



## Bill Analysis

Author: Calderon, Gipson,  
and Valencia

Sponsor:

Bill Number: AB 232

Related Bills: See Legislative  
History

Amended: April 11, 2025

## 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, 2026, and before January 1, 2031.

## 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 11, 2025, amendments removed provisions related to the Financial Code and added similar provisions to the PITL, modified the operative dates, amended the definition of a CSA, qualified expenses, and qualified taxpayer, added a penalty and performance indicators, and made several technical changes. The April 11, 2025, resolved several but not all the implementation, technical, and policy considerations discussed in the Franchise Tax Board (FTB)'s analysis of the bill as introduced January 13, 2025, and created additional implementation and policy considerations.

## 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, 2026, and before January 1, 2031, 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.

For taxable years beginning on or after January 1, 2026, and before January 1, 2031, this bill would provide that the total amount that may be contributed to a CSA in a taxable year and allowed as a deduction would be subject to the following limits:

- For a qualified taxpayer whose primary residence is insured, \$15,000.
- For a qualified taxpayer whose primary 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 regular 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 primary 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 primary 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 primary residence.

- “Qualified taxpayer” means an individual, or a married couple if filing a joint return, who owns a primary 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 FTB to issue a report to the Legislature by May 1, 2028, 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, 2031. 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, 2026, and before January 1, 2031.

#### *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 "accontholder" that could lead to disputes with taxpayers. For clarity, it is recommended to use "qualified taxpayer" throughout the bill.

This bill would require the FTB to administer a penalty on the improper distribution of funds from a CSA. To do this, the FTB would need to develop a new form or worksheet, with complex related processing and system updates.

### *Technical Considerations*

For clarity and consistency of terminology, the following changes are recommended:

- Replace "primary residence" with "principal residence."
- In Section 17207.15(b), consider replacing "in a" with "per."
- In Section 17207.15(c)(1) consider removing "regular" from "regular savings account."
- In Section 17141.8(b), replace "2030" with "2031."
- In Section 17141.8(c), replace "1" with "31" and replace "as" with "in."

### *Policy Considerations*

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

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.

## **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 Amended April 11, 2025  
Assumed Enactment after June 30, 2025

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue*</b>
2025-2026	-\$15
2026-2027	-\$60
2027-2028	-\$110

\*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 8.4 million owner-occupied residences in the State. Of those, it is anticipated that 126,000 qualified taxpayers would open a CSA 2026.

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 \$390 million and interest income earning of about \$1.4 million in the 2026 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 2030 taxable year. After applying an average tax rate of 7 percent, the estimated revenue loss would be \$27 million in the 2026 taxable year would increase to \$126 million by the 2030 taxable year.

Of the amounts contributed, it is assumed that about 1 percent, \$4 million, of CSA funds would be spent on non-qualified expenses and would receive a penalty in the 2026 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 \$27 million in the 2026 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 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**

Assembly Committee on Revenue and Taxation Report, May 2, 2025

*Support*

California Apartment Association  
California Association of Realtors  
California Bankers Association  
California Building Industry Association  
Insurance Commissioner Ricardo Lara / California Department of Insurance  
Little Hoover Commission  
Personal Insurance Federation of California

*Opposition*

None on file.

**ARGUMENTS**

Assembly Committee on Revenue and Taxation Report, May 2, 2025

*Proponents*

The bill is supported by Insurance Commissioner Ricardo Lara, noting in part:

Catastrophe savings accounts are a practical solution to help homeowners prepare for disaster-related expenses and reduce financial stress during emergencies. These accounts encourage proactive savings by offering tax deductions for contributions and exclusions for interest income, while simultaneously imposing penalties on misuse to ensure funds are used as intended. With wildfires continuing to pose a significant threat to all Californians, these accounts can help homeowners cover high deductibles or uninsured losses, enabling quicker recovery time and easing the strain on public disaster relief resources. Catastrophe savings accounts can also address gaps in preparedness for other risks, such as flood damage and earthquake losses. By encouraging individuals to save for their own recovery while maintaining traditional insurance these accounts work alongside existing coverage and promote a focus on preparedness without diminishing the importance of adequate insurance protection. Together, they create stronger financial security for Californians facing the growing threats of climate-intensified disasters.

*Opponents*

None on file.

**LEGISLATIVE CONTACT**

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