



Bill Analysis

Author: Wallis and Flora

Sponsor:

Bill Number: AB 1354

Related Bills: See Legislative
History

Amended: April 28, 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, 2026, and before January 1, 2031, allow a qualified taxpayer a fire insurance tax credit in an amount equal to the amount of specified residential fire insurance premiums paid or incurred.

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

The April 28, 2025, amendments changed the operative and repeal dates, modified the definition of qualified taxpayer, and made other technical corrections. The amendments resolved all of the implementation considerations, all but one of the technical considerations, and one of the policy considerations discussed in the Franchise Tax Board's (FTB) analysis of the bill as introduced on February 21, 2025.

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 taxable years beginning on or after January 1, 2026, and before January 1, 2031, 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 or incurred 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 or incurred 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 or incurred 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 mobile homes, 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 or incurred” would not include interest charges or other fees paid or incurred 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 as the taxpayer’s primary residence that was purchased prior to December 31, 2023.
- “Qualified taxpayer” would mean an individual 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 a single individual or a spouse filing a separate return, AGI does not exceed \$150,000.

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 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.

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 July 1, 2028, 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, 2031.

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, 2026, and before January 1, 2031.

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

None noted.

Technical 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 terms "qualified taxpayer" and "taxpayer" interchangeably. For clarity, the author should amend the bill to replace "taxpayer" with "qualified taxpayer" in Section 17053.84(a) and (b).

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 2029 compared to 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.

LEGISLATIVE HISTORY

AB 232 (Calderon, et al., 2025/2026), under the PITL, would allow homeowners to establish a catastrophe savings account (CSA) to pay for insurance deductibles and other uninsured losses resulting from a Governor-declared emergency and expenses to incorporate property-level wildfire mitigation efforts. This bill would also provide both a deduction for amounts contributed by an individual homeowner to a CSA and a gross income exclusion for interest amounts earned by a CSA for taxable years beginning on or after January 1, 2026, and before January 1, 2031. AB 232 was held in the Assembly Appropriations Committee's suspense file.

AB 1867 (Sanchez, 2023/2024), under the PITL, would have allowed 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. AB 1867 did not pass out of committee by the constitutional deadline.

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 Amended April 28, 2025
Assumed Enactment after June 30, 2025

(\$ in Millions)

Fiscal Year	Revenue
2025-2026	-\$320
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 540,000 primary residential property insurance policies that are paid by taxpayers who purchased property prior to December 31, 2023. After adjusting for taxpayers within the specified AGI limits, it is estimated that about 260,000 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 \$550 million in the 2026 taxable year. Of this, it is estimated 90 percent, or \$490 million, would be claimed in the year generated and the remaining credit would go unused.

Because primary residential insurance premiums are not deductible on an individual tax return, there would be no offsetting deduction that would otherwise be allowed under current law. The resulting net revenue loss, for the taxable year 2026, would be \$490 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

Assembly Committee on Revenue and Taxation dated May 2, 2025.

Support

California Apartment Association
California Association of Realtors

Opposition

California Teachers Association (CTA)

ARGUMENTS

Assembly Committee on Revenue and Taxation dated May 2, 2025.

Proponents

Writing in support of this bill, the California Association of Realtors noted, in part:

In the wake of recent wildfires, many California homeowners are shouldering the cost of rising insurance premiums, leading to reduction in homeownership affordability. AB 1354 would help mitigate that impact by offering eligible property owners a tax credit for the amount of their insurance premium, above their 2023 baseline premium.

Opponents

Writing in opposition to this bill, the CTA, noted, in part:

According to the Department of Finance, the state provided over \$91.5 billion in General Fund tax expenditures in 2024-25 (including income, sales and use, corporate and other taxes). This number continues to grow each year. This revenue would have otherwise gone to the General Fund, of which, approximately 39 percent would have gone toward Proposition 98 for K-14 education. Due to existing tax expenditures, approximately \$35 billion is redirected away from schools and community colleges each year. While we understand these bills are well intended, CTA does not support this approach, as it would reduce overall funding for education. CTA believes Proposition 98 should be protected from reductions through the creation of new or expanding existing tax expenditures or cuts to tax rates.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov