

SUMMARY ANALYSIS OF AMENDED BILL

Author: Lopez Analyst: Diane Deatherage Bill Number: AB 1791
Related Bills: See Prior Telephone: 845-4783 Amended Date May 12, 2016
Analysis Attorney: Bruce Langston Sponsor: _____

SUBJECT: Exclusion/Military Retirement and Survivor Income

SUMMARY

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

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The May 12, 2016, amendments added contingent operative date language and a sunset provision, made a nonsubstantive technical change, and made the bill's provisions contingent upon an appropriation in a budget measure.

The amendments created two technical considerations.

Except for the "Effective/Operative Date," "This Bill," "Technical Considerations," "Economic Impact," and "Support/Opposition," sections, the remainder of the department's analysis of the bill as amended March 18, 2016, still applies. The "Fiscal Impact" and "Policy Concerns" sections have been restated for convenience.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on and after January 1, 2016 and before January 1, 2019.

This bill would only become operative on the effective date of any budget measure specifically appropriating funds to the Franchise Tax Board (FTB) for its costs of administering this provision.

THIS BILL

For each taxable year beginning on and after January 1, 2016, and before January 1, 2019, this bill would exclude from gross income the retirement pay received by a 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 taxpayer from the federal government.

The income exclusion provision would become operative on the effective date of any budget measure specifically appropriating funds to the FTB for its cost of administering this provision.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

TECHNICAL CONSIDERATIONS

The bill should be amended to change "and" to "or" on page 2, lines 3 and 9.

The operation of the bill is contingent upon whether specific funds are appropriated to the FTB for its costs to administer this bill. Because the department's costs to implement this bill would be absorbable, no funds would need to be specifically appropriated to the FTB; therefore, this contingent operative language is inapplicable. It is recommended that the contingent operative date language be removed from the bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 1791 As Amended May 12, 2016 Assumed Enactment After June 30, 2016 (\$ in Millions)		
2016-17	2017-18	2018-19
- \$330	- \$210	- \$90

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 U.S. Department of Defense data, military retirees and survivors received approximately \$376 million per month, or \$4.5 billion per year in benefits during 2014. These amounts were grown by 1 percent annually. The growth rate was based on the observed growth rate for benefits from the three prior years. This amount was multiplied by an estimated average tax rate for qualified taxpayers of 4.5 percent, resulting in an estimated revenue loss of \$210 million in tax year 2016.

The estimates were converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table. This estimate assumes funds necessary for administration costs would be appropriated in the budget each year.

SUPPORT/OPPOSITION¹

Support: None provided.

Opposition: California Tax Reform Association.

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

Diane Deatherage
Legislative Analyst, FTB
(916) 845-4783
diane.deatherage@ftb.ca.gov

Jame Eiserman
Revenue Manager, FTB
(916) 845-7484
jame.eiserman@ftb.ca.gov

Gail Hall
Legislative Director, FTB
(916) 845-6333
gail.hall@ftb.ca.gov

¹ Assembly Revenue and Taxation Committee analysis, dated May 5, 2016.