



Bill Analysis

Author: Stern & Valladares

Bill Number: SB 1246

SUBJECT

Gross Income Exclusions for Thomas and Woolsey Fire Victims

SUMMARY

This bill would provide to qualified taxpayers 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.

REASON FOR THE BILL

The reason for this bill is to provide relief to taxpayers in the parts of California devastated by the Thomas and Woolsey wildfires.

ANALYSIS

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), for taxable years beginning before January 1, 2027, exclude from gross income qualified amounts received by a qualified taxpayer.

For purposes of the PITL and CTL, the following definitions would apply:

- “Qualified amount” is any amount received in settlement from Southern California Edison for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire.
- “Settlement entity” would mean the entity making the settlement payment to a qualified taxpayer.
- Under the PITL and CTL, “qualified taxpayer” would mean any of the following:
 - Any taxpayer that owned real property located in the County of Ventura or Santa Barbara during the 2017 Thomas Fire who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the 2017 Thomas Fire.
 - Any taxpayer that owned real property located in the County of Ventura or Los Angeles during the 2018 Woolsey Fire who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the 2018 Woolsey Fire.

- Any taxpayer that had a place of business within the County of Ventura or Santa Barbara during the 2017 Thomas Fire who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the 2017 Thomas Fire.
- Any taxpayer that had a place of business within the County of Ventura or Los Angeles during the 2018 Woolsey Fire who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the 2018 Woolsey Fire.

Under the PITL, a "qualified taxpayer" would also include any taxpayer that either:

- Resided within the County of Ventura or Santa Barbara during the 2017 Thomas Fire for taxpayers who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the 2017 Thomas Fire.
- Resided within the County of Ventura or Los Angeles during the 2018 Woolsey Fire for taxpayers who paid and incurred expenses and received amounts from a settlement arising out of or pursuant to the 2018 Woolsey Fire.

If the statute of limitations for filing a claim for a credit or refund of any overpayment of tax that would result from the application of this bill's provisions has expired, a qualified taxpayer would be allowed to file a claim before the close of the one-year period from the effective date of this bill.

This exclusion would be repealed on December 1, 2027.

This bill would require the settlement entity to provide to the Franchise Tax Board (FTB), upon request, documentation of the settlement payments in the form and manner requested by the FTB.

This bill, for purposes of complying with Revenue and Taxation Code (RTC) section 41, would require the FTB to deliver a report to the Legislature that complies with Section 9795 of the Government Code by December 31, 2027, that includes the following:

- The number of qualified taxpayers that excluded qualified amounts from gross income and,
- The aggregate amount of those settlement payments.

The settlement payment information and the Section 41 reporting would be treated as an exception to the general prohibition against disclosure of taxpayer information.

Effective/Operative Date

As an urgency measure, this bill would be effective immediately upon enactment. It would be specifically operative for taxable years beginning before January 1, 2027.

Federal/State Law

Existing 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. Existing federal and state laws provide that certain types of income are excluded 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, interest received on certain state or federal obligations, and certain qualified disaster relief payments.

Current federal and state laws do not specifically exclude from gross income amounts received from these specified wildfire settlements.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 291 (Seyarto, et al., 2021/2022) would have excluded from gross income all survivor benefits or payments received under a Survivor Benefit Plan. AB 291 did not pass out of the Assembly by the constitutional deadline.

AB 1249 (Gallagher, et al., 2021/2022) would provide 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. AB 1249 has passed both chambers and is currently enrolled.

PROGRAM BACKGROUND

None noted.

FISCAL IMPACT

The provisions of the bill would impact the department's systems, resulting in processing and form revisions. Staff estimates the one-time cost to implement these provisions to be approximately \$116,000 for fiscal year 2022-2023.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1246
Assumed Enactment after June 30, 2022

(\$ in Millions)

Fiscal Year	Revenue*
2022-2023	-\$11
2023-2024	-\$7.6
2024-2025	-\$5.2

*Payments are based on estimated settlement funding published to date, as a result, the revenue impact could increase if additional funding is provided.

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.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

As per the August 22, 2022, Senate Floor Analysis of SB 1246 the following organizations support this bill.

Support

- Consumer Attorneys of California
- Howard Jarvis Taxpayers Association
- Several individuals

Opposition

None on file.

VOTES

Location	Date	Yes Votes	No Votes
Concurrence	August 30, 2022	38	0
Assembly Floor	August 22, 2022	77	0
Senate Floor	May 25, 2022	39	0

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