

Date of Hearing: March 16, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 1620 (Sanchez) – As Introduced January 22, 2026

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal Income Tax Law: deductions: homeowners' insurance premiums

SUMMARY: Allows, under the Personal Income Tax (PIT) Law, a deduction equal to the costs paid or incurred by a taxpayer for a homeowners' insurance policy, as specified. Specifically, **this bill:**

- 1) Allows, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, under the PIT Law, a deduction equal to the amount paid or incurred by a taxpayer during the taxable year as premiums on a homeowners' insurance policy on the taxpayer's "primary residence".
- 2) Defines "primary residence" as a residence that is eligible for either of the following:
 - a) The homeowner's exemption, as described in Revenue and Taxation Code (R&TC) Section 218; or,
 - b) The veteran's exemption, as described in R&TC Section 205 and subdivisions (o), (p), (q), and (r) of Section 3 of Article XIII of the California Constitution.
- 3) Finds and declares the following for the purposes of satisfying the requirements R&TC Section 41:
 - a) The specific goals, purposes, and objectives of the deduction are to assist homeowners in affording the cost of homeowners' insurance; and,
 - b) To measure whether this bill achieves its intended purpose, the performance indicator is the number of taxpayers claiming the deduction.
- 4) Requires the Franchise Tax Board (FTB), by December 1, 2027, and annually thereafter, to prepare a report on the number of taxpayers claiming the deduction.
- 5) Takes immediate effect as a tax levy.
- 6) Sunsets these provisions on December 1, 2031.

EXISTING LAW:

- 1) Allows a deduction for trade or business expenses, including a deduction for insurance premiums against fire, storm, theft, accident, or other similar losses in case of a business. (R&TC Section 17201.)

- 2) Allows a deduction equal to the amount of interest a taxpayer pays on a mortgage secured by their principal or secondary residence, subject to certain limitations. (R&TC Section 17201.)
- 3) Allows a deduction equal to the total amount of miscellaneous itemized deductions that exceed 2% of a taxpayer's adjusted gross income. (R&TC Section 17076.)

FISCAL EFFECT: The FTB estimates General Fund revenue losses of \$110 million in fiscal year (FY) 2026-27, \$70 million in FY 2027-28, and \$70 million in FY 2028-29.

COMMENTS:

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

California is facing an insurance crisis, as many insurers are leaving the state and insurance premiums are becoming unaffordable. Especially after the LA fires in January 2025, many new regulations have been introduced, but none are having much impact on relieving the burden on California's homeowners and rates continue to rise.

- 2) This bill is supported by the Southern California Rental Housing Association, which notes, in part:

California's housing providers and homeowners are facing rapidly escalating insurance costs and, in many regions, declining availability of coverage due to wildfire risk and market withdrawals by insurers. These trends place increasing financial strain on property owners and threaten housing stability across the state. While the bill is focused on homeowners, the broader housing market - including rental housing - feels the effects of rising insurance costs. When property insurance becomes more expensive or difficult to obtain, it increases operating costs for housing providers and ultimately contributes to higher housing costs statewide.

- 3) This bill is opposed by the California Tax Reform Association, which notes, in part:

Providing deductions for insurance premiums means state taxpayers are called on to subsidize well-off homeowners in high-risk areas. While we understand that the insurance market has many problems, it is a problem which will have to be resolved in the insurance market, not paid for by taxpayers. In particular, with a progressive income tax, it is clear that higher income homeowners will benefit disproportionately from this deduction.

- 4) Committee Staff Comments:

- a) *What would this bill do?* This bill would create a miscellaneous itemized deduction for the full costs paid or incurred by a taxpayer as premiums for a homeowners' insurance policy on their primary residence. The bill defines a "primary residence" by cross-referencing two existing property tax exemptions. As a miscellaneous itemized deduction, the deduction for amounts paid or incurred by a taxpayer for a homeowners' insurance policy would only be available to taxpayers who itemize when filing their taxes and not taxpayers who take the standard deduction.

