



Bill Analysis

Author: Calderon, Gipson,
and Valencia

Sponsor:

Bill Number: AB 232

Related Bills: See Legislative
History

Introduced: January 13, 2025

SUBJECT

Catastrophe Savings Accounts

SUMMARY

This bill, under the Financial Code (FIN) 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. Under the Personal Income Tax Law (PITL), 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, 2025, and before January 1, 2030.

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

This bill, under the FIN, would authorize a homeowner to establish one CSA to cover insurance deductibles and uninsured losses for the homeowner's primary residence from a wildfire, flood, or earthquake. Under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, this bill would allow an above-the-line deduction for amounts contributed by an individual homeowner to a CSA and a gross income exclusion for interest amounts earned by a CSA.

This bill, under the FIN, would provide the following:

- “Catastrophe Savings Account” (CSA) means a regular savings account or money market account established by a residential property insurance policyholder in this state to cover the deductible for a policy that covers wildfire, flood, or earthquake for the policyholder’s primary residence or by an individual to cover uninsured losses for the homeowner’s primary residence from a wildfire, flood, or earthquake.
- “Qualified catastrophe expenses” mean expenses paid or incurred due to damage to or loss of a homeowner’s primary residence caused by a wildfire, flood, or earthquake that has been declared by the Governor to be an emergency. Funds withdrawn from a CSA must be used to cover qualified catastrophe expenses.
- The CSA is not to be subject to attachment, levy, garnishment, or legal process in this state.

For taxable years beginning on or after January 1, 2025, and before January 1, 2030, this bill would provide that the total amount that may be contributed to a CSA and reported as an above-the-line deduction would be subject to the following limits:

- For an individual whose qualified deductible is not more than \$1,000, \$2,000.
- For an individual whose qualified deductible is more than \$1,000, the amount equal to the lesser of \$15,000 or twice the amount of the homeowner’s qualified deductible.
- For an individual who chooses not to obtain insurance on their primary residence, \$250,000, but in no event could exceed the value of the individual homeowner’s primary residence.
- In cases where the homeowner makes contributions that exceed the limits outlined above, they must withdraw the excess amount and report it as income in the year it is withdrawn.

This bill would define a “qualified deductible” to mean the deductible for the individual’s homeowner’s policy for a homeowner’s primary residence.

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. For purposes of complying with RTC section 41, this bill would require the FTB to issue a report to the Legislature by May 1, 2026, 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.

Both the above-the-line deduction for amounts contributed to a CSA and the gross income exclusion for interest amounts earned by a CSA would be inoperative as of December 1, 2030.

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, 2025, and before January 1, 2030.

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 for purposes of a high-level discussion; additional considerations may be identified as the bill moves through the legislative process. FTB staff is available to work with the author's office to resolve these and other considerations that may be identified.

The bill uses the term "primary residence," which is not defined. The absence of a definition could lead to taxpayer confusion. For clarity, the author may wish to amend the bill to define this term.

The bill uses inconsistent terminology, i.e., “homeowner,” “individual homeowner,” and “residential property insurance policyholder in this state,” that could lead to disputes with taxpayers. For clarity, it is recommended to use one term throughout the bill and combine the definitions.

The CSA account provisions become inoperative on January 1, 2030. It is unclear what would happen to remaining account funds, and therefore, how they would be treated for tax purposes for taxable years beginning after January 1, 2030.

This bill requires the Franchise Tax Board (FTB) to prepare a report on the performance of the deduction allowed by this bill by May 1, 2026. If the author’s intent is to be able to review a report that contains complete information for the 2025 taxable year, it is recommended that the report due date be extended later to July 1, 2027, and annually thereafter. For instance, the due date for the 2025 personal income tax return is April 15, 2026, with extension individuals may file as late as October 15, 2026. The FTB needs approximately six months to complete return processing and to complete and finalize the report. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the date the report is due.

Technical Considerations

For consistency of terminology, the following changes are recommended:

- In Section 17141.8(a), consider removing “income” from “interest income earned.”
- In Section 17207.15(c) consider adding the term “insurance” to the definition of qualified deductible to read “individual’s homeowner’s *insurance* policy.”

Policy Considerations

This bill would create differences between federal and California tax law, thereby increasing the complexity of California tax return preparation.

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 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 if 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.

LEGISLATIVE HISTORY

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 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 232 as Introduced January 13, 2025
 Assumed Enactment after June 30, 2025

(\$ in Millions)

Fiscal Year	Revenue
2025-2026	-\$75
2026-2027	-\$110
2027-2028	-\$130

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

Although this bill is operative for taxable years beginning on or after January 1, 2025, it is assumed that CSA would not be made available to the public until August of 2025. Based on data from the Department of Finance and US Census Bureau, it is estimated that there are approximately 8.3 million owner occupied residences in the State. Of those, it is anticipated that 125,000 homeowners would open a CSA in the last half of 2025.

After considering insured and uninsured contribution limits along with the various deductibles, 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 \$390 million and interest income earning of about \$850,000 in the 2025 taxable year. It is assumed that new accounts would be opened each year, and that account holders would continue to make annual contributions peaking at \$1.8 billion in contributions and interest earning in the 2029 taxable year. After applying an average tax rate of 7 percent, the estimated revenue loss would be \$27 million in the 2025 taxable year would increase to \$125 million by the 2029 taxable year.

It is assumed that account holders would continue to maintain and contribute to the CSA until a qualifying catastrophic event occurs.

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 Banking and Finance Committee Report, February 28, 2025

Support:

Insurance Commissioner Ricardo Lara / California Department of Insurance (Sponsor)
American Property Casualty Insurance Association
California Association of Realtors
Little Hoover Commission (org & Economy Comm.)

Opposition:

None on file.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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