STATE OF CALIFORNIA
Franchise Tax Board

# Bill Analysis

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| Author: Umberg | Sponsor: | Bill Number: SB 883 |
| | Related Bills: See Legislative History | Amended: June 18, 2026 |

## SUBJECT

Gross Income Exclusion for GKN Aerospace Manufacturing Chemical Leak

## SUMMARY

This bill would, under the Personal Income Tax Law (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. This bill would also amend the Government Code and the Health and Safety Code for other changes unrelated to the exclusion.

This is the Franchise Tax Board's (FTB) first analysis of the bill and only addresses the provisions that would impact the FTB.

## 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 18, 2026, amendments removed a provision of the bill impacting the Welfare and Institutions Code, relating to the Community Assistance, Recover, and Empowerment Act, and replaced it with the provisions discussed in this analysis.

## REASON FOR THE BILL

The reason for this bill is to provide a gross income exclusion for qualified taxpayers who receive a settlement amount for claims relating to the May 2026 chemical incident at the GKN Aerospace manufacturing facility.

## ANALYSIS

This bill would, under the PITL, for taxable years beginning on or after January 1, 2026, allow an exclusion from gross income for settlement amounts received by a qualified taxpayer in connection with the May 2026 chemical incident at the GKN Aerospace manufacturing facility.

The bill would define the following:

- "Qualified amount" means any amount received in settlement for claims relating to the May 2026 chemical incident at the GKN Aerospace manufacturing facility.
- "Qualified taxpayer" means any of the following:
    - A taxpayer who owned real property located in the County of Orange during the May 2026 chemical incident at the GKN Aerospace manufacturing facility who paid or incurred expenses and received amounts from a settlement arising out of the May 2026 chemical incident at the GKN Aerospace manufacturing facility.
    - A taxpayer who resided in the County of Orange during the May 2026 chemical incident at the GKN Aerospace manufacturing facility who paid or incurred expenses and received amounts from a settlement arising out of the May 2026 chemical incident at the GKN Aerospace manufacturing facility.
    - A taxpayer who had a place of business in the County of Orange during the May 2026 chemical incident at the GKN Aerospace manufacturing facility who paid or incurred expenses and received amounts from a settlement arising out of the May 2026 chemical incident at the GKN Aerospace manufacturing facility.
- "Settlement entity" means the entity deemed responsible or its subsidiary that is making the settlement payment 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.

For purposes of complying with Revenue and Taxation Code (RTC), section 41 reporting requirements, unless there was no exemption in the prior calendar year, the FTB would be required to provide an annual report to the Legislature on the following:

- The number of taxpayers who excluded settlement amounts from gross income.
- The aggregate amount of settlement payments excluded from gross income.

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*

This bill would be effective on January 1, 2027. The exclusion would be specifically operative for taxable years beginning on or after January 1, 2026.

*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.

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.

The bill provides that the FTB would be required to annually deliver to the Legislature a written report, unless there was "no exemption" in the prior calendar year. There is no definition of what "no exemption" means and because there is no sunset provided in the bill, and exemption would always be allowed. It is unclear when the FTB would be required to provide a report. The author may wish to amend the bill to clarify or remove the reporting requirements.

*Technical Considerations*

For consistency with other exclusions in the RTC, move subdivision (e), the definitions, to a new subdivision (b) and move subdivisions (b) and (c) after the subdivisions describing administration of the exclusion.

*Policy Considerations*

This bill would allow an exclusion for taxpayers under the PITL, but not under the Corporate Tax Law (CTL). In addition to individuals, the bill would provide a tax benefit for sole proprietorships, non-corporate partners of partnerships, limited partnerships, and limited liability companies not electing to be taxed as corporations, limited liability partnerships, and real estate mortgage investment conduits under the PITL that would not be provided to other business entities such as corporations under the CTL. Thus, this bill would provide differing treatment based solely on taxpayer classification. If this is contrary to the author's intent, the author may wish to amend the bill to add a similar provision within the CTL.

The bill defines "settlement entity" as the entity deemed responsible or its subsidiary. The author may want to consider defining the term as "an entity making a settlement payment of a qualified amount to a qualified taxpayer." This would be more general should a settlement be reached and paid from an insurance company or a settlement trust.

This bill does not provide a sunset date, which would generally allow periodic review of the effectiveness of the tax law change. The author may wish to amend the bill to indicate how long the exclusion should remain operative. Most tax expenditures sunset after 5 years.

Current Law, RTC section 41, allows legislation that would create a gross income exclusion to not require detailed performance indicators and data collection when the Legislature determines there is no available data to collect and report. 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 4.

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.

AB 760 (Ta, et al., 2025/2026), under the PITL and CTL, would 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, 2026, and before January 1, 2031. AB 760 is currently in the Senate 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 May 2026 chemical incident at the GKN Aerospace manufacturing facility. 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 4.5 percent, the estimated revenue loss would be approximately $4.5 million.

## LEGAL IMPACT

None noted.

## EQUITY IMPACT

None noted.

## APPOINTMENTS

None noted.

## SUPPORT/OPPOSITION

The Assembly Committee on Environmental Safety and Toxic Materials analysis, dated June 26, 2026

*Support*

7th Generation Advisors
Ahri for Justice
APEN Action
California Environmental Voters
Center for Biological Diversity
Center on Race, Poverty & the Environment
Coalition for Clean Air
County Behavioral Health Directors Association

Harbor Institute for Immigrant and Economic Justice
Leadership Counsel for Justice & Accountability
Natural Resources Defense Council
Pesticide Action & Agroecology Network
Physicians for Social Responsibility - Los Angeles
Physicians for Social Responsibility - San Francisco Bay
San Francisco Baykeeper
Shasta County Board of Supervisors
Sierra Club

*Opposition*

Aerospace and Defense Alliance of California
American Chemistry Council
California Council for Environmental & Economic Balance
California Manufacturers & Technology Association
Chemical Industry Council of California
Western States Petroleum Association

ARGUMENTS

The Assembly Committee on Environmental Safety and Toxic Materials analysis, dated June 26, 2026

*Proponents*

A coalition of environmental organizations, which reads in part:

> "On behalf of the undersigned organizations, we are glad to support Senate Bill 883 (Umberg), which increases California's oversight of reactive chemical storage facilities and improves protections for communities, workers, and first responders.
>
> Recent chemical storage events, such as the near disaster at the Garden Grove chemical facility in 2026, have highlighted the considerable risks presented by facilities that store reactive chemicals that can cause thermal runaway. These incidents can include fires, explosions, toxic discharges, evacuations, property destruction, and large financial costs for local populations. California must take aggressive measures to mitigate these dangers and strengthen community preparedness…"

*Opponents*

A group of business organizations submitted the following, which reads in part:

> "The bill requires certain measures to be in place (e.g. backup cooling system for reactive chemical storage) before a new building permit for a new reactive chemical storage facility is approved. While this type of safety measure may be appropriate for some types of reactive chemical hazards, other safety measures may be more appropriate for others. We are concerned with imposing such a singular requirement in statute. It may be more appropriate to see the results of any investigation into the incident before identifying specific remedies or requirements that may or may not be focused on addressing the root cause."

LEGISLATIVE CONTACT

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