



Bill Analysis

Author: Schiavo

Sponsor:

Bill Number: AB 814

Related Bills: See Legislative
History

Introduced: February 19, 2025

SUBJECT

Gross Income Exclusion for Law Enforcement Retirees

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, 2030, exclude from gross income amounts received from a pension plan for services as a peace officer in this state or an annuity plan set up by a law enforcement agency for a surviving spouse or dependent of a person who lost their life in service as a peace officer in this state.

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to provide an income exclusion for retired law enforcement officers and survivor benefits paid to beneficiaries.

ANALYSIS

This bill, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would exclude from gross income amounts received by a taxpayer from a pension plan based on services performed as a peace officer in California and exclude annuity payments as a surviving spouse or dependent of a person who lost their life in service as a peace officer in California.

For the purposes of this bill, the following definitions apply:

- Law enforcement agency means any agency, department, or other entity of the state or any political subdivision thereof, that employs any peace officer.
- Peace officer means a person as described pursuant to Section 830 of the Penal Code.

The bill defines “qualified payment” as either of the following:

- Amounts received by a taxpayer from a pension plan of which they are a beneficiary based on services performed as peace officers in this state.
- Amounts received by a taxpayer as the beneficiary of an annuity plan set up by a law enforcement agency to provide annuity payments for a surviving spouse or a dependent of a person who lost their life in service as a peace officer in this state.

This bill would require, for the purpose of complying with Revenue and Taxation Code (RTC) section 41, the Legislative Analyst (LAO), in collaboration with the Department of Justice (DOJ) and the Franchise Tax Board (FTB), to report on or before December 1, 2030, to the Legislature. To the extent data is available, the report would be required to include, but not be limited to, the following information regarding detailed performance indicators:

- An analysis of the number of retired peace officers and annuity beneficiaries taking advantage of the exclusions.
- The impact of the exclusions on the economic security of retired peace officers and annuity beneficiaries in California.
- The number of retired peace officers and survivor benefit plan beneficiaries leaving California.
- The earned income generated by retired peace officers and survivor benefit plan beneficiaries subject to state income tax under the RTC.

The bill would require the FTB and the DOJ to provide data requested by LAO to LAO if available.

The disclosure provisions of this bill would be treated as an exception to the FTB's disclosure rules under RTC section 19542.

The exclusion would remain in effect until December 1, 2030, 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, 2030.

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

Under existing federal law, amounts paid as a survivor annuity to a spouse, former spouse, or dependent because of the death of a public safety officer are excluded from gross income. The annuity must be provided under a governmental plan and attributable to service as a public safety officer except if there is intentional misconduct or other negligence. Existing state law conforms to the federal law with modifications allowing amounts paid as a survivor annuity to be excluded from gross income after December 31, 1996.

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

FTB has identified the following considerations and is available to work with the author's office to resolve this and other considerations that may be identified.

The bill would require the FTB to provide information to the LAO related to the exclusions, however it is not clear what specific information FTB would be required to provide. FTB would not have information on the economic security of retired peace officers and survivor benefit plan beneficiaries or the number of retired peace officers and survivor benefit plan beneficiaries leaving California.

Technical Considerations

It is recommended to remove subdivision (b)(3)(B) because current state law allows for an exclusion from gross income for survivor benefits attributable to service by a public safety officer killed in the line of duty.

The term “person” should be replaced with “individual” in the definition of peace officer and qualified payments because individual is defined for the purposes of Part 10 of the Revenue and Taxation Code as a natural person.

For purposes of consistency, it is recommended that the term “law enforcement” in the performance indicators be replaced with “peace officers” for it to be identical to the reporting language.

Policy Considerations

A bill that authorizes a gross income exclusion is exempt from including information about detailed performance indicators and data collection requirements, if the Legislature determines there is no available data to collect and report. This bill would require detailed performance indicators and data collection requirements. If the author determines there is no available data to collect or report, this requirement does not need to be included in the bill.

LEGISLATIVE HISTORY

AB 53 (Ramos and Pacheco et al., 2025/2026) under the PITL, would 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 918 (Ransom, 2025/2026), under the PITL, would for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income qualified wages of a qualified first responder. This bill is in the Assembly pending referral.

AB 1057 (Rodriguez, 2025/2026), under the PITL, would for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income qualified overtime wages of a qualified first responder. This bill is in the Assembly pending referral.

AB 1124 (Bains, 2025/2026), under the PITL, would for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income qualified overtime wages of a qualified first responder. This bill is in the Assembly pending referral.

SB 1 (Seyarto et al., 2025/2026) under the PITL, would 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. This bill has been referred to the Senate 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 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 AB 814 as Introduced February 19, 2025
Assumed Enactment after June 30, 2025

(\$ in Millions)

Fiscal Year	Revenue
2025-2026	-\$650
2026-2027	-\$430
2027-2028	-\$440

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

Assembly Revenue and Taxation Committee Report, March 24, 2025

Support:

Association for Los Angeles Deputy Sheriffs
California State Sheriffs' Association
Peace Officers Research Association of California

Opposition:

California Federation of Teachers

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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