
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

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Author:	Ta	Tax Levy:	Yes
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Consultant:	Summers		

INCOME TAXES: EXCLUSIONS: 2026 GARDEN GROVE CHEMICAL LEAK

Enacts Personal Income and Corporation Tax exclusions for settlement payments made in connection with the 2026 Garden Grove chemical leak.

Background

Tax expenditures. California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts such tax incentives to compensate taxpayers for incurring certain expenses, such as child adoption, or to influence certain behavior, such as charitable giving. The Legislature uses tax incentives to encourage taxpayers to do something they would otherwise not do, but for the tax credit. The Department of Finance is required to annually publish a list of tax expenditures, which currently total around \$94.2 billion per year.

Income. Existing federal and state laws provide 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. Existing federal and state laws exclude certain types of income from gross income, such as specified amounts received as gifts or by inheritance, certain compensation for injuries and sickness, qualified scholarships, educational assistance programs, foster care payments, and interest received on certain state or federal obligations, among other things.

Treatment of settlement awards. Generally, federal and state law allow taxpayers to exclude income from settlements from gross income if the amount received resulted from a personal physical injury or physical sickness, unless it is punitive damages. Additionally, payments received as reimbursement of costs, such as those paid to rebuild a destroyed home, are excluded from gross income. However, amounts resulting from emotional distress are included when calculating gross income, unless the emotional distress is the result of physical injury or sickness. In some cases, federal and state law require the inclusion of attorney's fees resulting from a settlement in the calculation of gross income. To the extent that any settlement payment exceeds costs incurred or paid in connection with the event that caused the settlement, that income may be taxable.

Disaster tax relief. In recent years, the Legislature has enacted Personal Income and Corporation Tax exclusions when disaster victims receive settlement payments to replace property damaged or destroyed by specific wildfire events or disaster events, including:

- AB 50 (Hill, 2011), which deemed the San Bruno natural gas pipeline explosion to be a qualified disaster for purposes of disaster payments, thereby allowing taxpayers to

exclude disaster relief payments and capital gains treatment for involuntary conversions resulting from the explosion from state income.

- AB 1249 (Gallagher, 2022), which applied to amounts received in settlement from the PG&E trust to victims of the 2015 Butte, 2017 North Bay, and 2018 Camp Fires.
- SB 1246 (Stern, 2022), which applied to amounts received in settlement from Southern California Edison related to the 2017 Thomas Fire and the 2018 Woolsey Fire.
- SB 131 (Committee on Budget & Fiscal Review, 2023), which applied to amounts received in settlements associated with either the 2019 Kincade Fire in the County of Sonoma or the 2020 Zogg Fire in the Counties of Tehama and Shasta.
- SB 132 (Committee on Budget & Fiscal Review, 2025), which applied to amounts received, on or after March 1, 2024, as compensation for specified costs and losses related to the Chiquita Canyon elevated temperature landfill event in Los Angeles (LA) County.

SB 132 has also temporarily remedied the need for one-off individual wildfire settlement exclusions by authorizing an exclusion for settlement amounts received on or after January 1, 2021, and before January 1, 2030, in connection with a wildfire in the state.

However, victims of future non-wildfire-related disasters who receive settlement payments may be unable to exclude them from taxable income for state purposes unless and until the Legislature enacts a bill. Additionally, some taxpayers may have received settlement payments in connection with other disasters in the past, where the Legislature has not enacted an exclusion specific to that disaster.

Pandemic relief. During the COVID-19 pandemic, the Legislature enacted several income exclusions to provide tax relief associated with various forms of COVID relief, including:

- SB 113 (Senate Committee on Budget & Fiscal Review, 2022), which provided a gross income exclusion for utility payment assistance received under the California Arrearage Payment Program.
- AB 81 (Ting, 2021), which provided a gross income exclusion for rent forgiveness and certain rental assistance payments.
- SB 91 (Senate Committee on Budget & Fiscal Review, 2021), which provided a gross income exclusion for rental assistance received under the State Rental Assistance Program and the federal Consolidated Appropriations Act.

