STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Wallis

Sponsor:

Bill Number: AB 389

Related Bills: See Legislative History

Introduced: February 3, 2025

SUBJECT

Fire-Resistant Home Improvements Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), provide a maximum $400 tax credit each taxable year, to a qualified taxpayer with a primary residence in a high or very high fire hazard zone for certain expenses paid or incurred for taxable years beginning on or after January 1, 2025, and before January 1, 2030.

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 encourage California residents to make their properties more fire-safe by offering credits to offset the cost of those safety measures.

ANALYSIS

This bill would, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, allow a qualified taxpayer, as defined, a credit for an amount equal to 40% of the taxpayer’s qualified expenses, subject to limitations discussed below.

This bill would provide the following definitions:

- "Qualified expenses" means costs paid or incurred by a qualified taxpayer associated with the building or installation of hardening measures to the taxpayer's primary residence, including, but not limited to the following:
  - A Class A fire rated roof.
  - Enclosed eaves.
  - Fire-resistant vents.
  - At least six inches of noncombustible vertical clearance at the bottom of the exterior surface of a building on the property, measured from the ground up.
- "Qualified taxpayer" means an individual whose primary residence, for any taxable year in which the taxpayer claims the credit, is located in a high or very high fire hazard severity zone, as identified by the State Fire Marshal, as defined, and who satisfies either of the following:
  - For spouses filing joint returns, heads of household, and surviving spouses, has adjusted gross income (AGI) of $250,000 or less, or
  - For other individuals, has AGI of $125,000 or less.

This bill would allow a maximum credit, not to exceed $400 for each taxable year, or a $2,000 cumulative total without regard to taxable year.

If the credit exceeds the $400 annual limit or the net tax, the unused credit could be carried forward for four succeeding years, until the credit is exhausted.

This bill, for purposes of complying with Section 41, would require the Franchise Tax Board (FTB) to provide a written report to the Legislature on or before December 1, 2030, the following information:

- The number of taxpayers who claimed the credit, and
- The average dollar amount of credits claimed.

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 as of December 1, 2030.

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, 2025, and before January 1, 2030.

Federal/State Law

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, hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise be undertaken.

Implementation Considerations

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.

For consistency of terminology, replace Section 17053.4(d), "If the credit allowed by this section exceeds either the annual four-hundred-dollar ($400) limit described in subdivision (c) or the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and succeeding three years if necessary, until the credit is exhausted." with "In the case where the credit allowed under this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and succeeding three years if necessary, until the credit is exhausted."

Technical Considerations

None noted.

Policy Considerations

This bill requires the FTB to prepare a one-time report on the performance of the credit allowed by this bill on or before December 1, 2030. If the author's intent is to be able to review a report that contains complete information for the taxable years 2025 through 2029, it is recommended that the report due date be extended to no earlier than July of 2031. For instance, the due date for the 2029 personal income tax return is April 15, 2030, with extension individuals filing as late as October 15, 2030. The FTB needs approximately six to eight months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than July of 2031 to provide complete information for the 2029 taxable year.

LEGISLATIVE HISTORY

ABX1-3 (Wallis, 2025/2026), similar to this bill, under the PITL would have allowed a maximum $400 tax credit each taxable year to a qualified taxpayer with a primary residence in high or very high fire hazard zone for certain expenses paid or incurred. ABX1-3 "died at the desk" in the Assembly ten business days after introduction.

SB 269 (Choi, 2025/2026) would provide, under the PITL, a tax credit to qualified taxpayers for qualified costs related to home hardening and for qualified vegetation management, collectively known as the Fire Safe Home Tax Credits Act. SB 269 has been referred to the Senate Revenue and Taxation Committee.

AB 582 (Connolly, 2023/2024), under the PITL, would have allowed a maximum $400 tax credit each taxable year, to a qualified taxpayer with a primary residence in high or very high fire hazard zone for certain expenses paid or incurred. AB 582 did not pass out of the Assembly by the constitutional deadline.

AB 324 (Choi, 2021/2022), under the PITL and the Corporation Tax Law, would have allowed a tax credit for costs paid or incurred to install an attic vent closure in a residential property. AB 324 did not to pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

The 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 AB 389
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$36
2026-2027	-$31
2027-2028	-$29

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.

Revenue Discussion

Based on wildfire risk data for California, it is estimated that there would be approximately 1.4 million homes located in high to very high fire hazard severity zones. After accounting for homes used as a primary residence and the adjusted gross income limitation, it is estimated that about 20%, or 300,000, homes would be owned by a qualified taxpayers who could incur qualified expenses.

Of that amount, it is estimated that 20%, or 110,000 homes, would incur qualified home hardening expenses of approximately $900 million during the 2025 taxable year. After applying the credit rate of 40% and the annual credit limitation of $400, the amount of credit generated is estimated to be $29 million in the 2025 taxable year. It is estimated that $29 million, would be generated by taxpayers with sufficient tax liability to offset with the credit. Of this amount, 65%, or $19 million would be claimed in the year generated and the remaining credit would be used over the subsequent four years.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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