STATE OF CALIFORNIA
Franchise Tax Board

# Bill Analysis

Author: Sanchez

Sponsor:

Bill Number: AB 1867

Related Bills: See Legislative History

Introduced: January 18, 2024

## SUBJECT

Deduction for Homeowners' Insurance

## SUMMARY

This bill would, under the Personal Income Tax Law (PITL), allow an income tax deduction for amounts paid or incurred by a taxpayer for premiums on a homeowner's insurance policy on the taxpayer's primary residence.

## RECOMMENDATION

No position.

## SUMMARY OF AMENDMENTS

Not applicable.

## REASON FOR THE BILL

The reason for this bill is to assist homeowners in affording homeowners' insurance.

## ANALYSIS

This bill would, under the PITL, allow a deduction for premiums on a homeowners' insurance policy on the taxpayer's primary residence for taxable years beginning on or after January 1, 2024, and before January 1, 2029.

The bill defines "primary residence" as the residence that is eligible for the homeowner's exemption as described in Revenue and Taxation Code (RTC) section 218, or the veteran's exemption, as described in RTC section 205 and subdivisions (o), (p), (q), and (r) of Section 3 of Article XIII of the California Constitution.

The bill includes RTC section 41 requirements that would provide that the measurement of effectiveness of the deduction would be the number of taxpayers receiving the deduction. The Franchise Tax Board (FTB) would be required to annually report to the legislature the deduction data no later than December 1, 2025, and each December 1 thereafter. The FTB would be required to file this report in compliance with Government Code section 9795.

This deduction would be repealed on December 1, 2029.

### *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, 2024, and before January 1, 2029.

### *Federal/State Law*

Existing federal and state laws allow for deductions for trade or business expenses, including a deduction for insurance premiums against fire, storm, theft, accident, or other similar losses in case of a business, and rental for the use of business property. However, no deduction is allowed for personal, living and family expenses, including a deduction for the cost of insuring a dwelling owned and occupied by the taxpayer as a personal residence.

### *Implementation Considerations*

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

Because the bill fails to specify otherwise, taxpayers may be able to deduct all premiums on homeowners' insurance paid or incurred during the year, without limit. If this is contrary to the author's intent, the author may wish to amend the bill to provide a provision limiting the amount of the deduction, e.g., a phase out provision based on a taxpayer's income.

The author may want to amend the bill to allow for information sharing between FTB and the Board of Equalization

### *Technical Considerations*

None noted.

### *Policy Considerations*

None noted.

## LEGISLATIVE HISTORY

AB 731 (Chen, 2017/2018) would have allowed a deduction for qualified homeowners' association assessments under the PITL. AB 731 did not pass out of committee by the constitutional deadline.

## PROGRAM BACKGROUND

None noted.

## FISCAL IMPACT

The department'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 1867 as Introduced January 18, 2024.
Assumed Enactment after June 30, 2024

($ in Millions)

| Fiscal Year | Revenue |
|---|---:|
| 2024-2025 | -$110 |
| 2025-2026 | -$75 |
| 2026-2027 | -$80 |

*Revenue Discussion*

Based on data from the California Department of Insurance and publicly available information, it is estimated there would be approximately 6.7 million taxpayers with homeowner's insurance premiums and that the average written premium would be $1,600 in the 2024 taxable year. This would result in approximately $10.5 billion in premiums paid in 2024 taxable year.

Of this amount, it is estimated that approximately $10 billion would be premiums paid on a primary residence.

It is estimated that approximately 560,000 taxpayers would have aggregate miscellaneous itemized deductions that exceed 2 percent of their adjusted gross income and would be able to claim the deduction on the return. This would result in approximately $900 million of premiums deducted.

Applying an average tax rate of 7 percent, would result in an estimated revenue loss of approximately $67 million in 2024 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.

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.

## APPOINTMENTS

None noted.

## SUPPORT/OPPOSITION

To be determined.

## ARGUMENTS

To be determined.

## LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov