

AB 427 (BROUGH) PERSONAL INCOME TAXES: EXCLUSION: UNIFORMED SERVICES: RETIREMENT PAY

POSITION: The Chamber's Public Policy Sub-Committee on Defense, Veterans & Military Affairs voted to SUPPORT the bill on the basis that the U.S. Coast Guard would be included on April 3, 2019. The Chamber's Public Policy Committee voted to SUPPORT the bill on April 9, 2019. The Chamber's Board of Directors voted to SUPPORT the bill on April 25, 2019.

RATIONALE: The Chamber remains committed to supporting the veteran community and believes California should remain competitive with other states by exempting military retirement pay from state income tax.

STATUS: AB 427 was introduced by Assemblymember Bill Brough on February 7, 2019 and was re-referred to the Assembly Committee on Taxation & Revenue on April 9, 2019.

SUMMARY

AB 427 exempts military retirement pay from state income tax.

INDUSTRY/IES IMPACTED

Industries impacted by this bill include military and all industries that employ veterans.

SUPPORTERS

- American G.I. Forum of California
- American Legion, Department of California
- Amvets, Department of California California
- Association of County Veterans Service Officers
- California State Commanders Veterans Council
- National Guard Association of California
- San Diego Military Advisory Council
- Vietnam Veterans of America, California State Council
- 35 Individuals

OPPONENTS

California Tax Reform Association

ARGUMENTS IN FAVOR

- A highly-skilled workforce with technical skills and effective leadership qualities are leaving California because the cost of living is too high, among other factors. It behooves the state to make it more attractive for military retirees to stay in California and start their second careers.
- Many military retirees start second careers in the civilian sector – many of who are in their 40s – so if those retirees stayed in California, the state would receive those income tax dollars.
- Military retirees could save that money and spend it at local establishments, thereby boosting the economy. Over a relatively short amount of time, the fiscal benefits to the state would be realized. The state has a \$17 billion surplus so now is the time to exempt military retirement pay from income tax.

ARGUMENTS IN OPPOSITION

- There is no mechanism in which the state would immediately recoup those lost dollars.
- The State of California shouldn't favor this specific population over others.

MORE INFORMATION

According to the San Diego Military Advisory Council's 2018 study, *Ending Taxation of Military Retiree Pay in California, An Analysis of the Costs and Benefits*, the military retiree population increased by 17% while California saw

a 17% decline in its military retiree population between 2000 and 2016. The study notes that by 2025, the state would see significant economic gains including 12,600 more jobs, \$830 million added to personal income, \$1.27 billion added to Gross State Product, and \$2.0 billion added to total business sales. By 2025, "the net fiscal impacts on state and local finances would be substantially positive..." and would include \$28.4 million in net state tax revenues and \$56.3 million in net state and local tax revenues combined.

This would go into effect on and after January 1, 2020 and would sunset on December 1, 2030 so that the Legislature would be able to review this program.

California currently has 146,000 military retirees and is one of only nine states that fully tax military retirement pay.