



Bill Analysis

Author: McGuire

Bill Number: SB 946

SUBJECT

Gross Income Exclusion for Wildfire Mitigation Program Payments

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), would provide an exclusion from gross income for payments received from the California Wildfire Mitigation Financial Assistance Program.

REASON FOR THE BILL

The reason for this bill is to provide financial relief to taxpayers in high fire areas who receive payments from the California Wildfire Mitigation Financial Assistance Program for an activity that reduces wildfire risk.

ANALYSIS

This bill, under the PITL and CTL, would provide an exclusion from gross income for any amount received by a qualified taxpayer as a California qualified wildfire loss mitigation payment.

This bill, for purposes of the PITL and CTL, would provide the following definitions:

- “California qualified wildfire loss mitigation payment” means any amount which is received through the California Wildfire Mitigation Financial Assistance Program (commencing with Section 8654.2 of the Government Code (GOV)) for the benefit of a residential property owner or occupant with expenses paid, or obligations incurred, for wildfire loss mitigation.
- “Qualified taxpayer” means a taxpayer that owns the structure for which a California qualified wildfire loss mitigation payment was received.
- “Wildfire loss mitigation” means an activity that reduces wildfire risks to a residential structure or its contents, or both.

This bill would include Revenue and Taxation Code section 41 requirements that the Office of Emergency Services and the Department of Forestry and Fire Protection as joint powers created under GOV section 8654.4 provide a report to the Legislature by December 1, 2029, to the extent data is available, on the aggregate amount of funds distributed from the California Wildfire Mitigation Financial Assistance Program, and the number of individuals who accepted funds from this program who may be eligible to exclude the income.

This bill would provide authorization for the FTB to share Section 41 information with the Office of Emergency Services and Department of Forestry and Fire Protection as specified. Taxpayer information received by the joint powers authority would be subject to the general prohibition against disclosure of confidential taxpayer information.

This exclusion would be repealed on December 1, 2029.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

Federal Law

Existing federal law, Internal Revenue Code (IRC) section 139, provides a general exclusion that gross income does not include any amount an individual receives as a qualified disaster payment. A qualified disaster payment means amounts paid to, or for the benefit of, an individual for several purposes, including to:

- Reimburse or pay reasonable and necessary personal, family, living, or funeral expenses the individual incurred because of a qualified disaster; or
- Reimburse or pay reasonable and necessary expenses the individual incurred for the repair or rehabilitation of a personal residence or repair or replacement of its contents, to the extent that the need for such repair, rehabilitation, or replacement is attributable to a qualified disaster.

For any federally declared disaster, an individual may exclude from income a valid disaster relief payment, which includes any amount the individual receives from the settlement award for a purpose listed above.

Existing federal law, IRC section 139(g), provides a gross income exclusion for any amount received as a qualified disaster mitigation payment. A qualified disaster mitigation payment is any payment received pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act or the National Flood Insurance Act made to the owner of property for hazard mitigation of that property. No adjustment to basis is allowed for amounts excluded.

State Law

California generally conforms to IRC section 139. California also specifically allows an exclusion from gross income for:

- Settlement payments received from the Fire Victims Trust.
- Settlement payments received from Southern California Edison for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire.
- Settlement payments received from Pacific Gas and Electric Company or its subsidiary for claims in connection with the 2019 Kincadee Fire or the 2020 Zogg Fire.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

This bill would allow an exclusion for payments received for wildfire loss mitigation expenditures that may increase the basis of the property. Providing both an exclusion and allowing the expenditure amount to be added to the basis of the property would have the effect of providing a double benefit for the same item.

LEGISLATIVE HISTORY

AB 294 (Petri-Norris, 2023/2024) would have provided a qualified taxpayer an exclusion from gross income for amounts received from a settlement entity for a wildfire. This bill did not pass out of the Assembly Appropriations Committee by the constitutional deadline.