However, victims of other mass disease or health-related events are unable to exclude from gross income amounts received in connection with the mass disease or health-related event unless and until the Legislature enacts a bill.

2026 Garden Grove chemical leak. On May 21, 2026, a tank at GKN Aerospace Transparency Systems' facility in Garden Grove containing roughly 6,000 to 7,000 gallons of methyl methacrylate, a highly flammable chemical used in plastics, overheated and threatened to crack, rupture, spill, or explode.¹ The incident triggered evacuation orders affecting approximately 50,000 Orange County residents and led to both a state of emergency proclamation by the governor and a presidential emergency declaration.² While no public health official has verified

¹ <https://apnews.com/article/chemical-aerospace-tank-explosion-evacuation-49aa89a057a181868e981ea2471933d6>

² [https://www.gov.ca.gov/2026/05/23/governor-newsom-proclaims-state-of-emergency-in-orange-county-in-response-to-ongoing-chemical-incident-in-garden-grove-makes-additional-shelter-sites-available/;](https://www.gov.ca.gov/2026/05/23/governor-newsom-proclaims-state-of-emergency-in-orange-county-in-response-to-ongoing-chemical-incident-in-garden-grove-makes-additional-shelter-sites-available/)

contamination or that fumes were released, there have been local accounts of odors, respiratory irritation, headaches, and dizziness.³ However, many individuals and businesses have incurred financial injury related to the evacuation orders.

More than 30 lawsuits have been filed against GKN Aerospace, including 10 federal class actions and 21 state-court cases, involving more than 100 individuals, families, and businesses seeking compensatory and punitive damages. However, as of June 17, 2026, no court-approved settlement, claims administrator, or individual settlement-payment program has been established to issue payments related to the Garden Grove chemical leak.

The author seeks to enact income exclusions to exclude future settlement payments that may be issued related to the Garden Grove chemical leak for state income tax purposes.

Proposed Law

Assembly Bill 760 enacts Personal Income and Corporation Tax exclusions for any amount received in settlement by a qualified taxpayer from a settlement entity in connection with the 2026 Garden Grove chemical leak, for taxable years 2026 through 2030. The bill defines:

- “Qualified taxpayer” to mean any taxpayer who owned real property located in, resided within, or had a place of business within the County of Orange during the 2026 Garden Grove chemical leak who paid or incurred expenses and received amounts from a settlement arising out of or pursuant to the 2026 Garden Grove chemical leak.
- “Settlement entity” to mean the entity deemed responsible or its subsidiary that is making the settlement payment to a qualified taxpayer.

The bill also contains legislative findings and declarations to comply with Section 41 of the RTC.

State Revenue Impact

Pending.

Comments

1. **Purpose of the bill.** According to the author, “In May 2026, 50,000 residents were evacuated due to a chemical incident in Garden Grove, which impacted many communities in Orange County. Many evacuees incurred considerable losses, including temporary housing, lost wages, business interruptions, and transportation costs. Consequently, 44 lawsuits have been filed by those impacted by this chemical leak. AB 760 will help these victims be fully compensated by following California precedent for previously declared emergencies that made settlements non-taxable, including SB 343 (2018), SB 1246 (2022), SB 131 (2023), and AB 159 (2025). Settlements awarded to victims as a result of a declared emergency are intended to make them whole. These funds should not be considered income. These funds are meant to reimburse families for losses they suffered through no fault of their own. These funds are intended to help families recover and feel a sense of stability after a frightening and disruptive event. Taxing

<https://www.gov.ca.gov/2026/05/23/governor-newsom-proclaims-state-of-emergency-in-orange-county-in-response-to-ongoing-chemical-incident-in-garden-grove-makes-additional-shelter-sites-available/>

³ <https://www.theguardian.com/us-news/2026/jun/10/fbi-southern-california-chemical-facility>

these settlements would diminish the relief available to affected residents and reduce the resources available to help them rebuild and move forward.”

