
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

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Tax Levy: Yes
Fiscal: Yes

INCOME TAX CREDIT: SALES AND USE TAX PAID: NATURAL DISASTERS

Authorizes a personal income tax credit, for tax years 2027 through 2031, of up to \$10,000, in an amount equal to the amount of sales tax reimbursement and use tax paid to replace qualified tangible personal property or rebuild a residence damaged or destroyed by a natural disaster.

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.

Credits. Tax credits reduce the amount of tax owed by a taxpayer on a dollar-for-dollar basis. Credit amounts that exceed the taxpayer's current tax year liability can either be refunded to the taxpayer or carried forward to reduce tax in future years. However, except for the Earned Income Tax Credit, the Young Child Tax Credit, the Foster Youth Tax Credit, and the Motion Picture and Television Production Credit, all credits against California Personal Income and Corporation Tax are nonrefundable.

Natural disasters. Over the last decade, California has experienced increased, intense, and record-breaking wildfires. These fires have resulted in a devastating loss of life and billions of dollars in damage to property and infrastructure. According to the California Department of Forestry and Fire Protection (CAL FIRE), in 2025 alone, there were 608,571 emergency responses; 8,232 wildfires; 507,817 acres burned; 16,627 structures damaged or destroyed; and 31 fatalities. As of April 13, 2026, for the year 2026, there have already been 172,125 emergency responses; 707 wildfires; 6,812 acres burned; 1 structure damaged or destroyed; and 0 fatalities.

Since January 2023, Governor Newsom has proclaimed approximately 30 natural disaster-related state of emergency proclamations: nine in 2023, twelve in 2024, and nine in 2025. Additionally, on March 24, 2026, the Governor terminated 18 open states of emergency for prior fires, storms, drought, and other incidents. However, the state still has 40 open state emergency proclamations, 18 of which are related to fires.¹ Other open state emergencies include Bird Flu, levee incidents, earthquakes, land movement events, mudslides, tsunamis, windstorms, monsoon storms, tropical storms, coastal storms, winter storms, and other seasonal storms. The oldest open-proclaimed emergency is 1/4/2023, for the December 2022-January 2023 Storms. California also experiences other damaging natural-hazard events that may be more localized, such as tornadoes and atmospheric river events. The National Centers for Environmental Information indicates that California has had 46 “billion-dollar” disaster events between 1980 and 2024, with a total cost from all natural disasters during that time period being approximately \$343 billion (CPI-adjusted).²

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, including:

- AB 1249 (Gallagher, 2022), which applied to amounts received in settlement from the PG&E trust to fire 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 settlement amounts received in connection with a wildfire in the state, applicable for the 2021 through 2030 taxable years, thereby eliminating the need for one-off exclusions.

SB 132 also enacted a Personal Income and Corporation Tax income exclusion for any Chiquita Canyon elevated temperature landfill payment amount received by a taxpayer, beginning January 1, 2024, and before January 1, 2029. In the same year, the Legislature also enacted property tax relief for property located within a five-mile radius of the center of the Chiquita Canyon Landfill in the County of Los Angeles to reflect any decline in the value of the property arising from the Chiquita Canyon elevated temperature event, retroactive to January 1, 2022 (AB 985, Schiavo, 2025).

In 2025, the Legislature also enacted several other property tax relief measures for properties affected by the Los Angeles Fires of January 2025.

- AB 245 (Gipson) – extends the five-year deadline to eight years to reconstruct without reassessment and allows the assessor to reduce valuations for properties partially damaged more quickly, as a result of the Los Angeles Fires in January 2025.
- SB 293 (Pérez) – extends the current six-month deadline to three years from the date of notice for supplemental assessment under Propositions 58 and 19 for taxpayers whose

¹ <https://www.caloes.ca.gov/office-of-the-director/policy-administration/legal-affairs/emergency-proclamations/>

² [https://www.ncei.noaa.gov/access/billions/events/CA/1980-2024/?disasters\[\]=all-disasters](https://www.ncei.noaa.gov/access/billions/events/CA/1980-2024/?disasters[]=all-disasters)

property has been reassessed due to the 2025 Los Angeles County Fires, and where no instrument evidencing a change in ownership has been recorded.

- SB 663 (Allen) – extends deadlines for two property tax relief provisions for taxpayers affected by fires in Los Angeles and Ventura Counties; directs the assessor to deem that a property that received a welfare exemption continues to be used exclusively for its welfare exempt purposes if the same fires named above damaged the property so badly that it is no longer being used for its exempt purpose; and deems a property as a principal place of residence of a disabled veteran when a dwelling on the property was completely destroyed in a disaster for which the Governor proclaimed a state of emergency.

