

Date of Hearing: May 13, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 1726 (Calderon) – As Introduced February 5, 2026

Policy Committee:	Banking and Finance	Vote:	9 - 0
	Revenue and Taxation		7 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill allows an above-the-line deduction for contributions to a catastrophe savings account (CSA) and excludes any interest accruing to the account from gross income.

Specifically, this bill:

- 1) Allows, under the Personal Income Tax Law, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, an above-the-line deduction equal to the amount contributed by a qualified taxpayer to a CSA, subject to certain annual limitations depending on whether the qualified taxpayer’s primary residence is insured.
- 2) Excludes from gross income, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, any gains accruing during the taxable year to a CSA.
- 3) Provides that any distribution from a catastrophe savings account must be for qualified catastrophe expenses, and imposes a penalty of 2.5% on any amount improperly distributed.
- 4) Declares the goals and performance indicators of this new tax expenditure and requires the Franchise Tax Board (FTB) to annually report certain performance data to the Legislature.

FISCAL EFFECT:

- 1) General Fund (GF) revenue loss of approximately \$14 million in fiscal year (FY) 2026-27, \$55 million in FY 2027-28, and \$100 million in FY 2028-29.

By reducing GF revenue, this bill also likely decreases Proposition 98 GF spending by approximately 40% of the revenue loss (the exact amount depends on the operative test of the annual Proposition 98 guarantee).

- 2) Costs of an unknown amount to the FTB to administer the deduction and exclusion and provide the annual report (GF).

The Legislative Analyst’s Office recently warned of GF structural deficits of around \$35 billion per year in FY 2027-28 and ongoing.

COMMENTS:

- 1) **Purpose.** According to the author:

[AB 1726] provides homeowners a proactive method to protect their homes by authorizing tax exempt savings accounts to be utilized for disaster recovery expenses. As these catastrophic events become more frequent, California must ensure homeowners are equipped with all available tools to plan for wildfire, flooding, and other extreme weather events.

- 2) **Tax-advantaged Savings Accounts.** Federal and state law authorizes several types of retirement savings plans that allow reduced or deferred income taxes to encourage workers to save for retirement. Generally, federal law imposes a 10% withdrawal penalty on an early distribution from an individual retirement account (IRA), with a similar 2.5% penalty under state law. This bill creates a separate tax-advantaged savings mechanism for a residential property owner to pay for pre-disaster property-level mitigation efforts for the owner's primary residence, as well as post-disaster losses that are not covered by insurance. Similar to the existing deduction for contributions to a qualifying IRA, this bill allows a taxpayer an above-the-line deduction equal to the amount contributed to a CSA in that taxable year. This bill also provides a gross income exclusion for interest earned on amount saved in a CSA. This bill does not explicitly provide an income exclusion when money is withdrawn from a CSA, even for a qualified expense, so such amounts would likely be included in the taxpayer's adjusted gross income in the taxable year of withdrawal.

Generally, state conformity with federal tax rules promotes greater simplicity and eases administration of complex tax laws. This bill would bring California further out of conformity with federal law, as any income deducted or excluded by this bill would still be subject to federal income tax. The Assembly Revenue and Taxation Committee's analysis of this bill also notes:

As currently drafted, a distribution from the [CSA] could be used to pay for the repair or expense of an unreimbursed personal casualty loss for which a taxpayer is able to claim one of these other deductions. Providing a deduction for a contribution to a [CSA] and a deduction for a personal casualty loss would have the effect of providing a double benefit for the same item. Similarly, distributions from a [CSA] may be used to pay for property-level mitigation efforts which may increase the basis in the property. Providing a deduction for a contribution and allowing the expenditure amount to be added to the basis of the property would have the effect of providing multiple tax benefits for the same activity.

- 3) **Support and Opposition.** This bill is supported by financial institution associations and a coalition of insurer associations, which argues, "Californians should have access to all the available tools to assist with recovery after disaster. Allowing Californians to open a state income tax exempt account to prepare in advance for the future is a responsible financial step forward."

This bill is opposed by education and labor groups, with the California Teachers Association (CTA) arguing that while the policy may be well intended, "CTA does not support this approach, as it would reduce overall funding for education. CTA believes Proposition 98

should be protected from reductions through the creation of new or expanding existing tax expenditures.”

- 4) **Related Legislation.** AB 232 (Calderon) is substantially similar to this bill. AB 232 was held on this committee’s suspense file.

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