Additionally, as a miscellaneous itemized deduction, this benefit would be subject to the 2%-of-adjusted-gross-income limitation, sometimes called the "2% Rule". While the OBBBA permanently disallowed all miscellaneous itemized deductions, California does not conform to this provision. The 2% Rule provides that taxpayers can only deduct the total amount of their miscellaneous itemized deductions that exceed 2% of their adjusted gross income (AGI).

- b) *Who is likely to benefit?* As described above, filers claiming the standard deduction would not be able to claim the deduction created by this bill. In California, just over 15% of filers itemized deductions in 2020.¹ About 10% of taxpayers nationally chose to itemize in 2022, and nearly two-thirds of tax returns reporting an AGI of over \$500,000 are itemized.² The Tax Cuts and Jobs Act (TCJA) significantly reduced the number of taxpayers who claim itemized deductions because the TCJA substantially increased the standard deduction while also restricting or eliminating some itemized deductions for 2018 through 2025. In 2017, 31% of all individual income tax returns had itemized deductions.

The U.S. Treasury Office of Tax Analysis, in a working paper analyzing the distribution of eight major tax expenditures across different income levels and racial and ethnic groups, found that itemized deductions disproportionately benefit White families: 84% of the benefits of the deductibility of mortgage interest were received by White families, which make up only 67% of the population studied. The average dollar benefit per family for the mortgage interest deduction was estimated to be \$213 for White families, \$77 for Hispanic families, and \$63 for Black families.³ Additionally, across all racial and ethnic categories, families in the upper middle-income ranges benefitted from the home mortgage deduction at higher rates than families in lower income deciles.

- c) *Deductions tend to benefit higher income households:* A deduction is generally more valuable to high-income taxpayers because the "value" of a deduction varies with the marginal tax rate (or tax bracket) of the taxpayer. For example, an individual taxpayer in a 10% tax bracket would receive a tax benefit of \$10 on a \$100 deduction. In contrast, a taxpayer in a 25% tax bracket would save \$25 in taxes for every \$100 deducted from income. Thus, assuming the same level of deductions, high-income taxpayers, presumably with a greater ability to pay taxes, would receive a greater tax benefit from the proposed deduction than lower income taxpayers.
- d) *Homeowners insurance in California:* Historically, California's insurance costs have been low compared to its home values. In fact, in 2023, California's statewide insurance burden (4.6%) was one of the lowest in the country; Louisiana and Oklahoma led the nation with burdens of 12.8% and 12.3%. While California's median burden has increased 1.3% since 2008, the increase in the rest of the country was 2.4%. As climate-

¹ Villanova, *Where Americans Write Off the Most in Taxes – 2023 Study*, SmartAsset (April 6, 2023). <https://smartasset.com/data-studies/where-americans-write-off-the-most-in-taxes-2023>.

² *What are itemized deductions and who claims them?*, Tax Policy Center.

³ Cronin, *Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation*, U.S. Treasury Office of Tax Analysis (January 2023). <https://home.treasury.gov/system/files/131/WP-122.pdf>.

related risks have escalated, home insurance rates have risen. But recent increases may not be enough to mitigate insurer risk: since 2022, seven of the state's top 12 providers have reduced their coverage, and some have exited the market.⁴

Proposition 103, passed by California voters in November 1988, was intended to protect consumers from arbitrary insurance rates and practices, to encourage a competitive marketplace, and to ensure that insurance is fair, available, and affordable for all Californians. Proposition 103 instituted a regulatory system where the Insurance Commissioner must approve a rate applied for by an insurer before its use, known as the "prior approval" system, before an insurer can implement property and casualty insurance rates.⁵

In 2017 and 2018, California experienced two of the most destructive wildfire seasons in state history, which resulted in California insurers paying a record of \$15.4 billion in losses in 2017 and \$13.6 billion in 2018. After two straight years of insurers paying out \$1.85 in losses for every \$1 of premium earned, the California Department of Insurance approved 71 rate increase requests from 50 different companies in 2019.⁶ Damage resulting from winter storms in subsequent years continued to strain the property insurance market, with several major insurers stopping issuance of new policies or exiting the state altogether.

