STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Archuleta, et al.

Sponsor:

Bill Number: SB 1407

Related Bills: See Legislative History

Introduced: February 20, 2026

SUBJECT

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

SUMMARY

This bill, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, and before January 1, 2037, would modify the existing exclusions to eliminate the $20,000 annual maximum exclusion amount and the adjusted gross income (AGI) qualifications to instead allow all retirement pay for retired members of the uniformed services and annuity payments received from Survivor Benefit Plans to be excluded from gross income with no AGI limitation.

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 a full income exclusion for retirement pay received by retired members of the uniformed services and for survivor benefits paid to beneficiaries.

ANALYSIS

This bill, under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2037, would modify the existing retirement pay exclusion to remove the $20,000 annual maximum exclusion for retirement pay received during the taxable year from the federal government for service in the uniformed services, and the annual AGI limitations that restrict exclusion eligibility to taxpayers-under specified thresholds based on filing status.

This bill, under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2037, would also modify the existing annuity payment exclusion to remove the $20,000 annual maximum exclusion for annuity payments received during the taxable year from the U.S. Department of Defense Survivor Benefit Plan, and the annual AGI limitations that restrict exclusion eligibility to taxpayers under specified thresholds based on filing status. The bill also modifies the existing operative date for the exclusion to allow the exclusion through taxable years beginning before January 1, 2037.

For purposes of complying with Section 41of the RTC, that the goal of the exclusions is to recognize the loss and sacrifice of military families and give them the support that the community owes them and provide relief to families who have suffered the loss of a loved one, loss of income, and who are managing on a portion of that original income. The Legislature would find and declare that there is no available data to collect or report with respect to the exclusions.

All provisions would remain in effect until December 1, 2037, and would be repealed as of that date.

This bill makes other nonsubstantive changes.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and would be operative for taxable years beginning on or after January 1, 2026, and before January 1, 2037.

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.

Current state law allows for taxable years beginning on or after January 1, 2025, and before January 1, 2030, qualified taxpayers to exclude from gross income up to $20,000 of retirement pay from the federal government for service in the uniformed services or annuity payments received pursuant to a U.S. Defense Department Survivor Benefit Plan.

The "uniformed services" would include the Armed Forces of the United States (US), 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 US Public Health Service, and the National Oceanic and Atmospheric Administration Commissioned Officer Corps.

An annuity payment from "United States Department of Defense Survivor Benefit Plan" would mean an annuity payment from a Survivor Benefit Plan established pursuant to Sections 1447 through 1455 of Title 10 of the U.S. Code.

Both exclusions have an AGI limitation as follows:

- For qualified taxpayers that are individuals, other than surviving spouses or spouses filing a joint return, the qualified taxpayer's income may not exceed $125,000 for the taxable year during which the exemption is claimed.
- For qualified taxpayers that are a surviving spouse or those filing a joint return, the qualified taxpayer's income may not exceed $250,000 for the taxable year during which the exemption is claimed.

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

Franchise Tax Board (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.

To avoid confusion, the author may want to add specific language to make clear these changes are operative for taxable years beginning on or after January 1, 2026.

For purposes of Section 41, the bill includes a provision to comply with Section 41 requirements that is not incorporated into the relevant RTC section. For clarity and ease of reference, it is recommended that the bill be amended to include these provisions in the relevant code sections.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 53 (Ramos and Pacheco, 2025/2026) would, under the PITL, for taxable years beginning on or after January 1, 2027, and before January 1, 2037, 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 2016 (J. Gonzalez, 2025/2026), similar to this bill, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would remove the income limitation for retirement pay for service in the uniformed services and annuity payments received from a Survivor Benefit plan, and also remove the $20,000 annual limitation to qualify for both of these exclusions. AB 2016 has been referred to the Assembly Revenue and Taxation Committee.

SB 1 (Seyarto et al., 2025/2026) would have, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2035, excluded from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. SB 1 did not pass out of the policy committee by the required deadline.

SB 132 (Senate Committee on Budget and Fiscal Review, Chapter 17, Statutes of 2025), among other provisions, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, excludes 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 and up to $20,000 of annuity payments received from the US Department of Defense Survivor Benefit Plan for qualified taxpayers with AGI levels under specified limitations.

AB 46 (Ramos, et al., 2023/2024), would have, under the PITL, for taxable years beginning on or after January 1, 2024, and before January 1, 2034, 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 required 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 1407 as Introduced February 20, 2026
Assumed Enactment after June 30, 2026

($ in Millions)

Fiscal Year	Revenue
2026-2027	-$100
2027-2028	-$65
2028-2029	-$65

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.

Revenue Discussion

Based on data from the United States Department of Defense (DOD), it is estimated that approximately 100,000 California uniformed service members would receive $4.5 billion in retirement payments that would be excluded from income in the 2026 taxable year. Applying an average tax rate of 3 percent results in an estimated revenue loss of $132 million in 2026. Under current law, it is estimated that the limited dollar exclusion and adjusted gross income limit would result in $69 million in revenue loss in 2026. The net difference results in an additional revenue loss of about $63 million in the 2026 taxable year.

Based on data from the DOD, it is estimated that approximately 23,000 California military survivors would receive approximately $450 million in survivor benefits in the 2026 taxable year. Applying an average tax rate of 1 percent results in an estimated revenue loss of $4.5 million in 2026. Under current law, it is estimated that the limited dollar exclusion and adjusted gross income limit would result in $3.8 million in revenue loss in 2026. The net difference results in an additional revenue loss of about $700,000 in the 2026 taxable year.

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

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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