



Bill Analysis

Author: Alvarado-Gil, et al.

Sponsor:

Bill Number: SB 1118

Related Bills: See Legislative
History

Introduced: February 17, 2026

SUBJECT

Backup Generator or Solar Battery Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), allow a tax credit to qualified taxpayers for the amount paid or incurred, limited to \$5,000 for the purchase of certain backup electricity generators or \$7,500 for the purchase of a solar battery, for use in a residential or commercial property, in a designated wildfire zone, 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 the bill is to help individuals and small businesses in California's wildfire risk areas prepare for power outages by making backup power more affordable.

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 a credit in an amount equal to 50% of the amount paid or incurred by a qualified taxpayer for the purchase of a backup electricity generator, limited to \$5,000, or a solar battery, limited to \$7,500, during the taxable year for use in a residence or commercial property. Under the CTL, it would only apply to commercial properties. The maximum credit would apply per taxable year.

The bill would define the following terms and phrases:

- “Backup electricity generator” means a standby or portable device that meets all of the following requirements:
 - The device can generate at least 10 kilowatts.
 - The device is designed and manufactured exclusively for the purpose of generating electricity.
 - The device complies with applicable air quality standards promulgated by the State Air Resources Board.
- “Designated wildfire zone” means territory within a high fire threat district designated a tier 3 fire threat area, as determined by the Public Utilities Commission.
- “Qualified expenditure” means the purchase of one of the following:
 - A backup electricity generator for use in a residence or commercial property in a designated wildfire zone.
 - A solar battery for use in a residence or commercial property in a designated wildfire zone.
- Under the PITL, “qualified taxpayer” means a natural person or a small business that incurs a qualified expenditure. Under the CTL, it would apply only to small businesses that incur a qualified expenditure.
- “Small business” means a business that has average annual gross receipts of \$15,000,000 or less over the previous three taxable years.

Unused credits could be carried over for seven years, until exhausted.

The bill, for purposes of complying with the Revenue and Taxation Code section 41, would require the Franchise Tax Board (FTB) to provide a written report to the Legislature no later than April 1, 2029, and annually thereafter, that would include the following information:

- The number of taxpayers that were allowed a credit, and
- The total dollar value of credits allowed.

The 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 by its own terms on December 1, 2032.

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, contingent on a specific appropriation of funds in the annual Budget Act or another statute for the taxable year.

Federal/State Law

Existing federal and state 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.

Current state and federal laws generally allow taxpayers engaged in a trade or business to deduct all expenses that are considered ordinary and necessary in conducting that trade or business.

Currently, there is no federal or state credit comparable to the credit this bill would create.

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.

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 uses the undefined term "solar battery." The absence of definitions could lead to taxpayer confusion. For clarity, the author may wish to amend the bill to define this term.

Technical Considerations

For clarity, in Section 17053.49(e)(2)(A), it is recommended that the phrase "...Code, detailing the number of taxpayers allowed a credit..." be replaced with "...Code, on the number of taxpayers allowed a credit..." to avoid any assumption that the FTB can provide more detail other than the number of taxpayers.

For consistency of terminology, the following changes are recommended:

- In Section 17053.49(b)(4), the term "a natural person or..." should be replaced with "an individual, as defined in Section 17005, or..."
- In Sections 17053.49(b)(4) and 23634(b)(4), the term "incurs" should be replaced with "pays or incurs."
- In Section 17053.49(e), the term "value" should be replaced with "amount."

Policy Considerations

Because the bill does not specify otherwise:

- 1) Multiple taxpayers could purchase a backup electricity generator or a solar battery for use at the same residence or commercial property and qualify for the credit. For example, two unrelated taxpayers could each purchase and install a generator at the same commercial property, but the bill does not specify how or whether the credit should be allocated between them.
- 2) The credit is available for 50% of the amount paid or incurred for the purchase of a backup electricity generator or a solar battery. Amounts paid or incurred to install a backup electricity generator or solar battery would not be considered a qualified expenditure and would not be eligible to generate the credit. If this is contrary to the author's intent, the author may wish to amend the bill.
- 3) The bill states that a qualified expenditure is "the purchase of one of the following," making it unclear whether a taxpayer may purchase both a generator and a solar battery for the same property in the same taxable year or multiples of either or both. If the author's intent is to limit taxpayers to purchasing only one item, the bill could clarify this by, adding ", or" after "wildfire zone" in Sections 17053.49(b)(3)(A) and 23634(b)(3)(A) and by replacing, "the purchase of one of the..." with "the purchase of only one of the..." in Sections 17053.49(b)(3) and 23634(b)(3).

This bill would allow a credit for a backup electricity generator or solar battery that may be currently deductible as a business expense. Generally, a credit is allowed in lieu of a deduction to eliminate multiple tax benefits for the same item of expense.

If the author's intent is to allow the credit to businesses that have employees in California, the bill could include a provision that the qualified taxpayer employs employees with wages subject to withholding under the Unemployment Insurance Code.

LEGISLATIVE HISTORY

AB 921 (Castillo, 2025/2026), under the Health and Safety Code, would have exempted the sale or purchase of portable or emergency backup generators from certain engine and evaporative emissions state regulations, and, similar to this bill, under the PITL and CTL, would have allowed a tax credit to qualified taxpayers for the amount paid or incurred, limited to \$3,500, for the purchase of certain backup electricity generators for use in a residential or commercial property for taxable years beginning on or after January 1, 2026, and before January 1, 2031. AB 921 did not pass out of the Assembly by the required deadline.

ABX1-14 (Castillo, 2025/2026), substantially similar to this bill, under the PITL, would have allowed a credit to qualified taxpayers for the amount paid or incurred, limited to

\$3,500, to purchase a backup electricity generator for use in a residential or commercial property. ABX1-14 “died at the desk” in the Assembly three business days after introduction.

AB 2892 (Bigelow, 2021/2022), under the PITL and CTL, would have allowed a credit to qualified taxpayers for amounts paid or incurred for the purchase of a backup electricity generator for use in a residential or commercial property in a designated wildfire zone. AB 2892 was held in the Assembly Revenue and Taxation Committee without further action.

SB 1266 (Borgeas, 2021/2022), under the PITL and CTL, would have allowed a credit to qualified taxpayers for the amount paid or incurred to purchase a backup electricity generator or solar battery for use in a residential or commercial property in a designated wildfire zone, limited to \$3,500 (generator) or \$5,000 (battery). SB 1266 was held in the Assembly Revenue and Taxation Committee without further action.

PROGRAM BACKGROUND

None noted.

OTHER STATES’ INFORMATION

None noted.

FISCAL IMPACT

FTB’s costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1118 as Introduced February 17, 2026
 Assumed Enactment after June 30, 2026

(\$ in Millions)

| Fiscal Year | Revenue* |
|--------------------|-----------------|
| 2026-2027 | -\$90 |
| 2027-2028 | -\$200 |
| 2028-2029 | -\$250 |

*This estimate assumes appropriation is made in the annual Budget Act or another statute for the operative tax years.

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.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov