

# AB 427 – Military Retirement Pay

## Assemblyman William Brough



### Issue

California is home for 146,000 military retirees. According to a [study by the San Diego Military Advisory Council](#), California is one of only nine states that fully tax the pay of its military retirees. From 2000 to 2016, the nation's population of military retirees increased by 17%, yet during that time span California saw a decrease by 17%. The Governor's Military Council states that many veterans will leave California based on concerns about our state's cost of living. They are also attracted to incentives provided by other states, like whether or not a state taxes their military pension benefits. State leaders should explore appropriate ways to incentivize veterans to stay in California.

### Solution

To incentivize more veterans to keep their excellent skills here in California, such as, leadership, teamwork, and a high aptitude for technology, **this bill would exempt military retirement pay from state income tax for veterans who are residents in California. This bill sunsets these provisions on January 1, 2030.**

**To offset initial revenue loss to the state, the implementation of exempting full retirement pay would be tiered for each retiree:**

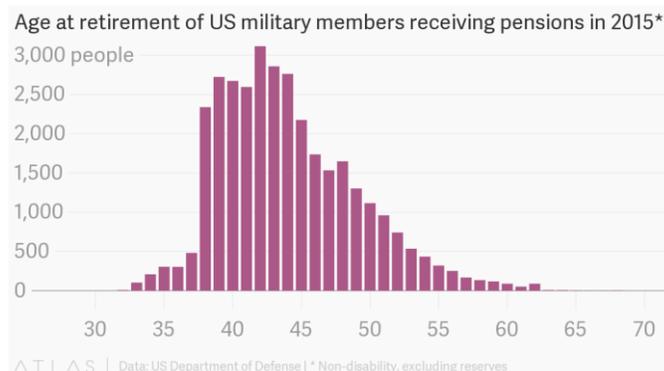
- **Taxable years 1 & 2, 50% of retirement pay is exempt**
- **Taxable years 3 & 4, 75% of retirement pay is exempt**
- **Taxable year 5 and each year after, 100% of retirement pay is exempt through the sunset**

Ending military pension taxation would yield significant benefits. It would raise the number of military retirees choosing to reside in California and also diminish the current declining trend over time. The economic benefits would be tangible and significant in terms of jobs, total personal income, GSP, and total business sales. California should do its part to not only give back to our veterans, but to attract future veterans to keep their skills here in the Golden State.

### Background

In order for a military service member to receive full military retirement benefits they must serve a minimum 20 years. Once an individual retires from active duty at 20 years, they receive 40% of the average of their highest 36 months of basic pay, a 2% increase for any additional years, and the benefits has an annual cost-of-living adjustment (COLA).

Nationwide less than 20% of veterans serve 20 years to receive military retirement benefits. But if a service member joins in their 20s, this retirement system allows them to retire around the age of 40. The graph below from the U.S. Department of Defense shows the age at retirement for military members who received a retirement in 2015, with most members being in their mid-40s.



## State Law

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California's Constitution contains provisions offering a partial exemption from property tax for disabled veterans worth \$150,000 of their home's assessed value for lower income disabled vets and \$100,000 for all other incomes. These amounts have been adjusted for inflation so that disabled veterans with household income below \$57,258 are eligible for an exemption amount of \$191,266. All other disabled veterans qualify for an exemption amount of \$127,510 for fiscal year 2016-17. Eligibility is based on a disability rating from the United States Department of Veterans Affairs (USDVA). To qualify for the exemption, the USDVA must rate the veteran's disability at 100 percent or rate their disability compensation at 100 percent because they are unable to find and keep gainful employment. Property owners must apply each year for the exemption.

## Similar Legislation

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**AB 2394 (Brough, 2018)** would have Excludes from income tax that retirement pay received from the federal government for service performed in the Armed Forces of the United States and the Army National Guard, Air National Guard, and the commissioned corps of the United States Public Health Service.

**AB 528 (Gray, 2017)** would have excluded from gross income a percentage of qualified retirement pay received by a taxpayer from the federal government for military service performed in the Armed Forces of the United States, the reserve component of the Armed Forces of the United States, or the National Guard.

**AB 1275 (Gray, 2015)** would have excluded 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. AB 1275 would have also excluded the gross income

survivor benefits received by a taxpayer from the federal government.

**AB 505 (Melendez, 2015)** would have excluded from income Concurrent Retirement and Disability Pay (CRDP) received by active, reserve, or retired members of the United States military who served in active duty.

## Staff Contact

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