



Bill Analysis

Author: Calderon

Sponsor:

Bill Number: AB 1726

Related Bills: See Legislative
History

Introduced: February 5, 2026

SUBJECT

Catastrophe Savings Accounts

SUMMARY

This bill, under the Personal Income Tax Law (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 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, 2027, and before January 1, 2032.

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 this bill is to allow a homeowner to establish a CSA and use deposited funds and earnings to cover insurance deductibles and uninsured losses caused by a wildfire, flood, or earthquake that has been declared an emergency by the Governor.

ANALYSIS

For taxable years beginning on or after January 1, 2027, and before January 1, 2032, this bill would allow a deduction for amounts contributed by an individual homeowner to a CSA and a gross income exclusion for interest amounts earned by a CSA. Any interest that accrues to a catastrophe savings account after December 31, 2031, would be included in gross income.

For taxable years beginning on or after January 1, 2027, and before January 1, 2032, this bill would provide that the total amount that may be contributed to a CSA per taxable year and allowed as a deduction would be subject to the following limits:

- For a qualified taxpayer whose principal residence is insured, \$15,000.
- For a qualified taxpayer whose principal residence is not insured, \$250,000.

In cases where the qualified taxpayer makes contributions that exceed the limits outlined above, the excess amount must be withdrawn and reported as income in the year it is withdrawn.

This bill would provide the following definitions:

- “Catastrophe Savings Account” (CSA) means a savings account or money market account which satisfies the following:
 - Is designated as a CSA by the account holder
 - Is established by both a qualified taxpayer or by qualified taxpayers who are spouses for the exclusive benefit of a qualified taxpayer establishing the account
 - Is the only CSA established by the qualified taxpayer.
 - Is established by a residential property owner in this state for their principal residence.
 - The written governing instrument creating the account provides that all contributions to the CSA be in cash and that the account is established to pay for qualified catastrophe expenses of a qualified taxpayer establishing the account.
- “Qualified catastrophe expenses” mean expenses paid or incurred for either of the following:
 - Damage to or loss of a homeowner’s principal residence caused by a wildfire, flood, or earthquake that has been declared by the Governor to be an emergency, including a qualified deductible of a homeowner’s insurance policy.
 - The incorporation of property-level mitigation efforts, as provided under Article 4 (commencing with section 2644.9) of Chapter 5 of Title 10 of the California Code of Regulations, to their principal residence.
- “Qualified taxpayer” means an individual, or a married couple if filing a joint return, who owns a principal residence in this state.

A distribution from a CSA must be used to cover qualified catastrophe expenses. If a qualified taxpayer uses a distribution from a CSA to cover an expense other than a qualified catastrophe expense, the qualified taxpayer would be subject to a penalty of 2.5 percent of the amount improperly distributed.

This bill provides that for purposes of Revenue and Taxation Code (RTC) section 41, the effectiveness of the deduction would be measured by the number of taxpayers allowed the deduction, the average amount of the deduction allowed, and the total amount of deductions allowed.

For purposes of complying with RTC section 41, this bill would require the Franchise Tax Board (FTB) to issue a report to the Legislature by May 1, 2029, and annually thereafter on the number of taxpayers receiving the deduction. The FTB would be required to file this report in compliance with Government Code section 9795.

The disclosure provisions of this bill would be treated as an exception to the FTB's disclosure rules under Section 19542.

The above-the-line deduction for amounts contributed to a CSA would be inoperative as of December 1, 2032. The gross income exclusion for interest amounts earned by a CSA would be inoperative as of December 1, 2032.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment. The gross income exclusion and deduction provisions would be specifically operative for taxable years beginning on or after January 1, 2027, and before January 1, 2032.

Federal/State Law

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. Types of income currently excluded include amounts received as a gift or inheritance, certain compensation for injuries and sickness, educational assistance programs, foster care payments, interest received on certain state or federal obligations, and qualified scholarships.

Existing federal and state laws allow for the deduction of certain expenses, from gross income, when calculating Adjusted Gross Income (AGI), such as moving expenses and interest on education loans, certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, contributions for pension, profit-sharing and annuity plans of self-employed individuals, and retirement savings. Thus, all taxpayers with these types of expenses receive the benefit of the deduction, regardless of whether the taxpayer itemizes deductions or uses the standard deduction. These are known as above-the-line deductions.

There are currently no federal or state deductions comparable to the deduction this bill would create.

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.

The bill uses inconsistent terminology, i.e., "qualified taxpayer," "homeowner," "individual homeowner," and "account holder" that could lead to disputes with taxpayers. For clarity, it is recommended to use "qualified taxpayer" throughout the bill.

