tax.~~ Law, in conformity with federal income tax laws, defines "gross income" as income from whatever source derived, except as specifically excluded, and provides various exclusions from gross income, including an exclusion for combat-related special compensation.

This bill, for taxable years beginning on or after January 1, ~~2024~~, 2025, and before January 1, ~~2034~~, 2035, would exclude from gross income retirement pay received by a ~~taxpayer~~ qualified taxpayer, as defined, during the taxable year, not to exceed \$20,000, from the federal government for service performed in the uniformed services, as ~~defined, during the taxable year.~~ defined. The bill, for taxable years beginning on or after January 1, ~~2024~~, 2025, and before January 1, ~~2034~~, 2035, would also exclude from gross income annuity payments received by a qualified taxpayer, as defined, during the taxable year, not to exceed \$20,000, pursuant to a United States Department of Defense Survivor Benefit-Plan during the taxable year. Plan. The bill would make related findings and declarations.

Existing law requires any bill authorizing a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve, detailed performance indicators, and data collection requirements.

This bill also would include additional information required for any bill authorizing a new tax expenditure. ~~The bill would require the Franchise Tax Board and the Department of Veterans Affairs to provide any data requested by the Legislative Analyst to write the report, as provided, and would make taxpayer information received by the Legislative Analyst subject to limitation on the collection and use of that information. By expanding the scope of a crime, this bill would impose a state-mandated local program. The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.~~

~~This bill would provide that no reimbursement is required by this act for a specified reason.~~

This bill would take effect immediately as a tax levy.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: ~~yes~~no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. This measure shall be known, and may be cited, as the Military Services Retirement and Surviving Spouse Benefit Payment Act.

SEC. 2. The Legislature finds and declares all of the following:

(a) Servicemembers are eligible to retire from the military after 20 years of service. These retirees devoted the prime years of their life to defending the freedom of all Americans.

(b) To preserve the current policy of an all-volunteer force while still maintaining critical skills and readiness requires the retention of qualified military personnel, both enlisted and officers. This retention of military professionals also saves the costs to the taxpayer associated with training replacement personnel in essential skills.

(c) Retired members of the nation's two nonarmed uniformed services, which consist of the commissioned corps of the United States Public Health Service and the National Oceanic and Atmospheric Administration Commissioned Officer Corps, also provide valuable service to the nation's health and environmental safety.

(d) Providing a state income tax exclusion to retirees of the uniformed services not only signifies the gratitude of Californians for these men and women who chose to serve our country, it also benefits the state and local economies by helping to retain skilled and motivated individuals in California.

(e) The number one issue for employers in California is attracting a qualified workforce. Approximately 60,000 high-tech jobs are unfilled. Uniformed service retirees are highly skilled, often in areas requiring technical and management expertise. These men and women often continue to be valuable assets to our schools, local charities, and nonprofit organizations.

(f) Substantial new federal funds are infused into the state and local economies not only from retirement pay, but also from the full taxation of their second careers. These retirees may also qualify for federal veterans' benefits, which further bring new ~~monies~~ *moneys* into the state.

(g) The United States Department of Defense's Survivor Benefit Plan allows a retiree to ensure, after death, a continuous lifetime annuity for their dependents. The maximum annuity for a spouse is based on 55 percent of the member's retirement pay. Eligible children may also be beneficiaries. State income taxation of these funds, which are critical to the economic well-being of those who have suffered the loss of a husband, wife, father, or mother, can place the surviving family members in risk of falling into the state and local safety nets.

SEC. 3. Section 17132.9 is added to the Revenue and Taxation Code, to read:

17132.9. (a) For taxable years beginning on or after January 1, ~~2024~~, *2025*, and before January 1, ~~2034~~, *2035*, gross income shall not include retirement pay received by a ~~taxpayer~~ *qualified taxpayer during the taxable year, not to exceed twenty thousand dollars (\$20,000)*, from the federal government for service in the uniformed ~~services during the taxable year.~~ *services.*

(b) For purposes of this section, the following definitions apply:

~~(1) "Armed Forces of the United States" includes all regular and reserve components of the uniformed services which are subject to the jurisdiction of the Secretary of Defense, the Secretary of the Army, the Secretary of the Navy, or the Secretary of the Air Force, and each term also includes the Coast Guard and United States Space Force. The members of such forces include commissioned officers and personnel below the grade of commissioned officers in such forces.~~

(1) "Qualified taxpayer" means a taxpayer that satisfies either of the following:

(A) In the case of a surviving spouse or spouses filing a joint return, adjusted gross income does not exceed two hundred fifty thousand dollars (\$250,000).

