SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

Bill No:	AB 817	**Hearing Date:**	8/25/26
Author:	Mark González	**Tax Levy:**	No
Version:	8/19/26 Amended	**Fiscal:**	Yes
Consultant:	Summers		

COLD STORAGE FACILITIES

Enacts Personal Income and Corporation Tax exclusions for settlement payments made in connection with the 2026 Boyle Heights fire incident.

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 settlement income 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 requires including attorney fees resulting from a settlement when calculating 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 Boyle Heights fire incident. On June 17, 2026, a fire ignited at a roughly 500,000-square-foot cold-storage warehouse operated by Lineage Logistics in Boyle Heights, Los Angeles.[1] The fire reportedly ignited while subcontractors were working on the rooftop solar system, although the official cause remains under investigation. The facility held approximately 85 million pounds of frozen food, and the fire burned for eight days. Thick smoke prompted shelter-in-place orders and air-quality advisories for surrounding communities.[2] On June 20, Governor Newsom proclaimed a state of emergency in Los Angeles County and made emergency

[1] https://apnews.com/article/los-angeles-warehouse-fire-b1b32cb5ba57ef519df6d9e83cf6b991

[2] https://www.gov.ca.gov/2026/06/20/governor-newsom-proclaims-state-of-emergency-in-los-angeles-for-the-boyle-heights-fire-response/

resources available, including millions of N95 masks.[3] In the aftermath, residents reported respiratory irritation, headaches, nausea, foul odors, and pest infestations associated with smoke and decomposing food, while households and businesses incurred costs for air filtration, odor mitigation, pest control, and relocation, among other costs.[4]

Multiple civil actions have been filed in connection with the fire, including proposed class actions alleging negligence, nuisance, trespass, premises liability, toxic exposure, property damage, personal injury, and business losses.[5] One complaint filed was brought by more than 300 residents of Boyle Heights, East Los Angeles, Commerce, and Montebello.[6] Plaintiffs seek compensation from Lineage and other entities connected to the property, the rooftop solar system, and the maintenance work. As of August 19, 2026, no court-approved settlement, claims administrator, or formal settlement-payment program has been publicly reported for victims of the Boyle Heights fire.

The author seeks to enact income exclusions to exclude future settlement payments that may be issued related to the 2026 Boyle Heights fire incident for state income tax purposes.

Proposed Law

Assembly Bill 817 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 Boyle Heights fire incident, for taxable years 2027 through 2031. The bill defines:

- "2026 Boyle Heights fire incident" to mean the fire incident that began on June 17, 2026, proclaimed a state of emergency by the Governor on June 21, 2026, at a Lineage cold storage facility in the City of Los Angeles.
- "Qualified taxpayer" to mean any taxpayer who owned real property located in, resided within, or had a place of business within the County of Los Angeles during the 2026 Boyle Heights fire incident who paid or incurred expenses and received amounts from a settlement arising out of or pursuant to the 2026 Boyle Heights fire incident.
- "Settlement entity" to mean an entity making a settlement payment of a qualified amount to a qualified taxpayer.

The bill also contains legislative findings and declarations to comply with Section 41 of the RTC. AB 817 also enacts provisions pertaining to the approval of building permits by local governments.

State Revenue Impact

According to the Franchise Tax Board (FTB), because it is difficult to predict the amount and timing of settlement payouts, the revenue impact to the General Fund is unknown. However, it is assumed that for every $50 million in qualified settlement amounts received, and applying an average tax rate of roughly 3%, the estimated revenue loss would be approximately $1.5 million.

