

Date of Hearing: MaY 5, 2025

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 918 (Ransom) – As Introduced February 19, 2025

SUSPENSE

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal Income Tax Law: exclusions: first responders

SUMMARY: Excludes from gross income, under the Personal Income Tax (PIT) Law, "qualified wages" paid to first responders who are employees of a local agency for work performed in an area subject to a declared state or local emergency as part of the provision of mutual aid, as specified. Specifically, **this bill:**

- 1) Excludes from gross income, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, "qualified wages" received by a "qualified taxpayer."
- 2) Defines the following terms:
 - a) "State of emergency" and "local emergency" are defined by cross-reference to Government Code Section 8558;
 - b) "Provision of mutual aid" means providing personnel, equipment, and other available resources to any affected area in accordance with Government Code Section 8631.
 - c) "Qualified wages" means wages paid to a qualified taxpayer in relation to work performed in an area subject to a declared state of emergency or local emergency, and pursuant to the provision of mutual aid;
 - d) "Qualified wages" do not include any wages paid in relation to work performed in an area that is within the jurisdiction of the qualified taxpayer's employer, or the jurisdiction of a district or department that the qualified taxpayer regularly performs services for in the absence of a state of emergency or local emergency. A "qualified taxpayer" is defined by cross-reference to Government Code Section 8562(a), except that it includes employees of a local agency only.
- 3) Authorizes the Franchise Tax Board (FTB) to prescribe rules, guidelines, procedures, or other guidance to carry out the purposes of this bill. The Administrative Procedure Act shall not apply to any rule, guideline, or procedure prescribed by the FTB pursuant to this bill.
- 4) Finds and declares the following for purposes of complying with Revenue and Taxation Code (R&TC) Section 41:

- a) The specific goal of the exclusion is to address the extraordinary circumstances faced by first responders during major disasters, providing financial recognition of their critical service during times of extreme public need; and,
 - b) There is no available data to collect or report with respect this exclusion.
- 5) Takes immediate effect as a tax levy.
 - 6) Sunsets the exclusion on December 1, 2030.

EXISTING LAW:

- 1) Conforms generally to federal law, which provides that "gross income" includes all income from whatever source derived unless expressly excluded. (Internal Revenue Code (IRC) Section 61 and R&TC Section 17071.) Gross income includes compensation for services, business income, gain from selling property, interest, rents, royalties, dividends, and pensions.
- 2) Provides various exclusions from gross income in determining tax liability under the PIT Law. (R&TC Section 17131 *et seq.*)
- 3) Excludes from gross income, under state and federal law, certain types of income for an individual's active service in the Armed Forces, such as military pay for time served in combat zones, disability compensation, and death benefits paid to qualified survivors. (R&TC Section 17142.5.)
- 4) Excludes from gross income specified death benefits received by the surviving spouse or designated beneficiary of any member of the California National Guard, State Military Reserve, or Naval Militia who dies or is killed in the performance of duty, as specified. (R&TC Section 17132.4.)

FISCAL EFFECT: The FTB estimates General Fund revenue losses of \$8.8 million for fiscal year (FY) 2025-26, \$6.3 million for FY 2026-27, and \$6.9 million for FY 2027-28.

COMMENTS:

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

California's natural disasters, including devastating wildfires, underscore the critical need for rapid mutual aid responses between cities and counties. In moments of crisis, the collaboration between local first responders and impacted jurisdictions is essential to limit destruction and prevent communities from becoming overwhelmed. To support this vital work, AB 918 provides a tax exemption for local first responders who are deployed to requests for mutual aid. This bill ensures that those who protect our communities are financially supported and encouraged to continue their service when it is most needed. By reducing the tax burden on these heroes, AB 918 strengthens California's emergency response system, and reinforces our commitment to resilience and recovery.

- 2) Writing in support of this bill, the California State Sheriffs' Association notes, in part:

California relies heavily on mutual aid to combat disasters like wildfires, earthquakes, and floods. Local first responders and support staff often leave their communities to assist in hard-hit areas, risking their safety to protect lives and property. However, their added income from mutual aid deployments is currently taxed as regular earnings, despite being earned under extraordinary circumstances. By reducing the tax burden on those who protect our communities, this bill strengthens California's emergency response system and reinforces our commitment to resilience and recovery.

3) Writing in opposition to this bill, the California Tax Reform Association notes, in part:

AB 918 rewards activity which would otherwise happen in any case. The job of first responders by definition involves responding to emergencies, and generally they are well compensated by public agencies, whether locally or for mutual aid. This compensation is appropriate to the risks, and of course like any other income is subject to tax. Similarly, we compensate for all kinds of necessary employment, such as military and medical care, and their income is not distinguished by law from any other kinds of income. Creating such an exclusion implies that some income and work is worth more than others, an invidious distinction that California or, for the most part, the federal government, does not make in its tax policy.

4) Committee Staff Comments:

- a) *What would this bill do?* This bill would provide an income exclusion for first responders employed by local governments for the wages earned while responding to a state or local emergency as part of the provision of mutual aid. In other words, this bill exempts wages earned by local police and fire personnel from state income taxes when they are deployed outside of their jurisdiction in response to an emergency. First responders employed by the state or federal government would not qualify for this income exclusion. Additionally, first responders that are employed by private entities, such as some ambulance drivers and emergency medical technicians (EMTs), would not qualify for this income exclusion.
- b) *What is mutual aid?* In the context of emergency services, mutual aid is an agreement among emergency responders to lend assistance across jurisdictional boundaries. This typically occurs when the resources needed to respond to an emergency situation exceed the resources that are available locally, such as during large natural disasters such as wildfires or mass casualty incidents. Mutual aid can be provided on a case-by-case basis when specific events occur, or can be formalized into a standing agreement for cooperative emergency management as part of broader emergency preparedness and response efforts.