Sales and use tax. State law imposes the sales tax on every retailer “engaged in business in this state” that sells tangible personal property, requiring them to register with the California Department of Fee & Tax Administration (CDTFA) and remit the taxes collected from purchasers to CDTFA. Sales tax applies whenever there is a retail sale. The current sales and use tax rate is 7.25%. Additionally, cities, counties, and specified special districts may increase the sales and use tax, also known as district or transactions and use taxes. The use tax is assessed at the same rate as the sales tax and must be remitted on or before the last day of the month following the quarterly period in which the purchase was made.

The author wants to help households impacted by natural disasters that damaged or destroyed their residence by authorizing a personal income tax credit for sales and use tax paid to rebuild their home and replace major appliances and furniture.

Proposed Law

Senate Bill 1343 authorizes a personal income tax credit, for tax years 2027 through 2031, equal to the amount of sales tax reimbursement and use tax paid by the taxpayer, or by a nonprofit housing developer working on behalf of the taxpayer, on costs incurred to replace qualified tangible personal property or rebuild a residence damaged or destroyed by a natural disaster. The measure defines several terms, including:

- “Covered period” means a period of time that began on the date the natural disaster that damaged the claimant’s primary residence occurred and the date that is three years from that date.
- “Natural disaster” means a major misfortune or calamity that is the subject of a state of emergency proclaimed by the Governor pursuant to Government Code Section 8625.
- “Qualified tangible personal property” means major appliances, residential furniture, and residential building supplies.
- “Major appliance” means a water heater, dishwasher, washer, dryer, refrigerator, freezer, stove, range, oven, cooktop, microwave, vacuum, or fan that is used in the taxpayer’s primary residence to replace an appliance that was damaged or destroyed in a natural disaster, the sales price per item of which is not more than \$3,500.
- “Residential building supplies” means any of the following items if used in the taxpayer’s primary residence for the purpose of restoration, repair, replacement, or rebuilding due to a natural disaster, the sales price of which is not more than \$500:
 - Cleaning and disinfecting materials
 - Construction tools and hardware

- Roofing shingles, roofing paper, gutters, downspouts, vents, doors, windows, sheetrock, drywall, insulation, paint and paint materials, flooring, and other necessary building materials
- “Residential furniture” means furniture commonly used in a residential dwelling that is used in the taxpayer’s primary residence to replace furniture that was damaged or destroyed in a natural disaster, the sales price per item of which is not more than \$3,500.

The bill also authorizes the Franchise Tax Board to determine whether residential furniture or residential building supplies are qualified tangible personal property; specifies that, with respect to any particular natural disaster, the total amount of credit allowed shall not exceed \$10,000; provides that excess credit may be carried over to following taxable years until the credit is exhausted; repeals December 1, 2031; and contains legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

According to the Franchise Tax Board, SB 1343 will result in a revenue loss of \$7.2 million in fiscal year (FY) 2026-2027, \$19 million in FY 2027-2028, and \$27 million in FY 2028-2029.

Comments

1. Purpose of the bill. According to the author, “SB 1343 provides a much-needed tax credit for purchases made to rebuild homes destroyed by natural disasters. In my district, following the Carr, Camp, and Dixie fires, I have heard firsthand from constituents about the overwhelming financial burden of rebuilding their homes. This devastation is not unique to the North State. We’ve seen the exact same struggles among constituents in Los Angeles who remain displaced by recent wildfires. Whether in Northern or Southern California, this tax credit will provide some relief and speed up the recovery process for survivors left rebuilding their homes.”

2. “Windfall” or “but for” tax benefit? Tax expenditures produce two different outcomes. The first outcome is a “windfall,” in which the tax expenditure rewards behavior that would have occurred even without the tax benefit. The second outcome is a “but for tax benefit,” where a particular activity would not have occurred without the incentive created by the tax expenditure. Here, SB 1343 primarily subsidizes the cost of rebuilding and refurbishing a taxpayer’s primary residence after a gubernatorially proclaimed natural disaster by allowing a credit for sales or use tax paid on major appliances, residential furniture, and residential building supplies. Thus, this is largely a “windfall” tax benefit, because households whose homes are damaged by a natural disaster generally must still repair, replace, or rebuild essential household property even without the credit, so the bill mostly reimburses necessary spending rather than inducing it. However, the financial relief provided by this bill may allow households to purchase replacement appliances, furniture, or building materials sooner, or to buy items they may have otherwise delayed or forgone, but for the credit. On balance, this credit serves as a post-disaster relief measure and is primarily a windfall tax benefit.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing a credit against personal income tax, SB 1343 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. If the Legislature allows a credit for natural disasters proclaimed an emergency, why should it not allow other personal income credits for other natural disasters and acts of God for which no proclamation was made? This may lead to a slippery slope in which more credits are authorized for other natural events, thereby eroding the income tax base and reducing general fund revenues.