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[3] https://www.gov.ca.gov/2026/06/20/governor-newsom-proclaims-state-of-emergency-in-los-angeles-for-the-boyle-heights-fire-response/

[4] https://www.theguardian.com/us-news/2026/jun/27/boyle-heights-warehouse-fire-smell-los-angeles; https://recovery.lacounty.gov/disasters/palos-fire/#1784166661020-0368eb90-b52f

[5] https://www.dailyjournal.com/articles/392955-warehouse-fire-litigation-grows-slowly-as-attorneys-sort-out-complex-liability

[6] https://www.foxla.com/news/boyle-heights-lineage-fire-lawsuit

Comments

1. Purpose of the bill. According to the author, "AB 817 is necessary to tackle several pressing issues brought about from the June 2026, Lineage Facility Fire in Boyle Heights. More needs to be done to address the aftermath of this fire and the impact it has already had on the community. That is what AB 817 will do by ensuring Lineage won't receive permits before setting up a contingency fund to be accessed in times of emergency to help the community, by tax-exempting all future settlements that residents who have been affected might receive. This bill is the least the state can do to protect the health and safety of my community."

2. Premature exclusion. AB 817 may be premature. While lawsuits have been filed regarding the 2026 Boyle Heights fire incident, 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 817's exclusion would only apply for five taxable years, from 2027 through 2031. Because no settlement exists yet, the exclusion may expire or need to be extended by the Legislature before affected taxpayers receive payments or may leave only a short time for taxpayers to benefit from it. Further, it is unclear how many settlement payments may be issued before the November 1, 2029, FTB report deadline. Any ongoing settlements would likely not be included and may result in incomplete data.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing an income exclusion, AB 817 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 Boyle Heights fire incident.

5. Equity. Evacuation expenses, temporary housing, lost wages, business interruption, medical monitoring, and other disruption-related costs from potential contamination and evacuation orders can disproportionately burden lower-income households, seniors, renters, immigrant communities, and small businesses operating on thin margins. If 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 817 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. Similar to this bill is AB 760 (Ta, 2026), which enacts Personal Income and Corporation Tax exclusions for settlement payments made in connection with the 2026 Garden Grove chemical leak.

8. Gut and amend. As approved by the Assembly, AB 817 required the Governor to notify the Legislature when the Governor removes a member of the California Gambling Control Commission for cause. On June 11, 2026, the author amended AB 817 to delete those provisions and insert provisions relating to publicly accessible court records. On August 19, 2026, the author amended AB 817 to delete those provisions and insert the current provisions related to cold storage facilities and the Boyle Heights fire incident.

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 817 states the goal of the exclusion is to assist those who relocated from their homes, suffered negative effects from being unable to relocate, or suffered losses to their businesses. The purpose and objective is to adequately and economically compensate the victims, which cannot be achieved if victims pay taxes on the money paid to them in settlement. The performance indicator is the amount of gross income excluded, for which the FTB shall deliver to the Legislature a written report that states the aggregate dollar amount of payments received in settlement by qualified taxpayers from a settlement entity arising out of the 2026 Boyle Heights fire incident.

10. Double-referred. The Senate Rules Committee ordered a double referral for the 8/19/26 version of AB 817: first to the Senate Local Government Committee, which approved it by a vote of 4-2, and second to the Committee on Revenue and Taxation.

Assembly Actions

Not relevant to this version of the bill.

Support and Opposition (8/24/26)

Support: California Community Foundation
City of Los Angeles
East Yard Communities for Environmental Justice
Housing Equity & Advocacy Resource Team
Inclusive Action for the City
Los Angeles Unified School District
St. John's Community Health

Opposition: African American Farmers of California
Agricultural Council of California
Almond Alliance
American Chemistry Council
American Frozen Foods Institute

American Pistachio Growers
Association of California Egg Farmers
California Apple Commission
California Blueberry Association
California Blueberry Commission
California Business Properties Association
California Cherry Board
California Citrus Mutual
California Cotton Ginners & Growers Association
California Food Producers
California Fresh Fruit Association
California Fuels and Convenience Alliance
California Grain & Feed Association
California Grocers Association
California Manufacturers & Technology Association
California Olive Oil Council
California Pear Growers Association
California Seed Association
California Strawberry Commission
California Tomato Growers Association
California Walnut Commission
Consumer Brands Association
Dairy Institute of California
Global Cold Chain Alliance
Grower-Shipper Association of Central California
Healthcare Distribution Alliance
Nisei Farmers League
Olive Growers Council of California
Pacific Egg & Poultry Association
Western Plant Health Association
Western Tree Nut Association

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