STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Ta, et al.

Sponsor:

Bill Number: AB 760

Related Bills: See Legislative History

Amended: June 11, 2026, and June 25, 2026

SUBJECT

Gross Income Exclusion for Garden Grove Chemical Leak

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), create an income exclusion for settlement amounts received by a qualified taxpayer in connection with the 2026 Garden Grove chemical leak for taxable years beginning on or after January 1, 2027, and before January 1, 2032.

This is the Franchise Tax Board's (FTB) first analysis of the bill.

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

The June 11, 2026, amendments removed provisions of the bill impacting the Civil Code, relating to mobilehome parks, and replaced them with provisions of the Revenue and Taxation Code (RTC), related to a gross income exclusion for the 2026 Garden Grove chemical leak.

The June 26, 2026, amendments added coauthors, modified the operative and repeal dates, modified the definition of a settlement entity and modified the Section 41 reporting requirements.

REASON FOR THE BILL

The reason for the bill is to create an income exclusion for qualified taxpayers who receive settlement payments arising from the 2026 Garden Grove chemical leak.

ANALYSIS

This bill would, under the PITL and CTL, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, allow an exclusion from gross income for settlement amounts received by a qualified taxpayer in connection with the 2026 Garden Grove chemical leak.

The bill would define the following:

- "2026 Garden Grove chemical leak" means the chemical leak event that began on May 21, 2026, at an aerospace manufacturing facility in the City of Garden Grove.
- "Qualified amount" means any amount received in settlement by a qualified taxpayer from a settlement entity in connection with the 2026 Garden Grove chemical leak.
- "Qualified taxpayer" means any of the following:
    - o Any taxpayer who owned real property located in the County of Orange during the 2026 Garden Grove chemical leak who paid or incurred expenses and received amounts from a settlement arising out of the 2026 Garden Grove chemical leak.
    - o Any taxpayer who had a place of business within the County of Orange during the 2026 Garden Grove chemical leak who paid or incurred expenses and received amounts from a settlement arising out of the 2026 Garden Grove chemical leak.
    - o For purposes of the PITL only, any taxpayer who resided within the County of Orange during the 2026 Garden Grove chemical leak who paid or incurred expenses and received amounts from a settlement arising out of the 2026 Garden Grove chemical leak.
- "Settlement entity" means an entity making a settlement payment of a qualified amount to a qualified taxpayer.

Upon request by the FTB, the settlement entity would be required to provide documentation of the settlement payments in the form and manner prescribed by the FTB.

This income exclusion would remain in effect until December 1, 2032, and would be repealed as of that date.

For purposes of complying with Section 41 of the RTC, this bill would require the FTB to provide a report to the Legislature by November 1, 2029, on the aggregate dollar amount of settlement payments from the 2026 Garden Grove chemical leak.

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

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, 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.

In addition, California 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 requirement measures 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 requirement 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 would require the collection of data on the aggregate dollar amount of settlement payments arising out of the 2026 Garden Grove chemical leak. Collecting this data would require FTB to rely on information received from the settlement entity. The author may wish to amend the reporting requirements in 17139.9(d)(2) from; "…that states the aggregate dollar amount of settlement payments arising out of the 2026 Garden Grove chemical leak." to "…that states the aggregate dollar amount of settlement payments, reported to FTB, arising out of the 2026 Garden Grove chemical leak."

Technical Considerations

None noted.

Policy Considerations

Under RTC section 41, legislation that would create a gross income exclusion would not require detailed performance indicators and data collection measures if the Legislature determines there is no available data to collect and report. FTB's income exclusion data is generally incomplete because exclusions are not required to be reported on the tax return. The author may wish to amend the bill to include a determination that there is no available data to collect and report, and remove the reporting requirement found in Section 41.

LEGISLATIVE HISTORY

AB 755 (Tangipa, 2025/2026), under the PITL and CTL, for taxable years beginning on or after January 1, 2025, and before January 1, 2035, would have excluded from gross income, qualified income received by a qualified taxpayer in a qualified taxable year, not to exceed $300,000. AB 755 did not pass out of the Assembly by the constitutional deadline.

SB 883 (Umberg, et al., 2025/2026), would under the PITL, create an income exclusion for settlement amounts received by a qualified taxpayer for claims relating to the May 2026 chemical incident at the GKN Aerospace manufacturing facility for taxable years beginning on or after January 1, 2026. SB 883 is currently in the Assembly Appropriations Committee.

SB 268 (Choi, et al., 2025/2026), under the PITL and CTL, for taxable years beginning on or after January 1, 2025, would have provided a qualified taxpayer an exclusion from gross income for qualified amounts received from a settlement entity to replace property damaged or destroyed in a natural disaster or accident or human-caused event declared a state of emergency by the Governor. SB 268 did not pass out of the Senate by the constitutional deadline.

SB 132 (Senate Committee on Budget and Fiscal Review, Chapter 17, Statutes of 2025), amongst various provisions, under the PITL and CTL, for taxable years beginning on or after January 1, 2021, and before January 1, 2030, allowed a gross income exclusion to a qualified taxpayer who received qualified amounts from a settlement entity in connection with a wildfire in California.

SB 131 (Senate Committee on Budget and Fiscal Review, Chapter 55, Statutes of 2023), under the PITL and CTL, among other things, provided an exclusion from gross income for amounts received for settlement payments as a result of the 2019 Kincade Fire and 2020 Zogg fire for taxable years beginning on or after January 1, 2020, and before January 1, 2028.

SB 264 (Niello, Chapter 285, Statutes of 2023), under the PITL and CTL, for taxable years beginning on or after January 1, 2014, and before January 1, 2029, extended the sunset date for the deduction for disaster losses sustained in Governor-declared state of emergency areas.

AB 1249 (Gallagher, Chapter 749, Statutes of 2022), under the PITL and CTL, for taxable years beginning before, on, or after the effective date of the act and repealed on January 1, 2028, provides an exclusion from gross income for amounts received in settlement under the order of the United States Bankruptcy Court for the Northern District of California dated June 20, 2020, case number 19-30088, docket number 8053.

SB 1246 (Stern, Chapter 841, Statutes of 2022), under the PITL and CTL, for taxable years beginning before January 1, 2027, provides an exclusion from gross income for amounts received from Southern California Edison in settlement for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire and allow refunds of tax previously paid on those amounts.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

The FTB anticipates minimal costs to implement this bill.

ECONOMIC IMPACT

Revenue Estimate

This proposal would allow a qualified taxpayer a gross income exclusion for amounts received from a settlement entity in connection with the 2026 Garden Grove chemical leak. To determine the magnitude of the potential impact to the General Fund, both the dollar amount arising from settlement payouts and the timing of those payments must be known. Because it is difficult to predict the amount and timing of settlement payouts, the revenue impact to the General Fund is unknown.

However, it is assumed that for every $100 million in qualified settlement amounts received, and applying an average tax rate of roughly 5 percent, the estimated revenue loss would be approximately $4.6 million.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Senate Committee Report on Revenue and Taxation, dated June 19, 2026

Support

None on file.

Opposition

None on file.

ARGUMENTS

Senate Committee Report on Revenue and Taxation, dated June 19, 2026

Proponents

None on file.

Opponents

None on file.

LEGISLATIVE CONTACT

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