STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Wallis and Flora

Sponsor:

Related Bills: See Legislative History

Bill Number: AB 1354

Introduced: February 21, 2025

SUBJECT

Fire Insurance Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2025, and before January 1, 2030, allow a qualified taxpayer a fire insurance tax credit in an amount equal to the amount of specified residential fire insurance premiums paid.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to provide relief to California homeowners subject to price increases for the cost of residential fire insurance.

ANALYSIS

Under the PITL, for each taxable year beginning on or after January 1, 2025, and before January 1, 2030, the bill would allow a qualified taxpayer a credit against the "net tax" in an amount equal to the sum of the following:

- The amount of premium paid by a taxpayer in the taxable year for a residential property insurance policy on a qualified residential property, as provided in Chapter 2 of Part 1 of Division 2 of the Insurance Code (INS) less the base year premium paid.
- Any assessment of surcharges paid by a taxpayer, as provided in Chapter 9 of Part 1 of Division 2 of the INS.

The bill defines the following:

- "Base year premium" would mean the amount of premium paid by a taxpayer for a fire insurance policy as provided in Chapter 2 of Part 1 of Division 2 of the INS, in the 2023 calendar year.
- "Policy of residential property insurance" would mean a policy that insures individually owned residential structures of not more than four dwelling units, individually owned condominium units, or individually owned mobilehomes, and their contents, located in this state and used exclusively for residential purposes. The policy of residential property insurance would not include insurance for real property used for any commercial or industrial purpose.
- "Premium paid" would not include interest charges or other fees paid through a premium finance plan or other plan for extension of credit.
- "Qualified residential property" would mean an individually owned residential structure of not more than four dwelling units, individually owned condominium units, or individually owned mobile homes, and their contents, located in this state and used exclusively for residential purposes and was purchased prior to December 31,2023.
- "Qualified taxpayer" would mean a taxpayer that satisfies either of the following:
    - In case of spouses filing joint returns, head of household, or surviving spouse, adjusted gross income (AGI) does not exceed $300,000.
    - In the case of any other individual, AGI does not exceed $150,000.
- "Qualified taxpayer" would not include a taxpayer whose insured residential real property exceeds an aggregate value of more than $3,300,000.

The credit would be allowed instead of any other credit or deduction a qualified taxpayer may otherwise be allowed under the PITL with respect to amounts taken into consideration when calculating the allowable credit.

The Franchise Tax Board (FTB) may prescribe rules, guidelines, procedures or other guidance to carry out the purpose of this bill. The Administrative Procedure Act would not apply to any rule, guideline, or procedure prescribed by the FTB. In addition, the FTB, may prescribe any regulations necessary and appropriate to carry out the purposes of the bill, including any regulations to prevent improper claims from being filed.

This bill includes language to comply with Revenue and Taxation Code (RTC) section 41, which provides the goal of the credit is to assist California taxpayers in affording the massive increases for the cost of residential property insurance. The performance indicators used to evaluate the effectiveness of credit are the number of taxpayers claiming the credit and whether the average annual increase in insurance premiums is in line with the annual increase in the California Consumer Price Index.

The bill would require the FTB to submit a report to the Legislature on or before December 1, 2026, and annually thereafter, that includes the number of taxpayers claiming the credit in the most recent taxable year and the total dollar value of the credits allowed.

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

This credit would be repealed on December 1, 2030.

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, 2025, and before January 1, 2030.

Federal/State Law

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake. Currently, federal and state law has no credit comparable to the Fire Insurance Tax Credit.

Under existing state law, legislation that would create a new tax expenditure, which includes a credit, deduction, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, detailed performance indicators, and data collection requirements to allow the Legislature to evaluate the effectiveness of the tax benefit. Legislation that would create an income exclusion would not require detailed performance indicators and data collection requirements performance measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

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

This bill uses the term “aggregate value”. However, the term is not defined, and the absence of the definition could lead to taxpayer confusion. For clarity the author may wish to amend the bill to define these terms.

Technical Considerations

For consistency and clarity, the following changes are recommended:

- In Section 17053.84(a)(1), replace, “For each taxable year beginning on…” with “For taxable years beginning on…”
- In Section 17053.84(b)(5)(A), in the definition of “qualified taxpayer” replace “taxpayer” with “individual” if the author’s intent is to limit the credit to properties owned by natural persons.
- In Section 17053.84(b)(5)(A)(ii) the phrase “any other individual” should be replaced with “a single individual or a spouse filing separately.”
- Throughout the bill, replace “paid” with “paid or incurred.”

In Section 17053.84(d)(2) remove the phrase, “The Franchise Tax Board may prescribe any regulations necessary or appropriate to carry out the purposes of this section, including any regulations to prevent improper claims from being filed.”

This bill uses the terms “qualified taxpayer” and “taxpayer” interchangeably. For clarity, the author should amend the bill to replace “taxpayer” with “qualified taxpayer.”, except in Section 17053.84(b)(5)(A).

Policy Considerations

This bill does not provide a carryover period. As a result, any unused credit would be lost if the taxpayer is unable to utilize the entire credit amount in the year claimed.

The amount of the credit is determined by subtracting the specified insurance premiums paid in the current taxable year minus the specified premiums paid in the 2023 calendar year. If the premiums paid in the current year are higher than the premiums paid in 2023 a taxpayer would be eligible for the credit, even if the difference is not due to an increase in the price of the specified insurance. For instance, the difference in the premium paid in the current year from the premium paid in 2023 could be due to the taxpayer first obtaining insurance or increasing coverage after the 2023 calendar year. If this is contrary to the author’s intent, the author may wish to amend the bill.

This credit would be required to be taken in lieu of any other credit or deduction that the qualified taxpayer may otherwise claim with respect to specified premiums and assessments paid by a qualified taxpayer. This may lead to the denial of deductions or credits that may have a larger tax benefit for the qualified taxpayer. If this is contrary to the author’s intent, the author may wish to amend the bill.

This bill would require the FTB to prepare a report on the performance of the credit allowed by this bill no later than December 1, 2026, and annually thereafter. If the author's intent is to be able to review a report that contains complete information for taxable year 2025, it is recommended that the report due date be extended to no earlier than July of 2027. For instance, the due date for the 2025 personal income tax return is April 15, 2026, with individuals filing on extension as late as October 15, 2026. The FTB needs approximately six to eight months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than July of 2027 to provide complete information for the 2025 taxable year.

LEGISLATIVE HISTORY

No legislation similar to this bill has been identified.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

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 AB 1354 as Introduced February 21, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$900
2026-2027	-$550
2027-2028	-$500

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.

Revenue Discussion

Based on data from the California Department of Insurance for residential property insurance policies, it is estimated there would be about 600,000 residential property insurance policies that are paid by taxpayers who purchased property prior to December 31, 2023. After adjusting for taxpayers within the specified adjusted gross income limits and the maximum aggregate real property ownership limit of $3.3 million, it is estimated about 310,000 policies would be paid by qualified taxpayers.

Using average policy premium data, it is estimated the net difference between the base year premium and the current residential property insurance premium inclusive of any assessment and surcharges would be $2,100 per policy. This results in a total credit generated of $650 million in the 2025 taxable year. Of this, is estimated 90 percent, or $590 million, would be claimed in the year generated and the remaining credit would go used.

To arrive at the offsetting tax effect of expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct approximately $115 million in qualified expenses in the 2025 taxable year. Applying an average tax rate of 7 percent, results in an offsetting revenue gain of $8 million. The resulting net revenue loss, for taxable year 2025, would be $580 million.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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