5. Equity. SB 1343 ties the credit to essential recovery purchases, which are aimed at restoring basic living conditions. The bill also helps more vulnerable households by allowing purchases made by a nonprofit housing developer on the taxpayer's behalf to qualify. Further, the bill's per-item dollar amount cap and \$10,000 per-disaster cap limit the extent to which wealthier households can claim outsized benefits. However, the bill may also favor people with enough savings or credit to front rebuilding costs first, and it is likely more useful to homeowners than renters because much of the covered property relates to replacing or rebuilding the residence itself. Additionally, because the sales and use tax rate varies between 7.25% and 11.25%, someone purchasing tangible personal property in a jurisdiction with a 7.25% sales tax rate could make \$137,931.03 worth of eligible purchases before incurring \$10,000 of sales tax; however, someone with a 11.25% sales tax rate would only be able to make \$88,888.89 worth of eligible purchases before incurring \$10,000 of sales tax. That's about a 55% difference, or almost \$50,000 more in purchases of eligible property allowed for persons in areas with the lowest sales tax rate compared to persons in the highest sales tax jurisdiction of 11.25%.

6. Who benefits? Additionally, California's progressive income tax rate system means households with lower income levels often cannot utilize full credit amounts, unless they are refundable. However, existing refundable credits, such as the Earned Income Tax Credit and the Young Child Tax Credit, have had lower-than-expected take-up rates. As a result, households with the most need often do not benefit from nonrefundable credits. Further, families often have to go out of pocket before being reimbursed by insurance or, if enacted, partially reimbursed by this credit once they file their return. The committee may wish to consider whether grants or other forms of direct payments would produce a more equitable outcome.

7. Best way? SB 1343 gives the FTB broad authority to decide what counts as "residential furniture," "cleaning and disinfecting materials," "construction tools and hardware," and "other necessary building materials," even though those questions fit more naturally with sales-tax administration than income-tax administration. As a result, the bill asks the income-tax administrator to make case-by-case sales-tax classification judgments. This may create unnecessary complexity, inconsistent administration, and barriers to relief. Further, many taxpayers may be able to have the costs of rebuilding their home and replacing personal property covered by insurance. In cases where replacement costs are not covered by insurance, the taxpayer would incur sales and use tax payments far below the proposed \$10,000 maximum credit. For example, an insurer may attempt to have items damaged by smoke or soot, like a couch, professionally cleaned rather than replaced. If the taxpayer instead chooses to replace the smoke-damaged couch with a \$1,200 couch, the sales tax would be \$87 (or, up to \$135 depending on the applicable local state tax rates). The Committee may wish to consider whether a sales tax exclusion for nonprofit housing developers rebuilding low-income housing would be more effective to administer and

produce a more equitable outcome.

8. 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, SB 1343 states that the specific goal that the credits will achieve is to help Californians rebuild from natural disasters. To aid the Legislature in determining whether this act meets the goals, purposes, and objectives, SB 1343 directs the Legislative Analyst's Office, on or before January 1, 2029, to review the effectiveness of the credits allowed under this section and post the review on the office's internet website. The review shall include, but not be limited to, an analysis of the demand for the credits and the economic impact of the credits.

9. Committee amendments. The Committee could amend SB 1343 to narrow its application in the following ways:

- Reduce and cap the credit amount.
- Condition eligibility to taxpayers with enough physical damage or destruction to entitle them for property tax reassessment.
- Impose an income-based phase-out.
- Specify that only unreimbursed expenditures qualify.
- Establish a recapture/claw-back mechanism, requiring repayment of the credit if the taxpayer receives reimbursement for previously claimed costs.
- Limit the carry forward period to a defined number of years.
- Reduce or disallow other deductions or credits attributable to the same expenditures used to calculate this credit to prevent double tax benefits.
- Narrow the scope of eligible tax payments that qualify for the credit, such as the sales tax paid by a third party or sales tax paid for building supplies.
- Refine the definitions of qualifying property and the covered period.
- Align definitions with existing tax and property law frameworks.
- Reassign the Section 41 report to FTB.

Support and Opposition (4/16/26)

Support: None received.

Opposition: California Teachers Association

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