
THIRD READING

Bill No: AB 1249
Author: Gallagher (R), et al.
Amended: 8/24/22 in Senate
Vote: 27 - Urgency

SENATE GOVERNANCE & FIN. COMMITTEE: 5-0, 6/1/22
AYES: Caballero, Nielsen, Durazo, Hertzberg, Wiener

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/11/22
AYES: Portantino, Bates, Bradford, Jones, Laird, McGuire, Wieckowski

ASSEMBLY FLOOR: 74-0, 1/31/22 - See last page for vote

SUBJECT: Income taxes: gross income exclusions: wildfires

SOURCE: Author

DIGEST: This bill excludes settlement payments made in connection with the fires associated with the Pacific Gas and Electric (PG&E) trust fund from taxable income.

Senate Floor Amendments of 8/24/22 move the contents of the bill to a new code section to avoid conflicts with current law.

Senate Floor Amendments of 8/16/22 move the contents of the bill to a new section to avoid potential conflicts with Assembly Bill 2142 (Gabriel).

ANALYSIS:

Existing law:

- 1) Allows various income tax credits, deductions, exemptions, and exclusions.
- 2) Provides that gross income includes all income from any source, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded.

- 3) Excludes certain types of income from gross income, such as amounts received as a gift or inheritance, certain compensation for injuries and sickness, qualified scholarships, educational assistance programs, foster care payments, and interest received on certain state or federal obligations.
- 4) Allows for the exclusion from gross income of amounts received in a settlement, other than punitive damages, which result from personal physical injuries or physical sickness.
- 5) Excludes payments received as a reimbursement of costs, such as those paid to rebuild a destroyed home.

This bill:

- 1) Excludes from gross income for state tax purposes any amount received in settlement claims including payments made from the PG&E trust to fire victims by a qualified taxpayer from PG&E related to the 2015 Butte, 2017 North Bay, and 2018 Camp Fires. This income is excluded for both Personal Income and Corporation taxpayers and is operative for all taxable years until the 2028 taxable year.
- 2) Defines a “qualified taxpayer” as a taxpayer that owned real property or resided in either the counties of Amador, Calaveras, Napa, Sonoma, Lake, Butte, Mendocino or Solano and received qualified amounts in connection with either the 2015 Butte Fire, the 2017 North Bay Fire, or the 2018 Camp Fire, and paid or incurred expense related to those fires.
- 3) Defines “qualified amount” to mean the amount received in settlement by a qualified taxpayer from the fire victims’ trust.
- 4) Requires the qualified taxpayer to provide documentation of the settlement payment received to the Franchise Tax Board (FTB) upon request.
- 5) Requires FTB to deliver to the Legislature a written report that includes the number of qualified taxpayers who received a settlement payment from the fire victims’ trust and the aggregate amount of those payments.

Background

California Fires. Over the last decade, California has experienced increased, intense, and record-breaking wildfires throughout the state. These fires have resulted in devastating loss of life and billions of dollars in damage to property and infrastructure. Fires attributed to power lines and electrical equipment comprise

nine of the 20 most destructive fires in California history. According to Cal Fire, in 2021 alone there were over 8,000 incidents and over 2.5 million acres of scorched land. In 2020, wildfires destroyed 4.5 million acres.

Camp Fire. In November 2018, multiple victims of the Camp Fire sued PG&E. In January 2019, PG&E declared bankruptcy resulting from investigative findings that the company's equipment sparked a number of wildfires, including the Camp Fire. On June 20, 2020, the United States Bankruptcy Court for the Northern District of California approved PG&E's bankruptcy plan, which established a trust. This trust was established as part of the PG&E bankruptcy to pay fire victims and authorized \$13.5 billion in compensation to victims of the 2015 Butte Fire, the 2017 North Bay Fires, and the 2018 Camp Fire.

Related/Prior Legislation

SB 1246 (Stern, 2022) provides similar treatment as AB 1249 by excluding from gross income for state tax purposes any amount received in settlement by a qualified taxpayer from Southern California Edison in settlement claims related to the 2017 Thomas Fire and the 2018 Woolsey Fire from gross income. This income is excluded for both Personal Income Tax and Corporation taxpayers and is operative for all taxable years until the 2027 taxable year. The bill is currently pending on the Assembly Floor.

FISCAL EFFECT: Appropriation: Yes Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- FTB estimates that this bill would result in General Fund revenue losses of \$55 million in 2021-22, \$90 million in 2022-23, \$48 million in 2023-24, and \$32 million in 2024-25.
- FTB's costs to implement this bill would be minor and absorbable.

SUPPORT: (Verified 8/25/22)

Consumer Attorneys of California
Howard Jarvis Taxpayers Association
Legal Aid of Sonoma
Paradise Ridge Chamber of Commerce
Rural County Representatives of California
Two individuals

OPPOSITION: (Verified 8/25/22)

None received

ARGUMENTS IN SUPPORT: According to the author, “AB 1249 would clarify California’s tax code to exclude certain wildfire victims from paying state taxes on compensation for damages received out of PG&E’s “Fire Victim Trust.” This would help ensure fire victims receive just compensation for the economic and non-economic damages caused by those wildfires. Exempting gross income from state tax for claims paid out of the Fire Victim Trust would be a tremendous help to wildfire victims. With PG&E’s stock projected to sell for lower than victims were promised, leaving the trust short billions of dollars, exempting settlements from state taxes would provide much needed and timely relief for these victims.”

ASSEMBLY FLOOR: 74-0, 1/31/22

AYES: Aguiar-Curry, Arambula, Bauer-Kahan, Bennett, Berman, Bigelow, Bloom, Boerner Horvath, Mia Bonta, Bryan, Burke, Calderon, Carrillo, Cervantes, Chen, Choi, Cooley, Cooper, Cunningham, Megan Dahle, Daly, Davies, Flora, Fong, Friedman, Gabriel, Gallagher, Cristina Garcia, Gipson, Gray, Grayson, Holden, Irwin, Kalra, Kiley, Lackey, Lee, Levine, Low, Maienschein, Mathis, Mayes, McCarty, Medina, Mullin, Muratsuchi, Nazarian, Nguyen, O'Donnell, Patterson, Petrie-Norris, Quirk, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Seyarto, Smith, Stone, Ting, Valladares, Villapudua, Voepel, Waldron, Ward, Akilah Weber, Wicks, Wood, Rendon

NO VOTE RECORDED: Eduardo Garcia, Jones-Sawyer

Prepared by: Jessica Deitchman / GOV. & F. / (916) 651-4119

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**** END ****