This bill would require that CSA distributions must be used to cover qualified catastrophe expenses. The FTB does not have the expertise to determine if an expense is a qualified catastrophe expense. To ensure proper administration of the improper distribution provision, it is recommended that this bill be amended to include a certifying agency.

This bill would require the FTB to administer a penalty on the improper distribution of funds from a CSA. To assess the new penalty the FTB may need to develop new forms and system updates.

Technical Considerations

In Section 17072(c), to ensure consistency with the Internal Revenue Code clause, replace "relating to attorney's fees" with "relating to attorneys' fees".

In Sections 17072(d), 17141.8(a), and 17207.15(a), replace "For each taxable year beginning" with "For taxable years beginning".

Policy Considerations

This bill would provide a deduction for contributions to a CSA. An untaxed distribution from the CSA may be used to pay for the repair or expense of an unreimbursed personal casualty loss for which a taxpayer is able to claim as an itemized deduction. Providing a deduction for a contribution to a CSA, and a deduction for a personal casualty loss, while not subjecting the distribution to tax, would have the effect of providing a double benefit for the same item. Similarly, an untaxed distribution from a CSA may be used to pay for property-level mitigation efforts which may increase the basis in the property. Providing a deduction for a contribution, not subjecting the distribution to tax, 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. If this is contrary to the author's intent, the author may wish to amend the bill.

Residences can be owned by multiple individuals and each individual could be eligible to establish a separate CSA that could exceed the value of the individual's interest in the residence, or the combined CSAs of all owners could exceed the value of the residence. If this is contrary to the author's intent, this bill should be amended.

This bill would not require distributions from a CSA to be included in gross income. A distribution from a CSA to pay for an expense other than a qualified catastrophe expense, would be subject to a 2.5 percent penalty, but would still retain the beneficial tax treatment of the initial deduction and the income exclusion for interest earned. If this is contrary to the author's intent, the author may consider amending the bill.

This bill would allow an income exclusion on interest earned on contributions made in excess of the stated limits. If this is contrary to the author's intent, the author may consider amending the bill.

This bill would allow an income exclusion on interest earned when the funds from the CSA are used for non-qualified expenses. If this is contrary to the author's intent, the author may wish to amend the bill.

This bill would allow a deduction for amounts contributed to a catastrophe savings account to be used for qualified catastrophe expenses paid or incurred by the qualified taxpayer due to damage to or loss of a homeowner's principal residence. Those expenses due to damage or loss could also be reimbursed by insurance. If this is contrary to the author's intent, the bill should be amended to specify that qualified catastrophe expenses are "unreimbursed" expenses.

This bill would require the FTB to prepare a report on the performance of the deduction allowed by this bill no later than May 1, 2029, and annually thereafter; and the final report, including the 2031 tax year data, would be due in 2033. This would be after the repeal date of the deduction. If this is contrary to the author's intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

AB 232 (Calderon, Gipson, and Valencia 2025/2026) under the PITL, would have, similar to this bill, allowed homeowners to establish a 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 have provided 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 did not pass out of the Assembly by the required deadline.

AB 1867 (Sanchez, 2023/2024) 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 the Assembly by the required 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 1726 as Introduced February 5, 2026
Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue*
2026-2027	-\$14
2027-2028	-\$55
2028-2029	-\$100

*This estimate assumes only taxpayers saving for a qualified catastrophic event would make contributions.

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 Department of Finance and US Census Bureau, it is estimated that there are approximately 8.5 million owner-occupied residences in the State. Of those, it is anticipated that 127,000 qualified taxpayers would open CSAs in 2027.

After considering insured and uninsured qualified taxpayers, it is assumed that account holders would make qualifying contributions of \$1,000 to \$15,000 each year. This results in qualifying contribution of approximately \$395 million and interest income earning of about \$1.4 million in the 2027 taxable year. It is assumed that new accounts would be opened each year, and that account holders would continue to make annual contributions. It is estimated that contributions with interest earnings would peak at \$1.9 billion in the 2031 taxable year. After applying an average tax rate of 6 percent, the estimated revenue loss would be \$24 million in the 2027 taxable year would increase to \$120 million by the 2031 taxable year.

Of the amounts contributed, it is assumed that about 1 percent, or \$5 million, of CSA funds would be spent on non-qualified expenses and would receive a penalty in the 2027 taxable year. Applying the penalty rate of two and one-half percent results in about \$100,000 in penalties issued for a net revenue loss of \$24 million in the 2027 taxable year. It is assumed that as CSA balances increase, the amount of funds used for non-qualified expenses would increase and would peak at about 5 percent.

This estimate assumes that account holders would continue to maintain and contribute to the CSA until a qualifying catastrophic event occurs. This estimate does not include any reductions to account for funds due to declared disasters as the timing and severity of such events cannot be predicted.

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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