



Bill Analysis

Author: Nguyen & Davies

Sponsor:

Bill Number: SB 1102

Related Bills: See Legislative
History

Introduced: February 13, 2024

SUBJECT

Gross Income Exclusion – Oil Spill Settlement Payment Exclusion

SUMMARY

Under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), this bill would provide a gross income exclusion for amounts received in settlement in connection with the October 2, 2021, oil spill in the County of Orange, near the City of Huntington Beach.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for this bill is to provide relief to taxpayers who were impacted by the October 2, 2021, oil spill.

ANALYSIS

Under the PITL and CTL, this bill would create a gross income exclusion for qualified amounts received in settlement by a qualified taxpayer.

This bill defines the following terms:

“Qualified amount” means any amount received in settlement by a qualified taxpayer from Amplify Energy Corp., Beta Operating Company, LLC, San Pedro Bay Pipeline Company, or any other settling defendant in settlement for claims relating to the October 2, 2021, oil spill off the coast of the County of Orange near the City of Huntington Beach.

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“Qualified taxpayer” means any of the following:

- Any taxpayer that owned real property located in the County of Orange near the City of Huntington Beach during the October 2, 2021, oil spill who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the October 2, 2021, oil spill.
- Any taxpayer that resided within the County of Orange near the City of Huntington Beach during the October 2, 2021, oil spill who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the October 2, 2021, oil spill.
- Any taxpayer that had a place of business within the County of Orange near the City of Huntington Beach during the October 2, 2021, oil spill who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the October 2, 2021, oil spill.

“Settlement entity” means the entity making the settlement payment to a qualified taxpayer as described in the definition of a qualified taxpayer.

This bill would require the settlement entity to provide to the Franchise Tax Board (FTB), upon request, documentation of the settlement payments in the form and manner requested by the FTB.

The exclusion would apply to taxable years beginning before, on, or after the effective date of bill. Any credit or refund resulting from the exclusion that would be barred by law or rule of law, including res judicata, would be allowed if claimed before the close of the one-year period beginning on the effective date of this bill.

This exclusion would be repealed on January 1, 2029.

For purposes of complying with Section 41 of the Revenue and Taxation Code (RTC), this bill would require the FTB, on or before January 1, 2030, to submit a written report to the Legislature, pursuant to Section 9795 of the Government Code. The report would include the following information:

- The number of qualified taxpayers that excluded qualified amounts from gross income.
- The aggregate amount of those settlement payments arising out of the October 2, 2021, oil spill.

The RTC section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

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Effective/Operative Date

As an urgency measure, this bill would be effective immediately upon enactment. It would be specifically operative for taxable years beginning before, on, or after the effective date of the act and repealed on January 1, 2029.

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.

Current federal and state laws do not specifically exclude from gross income amounts received from this specified oil spill settlement.

Implementation Considerations

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

For purposes of complying with Section 41, this bill would require the FTB to report on the number of qualified taxpayers that excluded qualified amounts from gross income and the aggregate amount of those settlement payments arising out of the October 2, 2021, oil spill. However, since taxpayers are not required to report excluded income on their return, FTB may not be able to report on the required information. In addition, there may be some individuals who receive settlement payments who do not have a filing requirement. Therefore, the FTB may not be able to report on the aggregate amount.

In addition, this bill would require the FTB to submit a written report to the Legislature by January 1, 2030. The FTB would not have the specific data until approximately July 2031. The author may wish to amend the bill to change the reporting due date to allow the time needed for the FTB to collect the necessary data. If the reporting due date remains unchanged, the report will have incomplete information.

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Technical Considerations

For technical accuracy, the phrase "paid and incurred" throughout the bill should be replaced with "paid or incurred".

For grammatical consistency, the term "settlement defendant," should be replaced with, "settlement entity" in subdivision (a)(1) of the bill.

In Section 24309.9 (b)(2)(B) of the bill, the language provides that a "qualified taxpayer," can be "Any taxpayer that resided with the County of Orange..." This is unnecessary because the term "resided" does not apply under the CTL.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 1249 (Gallagher, Chapter 749, Statutes of 2022) provided an exclusion from gross income for amounts received in settlement under the order of the United States Bankruptcy Court for the Northern District of California dated June 20, 2020, case number 19-30088, docket number 8053 and allowed refunds of tax previously paid on those amounts.

SB 1246 (Stern & Valladares, Chapter 841, Statutes of 2022) provided to qualified taxpayers an exclusion from gross income for amounts received from Southern California Edison in settlement for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire and allow refunds of tax previously paid on those amounts.

SB 370 (McGuire, et al., 2023/2024) would provide, to qualified taxpayers, an exclusion from gross income for amounts received in settlement in connection with the 2019 Kincade Fire. SB 370 is currently in the Assembly Revenue and Taxation Committee.

SB 542 (Dahle & Dahle, 2023/2024) under the PITL and the CTL, would provide a qualified taxpayer an exclusion from gross income for amounts received from a settlement entity in connection with the 2021 Dixie Fire or the 2022 Mill Fire. SB 542 is currently in the Assembly Appropriations Committee.

SB 927 (Dahle, et al., 2023/2024) under the PITL and the CTL, would provide a taxpayer an exclusion from gross income for qualified amounts received in settlement to replace property damaged or destroyed in a natural disaster declared a state of emergency by the Governor and the President of the United States. SB 927 is currently in the Senate Appropriations Committee.

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PROGRAM BACKGROUND

None noted.

FISCAL IMPACT

The FTB’s costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1102 as Introduced February 13, 2024
Assumed Enactment after June 30, 2024

(\$ in Millions)

Fiscal Year	Revenue*
2023-2024	-\$0.15
2024-2025	-\$3.4
2025-2026	-\$0.7
2026-2027	-\$0.2

*Any revenues associated with a prior tax year are accrued back one year.

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.

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ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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