Date of Hearing: April 28, 2025

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Mike Gipson, Chair

AB 567 (DeMaio) – As Amended March 10, 2025

SUSPENSE

Majority vote. Fiscal committee.

SUBJECT: Insurance: residential and commercial

SUMMARY: Modifies provisions of the tax on insurers. Specifically, **this bill**:

1) Reduces to 0% the rate of tax on gross premiums received for "residential property insurance policies" on or after January 1, 2026.

2) Requires the state to subsidize, upon an appropriation, and until January 1, 2030, the annual increase in residential property insurance rates approved by the Insurance Commissioner that is above the lower of an annual increase of 7%, or the annual national average increase in residential insurance premiums.

3) Requires the Department of Insurance to provide, by March 31, 2026, a report to the Legislature addressing how to:

   a) Slash regulation on the insurance market, in consultation with insurers in the insurance industry, to achieve efficiencies to keep residential property insurance rates at or below the annual national average increase in residential insurance premiums;

   b) Strategically allocate $1 billion a year for four years, in consultation with insurers in the insurance industry, on fire fuel reduction to lower fire risks in a manner that will decrease insurance rates and restore commercial insurance coverage to areas forced into the FAIR Plan; and,

   c) Suspend or reform all regulations, including, but not limited to, regulations authorized pursuant to the California Environmental Quality Act, or imposed by the State Air Resources Board or the California Coastal Commission, that limit or prohibit a property owner from clearing defensible space around their property or would increase the cost of brush management for fire risk reduction purposes.

4) Urges the Governor to initiate dialogue with the federal government with regard to a national reinsurance relief program that would involve regulatory reform and a federal "reinsurance bridge financing" program that will be run by the federal government to help insurance companies afford reinsurance.

5) Repeals this bill's provision on January 1, 2030, and reauthorizes the existing rate for the tax on insurers.

EXISTING LAW imposes a tax on each insurer doing business in the state. This tax is levied at a rate of 2.35% on the basis, as defined. The basis of the tax varies based on whether the insurance company is or is not engaged in providing title insurance. In the case of an insurer not transacting title insurance in this state, the annual basis for the tax is the difference between gross premiums and return premiums, as restricted. (California Constitution, Article XIII, Section 28 and Revenue and Taxation Code (R&TC) Section 12001 *et seq*.)

FISCAL EFFECT: Pending an estimate by the Department of Insurance, which notes that any proposed reduction would be significant; however, Committee staff notes that this bill almost certainly results in a General Fund revenue loss in excess of this Committee's Suspense File threshold.

COMMENTS:

1) The author has submitted the following statement in support of this bill:

> AB 567 is essential to providing relief to both homeowners and insurers, through keeping homeowner rate increases capped while insurers are able to receive payment from the state for amounts over that cap. AB 567 will also help to revitalize and restore the insurance market by requiring the Department of Insurance to work with insurers to determine what policies and regulations must change in order to keep insurance rate increases at or below the national average increase.

2) Committee Staff Comments:

   a) *National homeowner's insurance market*: While the author points to the unaffordability of homeowner's insurance premiums in California as the impetus for this bill, and suggests that its cause is overregulation and over-taxation, the phenomenon of expensive homeowner's insurance premiums appears to be national. Between 2023 and 2024, rates across the nation rose by an average of 24.4%[1], and the national average rate for homeowner's insurance in 2025 is $2,601 per $300,000 of dwelling and liability coverage. California, by comparison, experienced rate increases of 25.2% over the 2023-24 period, and has an average rate of $1,405 for the same level of coverage[2] in 2025. When covering the period between 2019 and 2024, the national average rate increase was nearly 45%, with an average California rate increase of 55.3%[3].

   Indeed, many states often considered low-taxed jurisdictions with constrained regulatory environments generally represent the most expensive homeowner's insurance markets. The most expensive state for homeowner's insurance is Oklahoma, with an average annual rate of $5,858. The average annual rates for Kansas, Nebraska, and Florida range from nearly $4,900 to about $4,400. Alabama, Mississippi, Texas, and Louisiana all have higher rates than California as well, with rates ranging between approximately

[1] Woleben, *US Homeowners Rates Rise by Double digits for 2nd Straight year in 2024*, S&P Global (January 2025). https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/1/us-homeowners-rates-rise-by-double-digits-for-2nd-straight-year-in-2024-87061085, accessed April 2025.
[2] Kasperowicz, *Average Homeowners Insurance Rates by State in 2025*, Insurance.com (March 2025). https://www.insurance.com/home-and-renters-insurance/home-insurance-basics/average-homeowners-insurance-rates-by-state, accessed April 2025.
[3] Woleben.

$3,100 and $3,900[4]. This is understandable, given these states experience annual disasters, much like California.

