

SUMMARY ANALYSIS OF AMENDED BILL

Author: Gray Analyst: Jane Raboy Bill Number: AB 1275
 Related Bills: See Prior Analysis Telephone: 845-5718 Amended Date: May 22, 2015
 Attorney: Bruce Langston Sponsor _____

SUBJECT:	Exclusion/Military Retirement and Survivor Income
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SUMMARY

This bill, under the Personal Income Tax Law, would exclude military retirement pay and survivor benefits from gross income, for certain qualified taxpayers.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The May 22, 2015, amendments modified the exclusion from gross income for certain qualified taxpayers and added a defined phrase. As a result of the amendments, a new technical consideration was identified.

Except for the "This Bill," "Technical Considerations," and "Economic Impact" sections, the remainder of the department analysis of the bill as introduced February 27, 2015, still applies. The "Support/Opposition" section has been revised. The "Policy Concerns" section has been restated for convenience.

THIS BILL

This bill would exclude from gross income the retirement pay received by a qualified taxpayer from the federal government for military service performed in the U.S. Armed Forces, the reserve component of the U.S. Armed Forces, or the National Guard.

Similarly, this bill would also exclude from gross income survivor benefits received by a beneficiary of a qualified taxpayer from the federal government.¹

For purposes of this bill, "qualified taxpayer" would mean a taxpayer who is a Purple Heart or Medal of Honor recipient.

TECHNICAL CONSIDERATIONS

On page 2, line 13, the phrase "Medal of Honor" should read "Congressional Medal of Honor" as provided to mean a medal of honor awarded under section 3741, 6241, or 8741 of Section 491 of Title 14.

¹ Pursuant to Chapter 73 of line 12 Title 10 of the United States Code.

Board Position:	Legislative Director	Date
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ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB1275 As Amended May 22, 2015 Assumed Enactment After June 30, 2015 (\$ in Millions)		
2015-16 ²	2016-17	2017-18
- \$55	- \$37	- \$37

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Based on Department of Defense data, California military retirees and their survivors received approximately \$367 million per month, or \$4.4 billion per year in benefits during 2013. It is estimated that 18 percent of military retirees and survivors are Purple Heart and Medal of Honor recipients resulting in \$66 million a month in qualified benefits paid. These amounts were grown by 2 percent annually. The growth rate was based on observed growth for benefits paid from 2008 through 2013. This amount was annualized and multiplied by the estimated average tax rate for qualified taxpayers of 4.5 percent, resulting in an estimated revenue loss of approximately \$36 million.

The estimates are converted to fiscal year estimates and then rounded, to arrive at the amounts shown in the table above.

SUPPORT/OPPOSITION³

Support: American Legion-Ceres Post 491, American Legion-Department of California, AMVETS-Department of California, California Association of County Veterans Service Officers, California Senior Legislature, California State Commanders Veterans Council, Military Officers Association of America, California Council of Chapters, National Association for Uniformed Services, VFW-Department of California, Vietnam Veterans of America-California State Council, and 9 private individuals.

Opposition: California Tax Reform Association.

² The fiscal year 2015-16 estimated loss covers the first 6 months from January 1, 2015, through June 30, 2015, along with the 12 months from July 1, 2015, through June 30, 2016.

³ As noted in the Assembly Committee on Revenue and Taxation bill analysis dated May 15, 2015.

POLICY CONCERNS

This bill would allow an exclusion from gross income for military retirement pay and survivor annuities for which federal law has no counterpart, thus increasing nonconformity.

LEGISLATIVE STAFF CONTACT

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