The Emergency Management Assistance Compact (EMAC) is a mutual aid agreement among states and territories of the United States, which allows states affected by emergencies to request resource support from other states, the federal government, or both. In California, the State itself, all 58 counties, and nearly all city governments, are signatories to a Master Mutual Aid Agreement, which provides that resources be

provided in all cases of "local emergency", "state of emergency", and "state of war emergency", as defined in the Emergency Services Act.¹

In addition to providing additional resources in times of great need, these mutual aid agreements help streamline processes across different bureaucracies, allow for credentials to be honored across state lines, and set clear expectations for liability and cost purposes. Once the conditions for providing assistance to a requesting jurisdiction have been set, the terms constitute a legally binding contractual agreement that makes the affected jurisdiction responsible for reimbursement. Responding agencies can rest assured that sending aid will not be a financial or legal burden, and personnel who are deployed are protected under workers compensation and liability provisions.

- c) *Mutual aid in California:* California's mutual aid system is the backbone of the state's disaster response, ensuring that local first responders and emergency personnel can rapidly assist communities in crisis. As wildfires, earthquakes, floods, and other catastrophic events become more frequent and severe, the mutual aid system has been stretched to its limits. According to the Governor's Office of Emergency Services (Cal OES):

California has moved into a new chapter of emergency management, disaster response, and recovery in the state. Emergencies and disasters are more frequent, more complicated, often involving multiple counties and regions of the state, and the resulting recovery for communities is much longer. The impacts of climate change continue to intensify and lengthen fire season in California. Over the past five years, the state has experienced an unprecedented number of emergencies and disasters—including severe drought, catastrophic wildfires, power grid/outage challenges, earthquakes, intensive storms with severe flooding, civil unrest, and COVID-19. In fact, 15 of the most destructive fires in the state's history have occurred since 2015. California will be recovering from these complex disasters for at least the next decade, while continuing to respond to future disasters.²

According to Cal FIRE's 2020 Fire Siege Report:

The mutual aid system in California was stretched to its limits as fires burned up and down the State. Incident Commanders were forced to build plans based on scarcity of resources, and resource prioritization became a critical exercise to ensure the right resources were in the right places at the right time. As the California Mutual Aid System hit the reaches of its capacity, the Emergency Management Assistance Compact was utilized to receive an influx of out-of-state resources. Coming from as far east as New Jersey, these resources were essential in bolstering containment strategies and the protection of communities throughout California.

¹ *California Fire Service and Rescue Emergency Mutual Aid System: History and Organization*, California Governor's Office of Emergency Services (April 2019).

https://www.caloes.ca.gov/wp-content/uploads/Fire-Rescue/Documents/CalOES_-_Fire_and_Rescue_-_History_and_Organization-2.pdf.

² *Report to California Legislature on the Emergency Preparedness and Planning*, Governor's Office of Emergency Services (April 10, 2024).

- d) *What problem is this bill attempting to solve?* According to the author, this bill provides a meaningful incentive for local agencies to continue supporting mutual aid efforts while recognizing the essential contributions of first responders who answer the call for assistance. By limiting eligibility to local agency employees, the author hopes to ensure that the incentive is focused on personnel who take on additional response duties beyond their regular roles—without impacting state workers, such as Cal FIRE and Cal OES staff, who are already dedicated to statewide emergency response. As emergencies become more prevalent and widespread, local agencies must carefully balance their ability to send responders without compromising their own readiness. By exempting wages earned while providing mutual aid from state income taxes, this bill seeks to incentivize continued participation in the mutual aid system.
- e) *An incentive or reward?* Typically, tax expenditures are provided prospectively as a matter of legislative grace to encourage taxpayers to behave in ways they might not absent a financial incentive. As currently drafted, this bill excludes qualifying income beginning on January 1, 2025, meaning that taxpayers could benefit from this bill for actions they have already taken without any incentive. The author may wish to consider amending this bill to provide the income exclusion prospectively, beginning on January 1, 2026.
- f) *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.

- g) *Potential unintended consequences:*
 - i) *Nonconformity to federal law:* This bill establishes an exclusion for which federal law has no counterpart. Generally, nonconformity to federal law adds complexity and additional administrative burdens for taxpayers.
 - ii) *A slippery slope?* It should be noted that California currently taxes the compensation of National Guard members, medical professionals, and other public service workers who may be activated in response to emergencies. As a result, this Committee may face a slippery slope of choosing which groups should be rewarded with similar income exclusions for pay earned in connection with emergencies.
- h) *Related legislation:*

- i) AB 53 (Ramos) excludes up to \$20,000 of uniformed services retirement pay and annuity payments from a United States Department of Defense Survivor Benefit Plan received by qualified taxpayers during the taxable year from gross income. AB 53 is currently pending on this Committee's Suspense File.
- ii) AB 1057 (M. Rodriguez) excludes qualified overtime wages paid to a qualified first responder in relation to work performed directly in response to, or in support of, emergency operations, as specified. AB 1057 is currently pending on this Committee's Suspense File.
- iii) AB 1124 (Bains) excludes qualified overtime wages paid to a qualified first responder in relation to work performed in relation to a Presidential Major Disaster Declaration, as specified. AB 1124 is currently pending hearing by this Committee.

REGISTERED SUPPORT / OPPOSITION:**Support**

California Chapter National Emergency Number Association (CALNENA)
California Police Chiefs Association
California State Sheriffs' Association

Opposition

California Tax Reform Association
CFT- a Union of Educators & Classified Professionals, AFT, AFL-CIO

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