SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 760 (Ta) - Income taxes: exclusions: 2026 Garden Grove chemical leak

Version: June 25, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: REV. & TAX. 4 - 0
Mandate: No
Consultant: Robert Ingenito

Bill Summary: AB 760 would enact Personal Income and Corporation Tax exclusions for settlement payments made in connection with the 2026 Garden Grove chemical leak.

Fiscal Impact: The Franchise Tax Board (FTB) estimates that, for every $100 million in qualified settlement amounts received, the General Fund revenue loss would be $4.6 million. FTB would incur administrative costs of $12,000 in 2026-27, $89,000 in 2027-28, and $115,000 annually thereafter, to implement the provisions of the bill (General Fund).

Background: Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the “basic” tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed $94 billion annually.

Under existing federal and state tax law, amounts received through settlements are generally includable in gross income unless a specific exclusion applies. Settlement payments attributable to personal physical injuries or physical sickness are generally excluded from income, except for punitive damages. Similarly, reimbursements for costs incurred as a result of a qualifying event, such as payments to restore or replace damaged property, are generally excluded to the extent they reimburse the taxpayer for actual losses.

In contrast, settlement amounts attributable solely to emotional distress are generally taxable unless the emotional distress arises from a physical injury or sickness. Additionally, certain attorney’s fees associated with settlement proceeds may be included in the calculation of taxable income under federal and state law. To the extent a settlement payment exceeds the taxpayer’s costs or losses associated with the underlying event, the excess amount may be subject to taxation.

In response to certain catastrophic events, the Legislature has enacted targeted Personal Income Tax (PIT) and Corporation Tax (CT) exclusions to allow taxpayers to exclude specified disaster-related settlement payments from taxable income. These exclusions have generally been enacted on an event-specific basis and have applied to settlements intended to compensate victims for property damage, economic losses, or other impacts resulting from major disasters.

Absent additional legislative action, taxpayers receiving settlement payments related to future non-wildfire disasters may be required to include those amounts in taxable income. Similarly, taxpayers who previously received settlement payments related to disasters for which the Legislature did not enact a specific exclusion may have been unable to exclude those payments from state taxable income.

Proposed Law: This bill, among other things, would enact PIT and CT exclusions for any amount received in settlement by a qualified taxpayer (as defined) from a settlement entity (as defined) in connection with the 2026 Garden Grove chemical leak, for taxable years 2027 through 2031.

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