(B) In the case of any other individual, adjusted gross income does not exceed one hundred twenty-five thousand dollars (\$125,000).

(2) "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.

(c) This section shall remain in effect only until December 1, ~~2034~~, 2035, and as of that date is repealed.

SEC. 4. Section 17132.10 is added to the Revenue and Taxation Code, to read:

17132.10. (a) For taxable years beginning on or after January 1, ~~2024~~, 2025, and before January 1, ~~2034~~, 2035, gross income shall not include annuity payments received by a qualified ~~taxpayer~~ *taxpayer during the taxable year, not to exceed twenty thousand dollars (\$20,000)*, pursuant to a United States Department of Defense Survivor Benefit ~~Plan during the taxable year.~~ *Plan.*

(b) For purposes of this section, the following definitions apply:

(1) "Qualified taxpayer" means the surviving spouse or other named beneficiary of a ~~plan:~~ *plan who satisfies either of the following:*

(A) In the case of a surviving spouse or spouses filing a joint return, adjusted gross income does not exceed two hundred fifty thousand dollars (\$250,000).

(B) In the case of any other individual, adjusted gross income does not exceed one hundred twenty-five thousand dollars (\$125,000).

(2) "United States Department of Defense Survivor Benefit Plan" or "plan" means a survivor benefit plan established pursuant to Sections 1447 to 1455, inclusive, of Title 10 of the United States Code.

(c) This section shall remain in effect only until December 1, ~~2034~~, 2035, and as of that date is repealed.

SEC. 5. For purposes of complying with the requirements of Section 41 of the Revenue and Taxation Code, with respect to the exclusions allowed by Sections 17132.9 and 17132.10 of the Revenue and Taxation Code, as added by this act, hereafter known as "the exclusions," the Legislature finds and declares the following:

(a) The specific goals, purposes, and objectives of the exclusions are as follows:

(1) To honor the service of California veterans and provide fiscal relief so that they and their families will remain or retire in California.

(2) To increase the number of highly skilled retired veterans in California's workforce.

~~(b) Detailed performance indicators for the Legislature to use in determining whether the exclusions meet the goals, purposes, and objectives described in subdivision (a) are as follows:~~

~~(1) The number of retired veterans and survivor benefit plan beneficiaries taking advantage of the tax exclusions.~~

~~(2) The economic security of retired veterans and survivor benefit plan beneficiaries in California.~~

~~(3) The number of retired veterans and survivor benefit plan beneficiaries leaving California.~~

~~(4) The earned income generated by retired veterans and survivor benefit plan beneficiaries subject to state income tax under the Revenue and Taxation Code.~~

~~(e) The data collection requirements for the exclusions are as follows:~~

~~(1) On or before December 1, 2034, the Legislative Analyst, in collaboration with the Department of Veterans Affairs and the Franchise Tax Board, shall write and submit a report to the Legislature on the effectiveness of the exclusions. To the extent data is available, the report shall include, but not be limited to, an analysis of the number of retired veterans and survivor benefit plan beneficiaries taking advantage of the exclusions, the impact of the exclusions on the economic security of retired veterans and survivor benefit plan beneficiaries in California, the number of retired veterans and survivor benefit plan beneficiaries leaving California, and the earned income generated by retired veterans and survivor benefit plan beneficiaries~~

subject to state income tax under the Revenue and Taxation Code. The report shall be submitted in compliance with Section 9795 of the Government Code and shall not include any personally identifiable information.

(2) To write the report required by this subdivision, the Legislative Analyst may request information from the Franchise Tax Board and the Department of Veterans Affairs:

(3) Notwithstanding Section 19542 of the Revenue and Taxation Code, the Franchise Tax Board and the Department of Veterans Affairs shall provide any data requested by the Legislative Analyst pursuant to this subdivision to the extent that data is available. Taxpayer information received pursuant to this section by the Legislative Analyst is subject to Section 19542 of the Revenue and Taxation Code.

(b) There is no available data to collect or report with respect to the exclusions.

~~SEC. 6. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.~~

~~SEC. 7.~~ **SEC. 6.** This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.