Regardless, when compared to other surrounding states, California's home insurance market remains relatively affordable. Arizona's annual average rate is just below $2,500. Rates in Oregon, Washington and Nevada are likewise higher than California's, at an annual average of $1,755, $1,612, and $1,467, respectively[5].

b) *A California-specific problem*? As noted previously, it appears that insurance rates throughout the nation are increasing, and this is not specific to California. The two major contributors to increased homeowner's insurance premiums are rising insurer costs and climate change[6]. The Insurance Information Institute, an industry-funded research organization, notes that between 2020 and 2022 the average replacement cost related to homeowner's insurance rose by 55%[7]. This increase may only be exacerbated by various federal policies, such as import tariffs. In particular, input goods with significant non-domestic sourcing that are vital for construction, such as lumber, are under threat of increased prices as a result of potential tariff actions[8].

Climate change has also contributed to increasing homeowner's insurance premium rates. Between 1990 and 2024, the number of ignitions declined by approximately 10%, but the total acreage burned increased by nearly 60%, nationwide[9]. These catastrophes have correspondingly led to an increase in insurance claims by victims seeking to rebuild. As such, insurers' loss exposure has risen dramatically, causing insurers to increase their capital reserves, purchase more reinsurance, or both[10].

c) *California's response*: While California's homeowner's insurance market is objectively affordable by comparison to most other states that experience annual disasters, there is an ongoing market response to the increasing incidence of disasters in this state. California law conditions rate increases for homeowner's insurance on approval by the State Insurance Commissioner (Commissioner). Enacted in 1988, Proposition 103 required that the Commissioner approve any rate premium increase of certain insurance coverage, including homeowner's insurance. While rate increases authorized by the Commissioner are on a per-company basis, California's rate increases have remained generally consistent with the national average since 2023. The Commissioner announced last

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[4] *Ibid*.
[5] *Ibid*.
[6] Fowlie, *et al*., *How is Climate Change Impacting Home Insurance Markets?*, Brookings Institute (January 2025). https://www.brookings.edu/articles/how-is-climate-change-impacting-home-insurance-markets/, accessed April 2025.
[7] *Rising Homeowners Insurance Costs Since Pandemic Driven by Persistent inflation, Replacement Cost Increases, Prolonged Supply Chain Issues, and Legal System Abuse*, Insurance Information Institute (July 2024). https://www.iii.org/press-release/rising-homeowners-insurance-costs-since-pandemic-driven-by-persistent-inflation-replacement-cost-increases-prolonged-supply-chain-issues-and-legal-system-abuse-071624, accessed April 2025.
[8] Strong, *How Tariffs Impact the Home Building Industry*, National Association of Home Builders. https://www.nahb.org/advocacy/top-priorities/building-materials-trade-policy/how-tariffs-impact-home-building, accessed April 2025.
[9] Wibbenmeyer and Tastet, *Wildfires in the United States 101: Context and Consequences*," Resources for the Future (July 2021). https://www.rff.org/publications/explainers/wildfires-in-the-united-states-101-context-and-consequences/, accessed April 2025.
[10] Fowlie, *et al*.

month that he would authorize a rate increase of 22% for State Farm Group, an increase that is generally consistent with average national increases.

d) *This bill*: As currently drafted, this bill makes three changes to existing law. The first is to suspend the insurance tax until January 1, 2030. The second would establish a mechanism to authorize a reimbursement from the General Fund for homeowner's insurance premium rate increases above certain percentages. Finally, this bill would require the Department of Insurance to issue a report on certain policy recommendations to address rate increases.

e) *What is a "tax expenditure"*? Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).

As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote. This bill suspends the rate for the tax on insurers until January 1, 2030, thereby qualifying as a tax expenditure.

f) *Committee's tax expenditure policy*: SB 1335 (Leno), Chapter 845, Statutes of 2014, added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending programs to tax credits introduced on or after January 1, 2015. AB 263 (Burke), Chapter 743, Statutes of 2019, extended the requirements in R&TC Section 41 to all tax expenditure measures under the Personal Income Tax Law, the Corporation Tax Law, and the Sales and Use Tax Law introduced on or after January 1, 2020. While existing statute does not require that tax expenditures under the tax on insurers' gross premiums be subject to the same treatment, this Committee's policy requires application of R&TC Section 41 to all tax expenditures. A tax expenditure proposal must outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote[11]. Sunsets are required because eliminating a tax expenditure generally requires a 2/3 vote. These requirements must be satisfied before a bill can receive a vote in this Committee. This bill does contain an appropriate five-year sunset, but does not comply with the requirements of R&TC Section 41.

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[11] An "appropriate sunset provision" shall mean five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" shall mean 10 years.

g) *Double-referral*: This bill has been referred to this Committee and the Assembly Committee on Insurance.

h) *Related legislation*:

   i) AB 232 (Calderon) excludes from gross income amounts contributed to, and interest earned in, a "catastrophe savings accounts" for certain taxable years. AB 232 will be heard by this Committee today.

   ii) AB 376 (Tangipa) excludes from gross income any amount received by a "qualified taxpayer" as "qualified insurance proceeds." AB 376 is pending hearing by this Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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