2. Premature exclusion. AB 760 may be premature because the tax issue it addresses has not yet materialized. While lawsuits have been filed regarding the 2026 Garden Grove chemical leak, no settlement has been approved, no settlement entity or claims administrator appears to exist, and no settlement payments have been made. Thus, the bill would create an income exclusion before the Legislature knows who will be paid or what harms will be compensated. Additionally, AB 760’s exclusion would only apply for five taxable years, from 2026 through 2030. Because no settlement exists yet, the exclusion may expire before affected taxpayers receive payments or may leave only a short time for taxpayers to benefit from it.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing a credit against personal income tax, AB 760 will result in the State General Fund receiving less revenue. As a result, the state will have to reduce spending or increase taxes to offset the loss. Additionally, because Proposition 98 establishes a minimum funding guarantee for K-14 education in California, which generally represents roughly 40% of the state’s General Fund revenues, every dollar of General Fund loss results in approximately 40 cents less of funding for K-14 education.

4. Precedent. Income is generally taxable, regardless of the source from which it is derived. The Legislature has made several exceptions to this rule; however, they have been limited to specific wildfires or to implement state benefit programs. In recent years, the Legislature has enacted several income exclusions for amounts received in connection with certain Governor-proclaimed or President-declared disasters, such as wildfires, the COVID-19 pandemic, and the Chiquita Canyon elevated temperature landfill event. This bill follows this precedent by authorizing an income exclusion for settlement payments made in connection with the 2026 Garden Grove chemical leak.

5. Equity. Evacuation expenses, temporary housing, lost wages, business interruption, medical monitoring, and other disruption-related costs from potential contamination and evacuation orders can impose a disproportionate burden on lower-income households, seniors, renters, immigrant communities, and small businesses operating on thin margins. To the extent affected taxpayers later receive settlement payments intended to compensate them for those losses, taxing those payments could reduce the recovery available to make them whole.

6. Conformity. AB 760 enacts a gross income exclusion that is not available for federal tax purposes. As a result, taxpayers may have to include the same income for federal purposes that they would exclude for state purposes, which can create confusion for taxpayers.

7. Related legislation. At its June 24, 2026, hearing, the Committee will also consider AB 2186 (McKinnor), which enacts Personal Income and Corporation Tax exclusions for any reparations benefit or payment received by a taxpayer from a local, state, or federal reparations program.

8. Gut and amend. As approved by the Assembly, AB 760 exempted certain mobilehome parks in emergency-affected areas from restrictions on management renting park-owned mobilehomes when homeowners were barred from renting or subleasing their own mobilehomes or spaces. On June 11, 2026, the author amended AB 760 to delete those provisions and insert the current ones.

9. Section 41. Section 41 of the Revenue and Taxation Code requires any bill enacting a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve and detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). A bill that would authorize a new gross income exclusion is exempt from the requirement that the bill contain detailed performance indicators and data collection reporting if the Legislature determines there is no available data to collect and report (AB 3289, Committee on Revenue and Taxation, 2024). To satisfy these requirements, AB 760 states that the specific goal of this credit is to provide essential relief to individuals who have suffered injury, loss, inconvenience, and expense due to a near-catastrophic environmental disaster precipitated by the 2026 Garden Grove chemical leak and states that there is no available data to collect or report with respect to the exclusions.

10. Committee amendments. The Committee amendments for AB 760 amend the bill in the following ways:

- Revises the definition of “settlement entity” to mean “an entity making a settlement payment of a qualified amount to a qualified taxpayer.”
- Revises the applicable tax years of exclusion to tax years 2027 through 2031.
- Revises the Section 41 findings and declarations to include performance indicators.

Assembly Actions

Not relevant to this version of the bill.

Support and Opposition (6/18/26)

Support: None received.

Opposition: None received.

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