AB 1973 (Lackey, 2023/2024) would provide a qualified taxpayer an exclusion from gross income for any amount received from a settlement entity in connection with the 2020 Bobcat Fire. On August 28, 2024, this bill was ordered to engrossing and enrolling.

SB 542 (Dahle, 2023/2024) would provide a qualified taxpayer an exclusion from gross income for amounts received from a settlement entity to replace property damaged or destroyed in connection with the 2021 Dixie Fire or the 2022 Mill Fire. On August 28, 2024, this bill was ordered to engrossing and enrolling.

SB 927 (Dahle, 2023/2024) would provide a qualified taxpayer an exclusion from gross income for qualified amounts received from a settlement entity 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. This bill is currently in the Senate Appropriations Committee under submission.

SB 952 (Dahle, et al. 2023/2024) would allow two home fire safety tax credits for qualified home hardening and qualified vegetation management, collectively known as the Fire Safe Home Tax Credits Act. This bill is currently in the Senate Appropriations Committee under submission.

SB 1004 (Wilk, 2023/2024) would provide a qualified taxpayer an exclusion from gross income for amounts received from a settlement entity for a wildfire. This bill is currently in the Senate Appropriations Committee under submission.

SB 131 (Committee on Budget and Fiscal Review, Chapter 55, Statutes of 2023), among other things, provides an exclusion from gross income for amounts received for settlement payments as a result of the 2019 Kincade Fire and 2020 Zogg fire.

AB 1249 (Gallagher, et al., Chapter 749, Statutes of 2022) provides 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.

SB 1246 (Stern, Chapter 841, Statutes of 2022) provides 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.

PROGRAM BACKGROUND

The California Wildfire Mitigation Financial Assistance Program as part of the California Wildfire Mitigation Program was established in 2019 with the goal of both the California Governor's Office of Emergency Services and the California Department of Forestry and Fire Protection to protect homes in high-risk wildfire areas through preventative measures.

OTHER STATES' INFORMATION

None Noted.

FISCAL IMPACT

The FTB anticipates minimal costs to implement this bill.

ECONOMIC IMPACT

Revenue Estimate

This bill would exclude from gross income any payment received by a qualifying residential property owner through the California Wildfire Mitigation Financial Assistance Program for expenses paid or incurred for wildfire loss mitigation.

To determine the magnitude of the potential impact to the General Fund, both the number of qualifying residential property owners as well as the amount of funds distributed from the California Wildfire Mitigation Financial Assistance Program would need to be known. Because it is difficult to determine the number of qualifying residential property owners who would be impacted by this proposal and the amount of funds distributed, the revenue impact to the General Fund is unknown.

However, it is assumed that for every \$100 million of payments received by qualified taxpayers, and applying an average tax rate of 3 percent, the estimated revenue loss would be approximately \$3,000,000.

This estimate assumes the California Wildfire Mitigation Financial Assistance Program would receive funding on an annual basis.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Senate Floor Analysis dated August 27, 2024.

Support:

Insurance Commissioner Ricardo Lara
Buildstrong America
Cal Fire Local 2881
California Builders Alliance
California Department of Insurance
California Professional Firefighters
County of Santa Rosa
County of San Diego
Rural County Representatives of California
Sacramento Regional Builders Exchange

Opposition:

None on file.

VOTES

Location	Date	Yes Votes	No Votes
Concurrence	August 28, 2024	39	0
Assembly Floor	August 26, 2024	77	0
Senate Floor	May 23, 2024	37	0

LEGISLATIVE STAFF CONTACT

FTBLegislativeServices@ftb.ca.gov

Amy Tong
Agency Secretary, GovOps
Work (916) 651-9011

Luis Larios
Legislative Deputy, GovOps
Work (916) 651-9373

Selvi Stanislaus
Executive Officer, FTB
Work (916) 845-4543

Denis Armstrong
Legislative Director, FTB
Work (916) 845-6333