The January 2025 Southern California fires – including the Eaton and Palisades fires – killed at least 31 people, forced more than 200,000 to evacuate, destroyed more than 18,000 homes and structures, and burned more than 57,529 of land. The deaths and damage to property from these two fires made them the second and third most destructive fires in California's history, respectively. Estimates of the insured losses from these fires range from \$20 to \$40 billion and the total economic loss has been estimated to be between \$250 to \$275 billion.⁷

On February 18, 2026, the Assembly Insurance Committee held an oversight hearing on the California Department of Insurance's Sustainable Insurance Strategy (SIS) where Commissioner Lara detailed recent actions intended to bolster the property insurance

⁴ McGhee, *A Deeper Look at California's Homeowner Insurance Challenges*, Public Policy Institute of California (April 10, 2025). <https://www.ppic.org/blog/a-deeper-look-at-californias-homeowner-insurance-challenges/>.

⁵ *Prop. 103 Consumer Intervenor Process*, California Department of Insurance. <https://www.insurance.ca.gov/01-consumers/150-other-prog/01-intervenor/>.

⁶ *2021 CA Property & Casualty Market Share*, California Department of Insurance. <https://www.insurance.ca.gov/01-consumers/120-company/04-mrktshare/2021/index.cfm>.

⁷ Vincent, *Estimated cost of fire damage balloons to more than \$250 billion*, Los Angeles Times (December 17, 2025). <https://www.latimes.com/business/story/2025-01-24/estimated-cost-of-fire-damage-balloons-to-more-than-250-billion>.

market. For a more comprehensive discussion of the SIS, please refer to that Committee's background paper and Commissioner Lara's testimony.⁸

- e) *California FAIR Plan*: The FAIR Plan was established after the riots and brush fires of the 1960s and provides basic property insurance to consumers when coverage in the voluntary market is unavailable. Every property insurance company licensed in California becomes a FAIR Plan member as a condition of doing business in California. Roughly 44% of FAIR Plan policies cover properties in California's urban areas while the rest are in the wildland urban interface (WUI) and properties are eligible for coverage regardless of wildfire exposure. The FAIR Plan is not a state agency and not state or taxpayer funded; the FAIR Plan is funded primarily through the policies it sells to customers.

As of February 11, 2025, the FAIR Plan reported that it had paid more than \$914 million to policy holders, including advance payments, to cover claims related to the Palisades and Eaton fires. The massive destruction in Los Angeles prompted the FAIR Plan's Accounting and Governing subcommittees to each recommend an assessment of \$1 billion – the first assessment on insurers in more than 30 years, according to Commissioner Lara – to enable the FAIR Plan to access additional available layers of reinsurance and maintain operations. Generally, assessments are based on an insurer's market share of dwelling and commercial policies from two years ago, which means that property insurance policyholders that are not customers of the FAIR Plan may see their insurance costs increase.

For more information about the impact of recent disasters on the residential property insurance market and the California FAIR Plan, please refer to the Assembly Committee on Insurance's Oversight Hearings.

- 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.

⁸ *Oversight Hearing California Department of Insurance: Sustainable Insurance Strategy (SIS): Present & Future*, Assembly Committee on Insurance (February 18, 2026).
<https://ains.assembly.ca.gov/system/files/2026-02/2.18.26-sis-background-final.pdf>.

- g) *Committee's tax expenditure policy:* Both R&TC Section 41 and Committee policy require any tax expenditure bill to 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. A tax expenditure bill will not be eligible for a Committee vote unless it has complied with these requirements.

In its current form, this bill states that the deduction is intended to assist homeowners in affording the cost of homeowners' insurance. In addition, this bill provides that the expenditure's effectiveness shall be measured by the number of taxpayers claiming the deduction pursuant to this bill. This bill requires the FTB to submit a report to the Legislature by December 1, 2027, and annually thereafter, detailing the number of taxpayers claiming the deduction.

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. According to this policy, an "appropriate sunset provision" means five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" means ten years. This bill contains a five-year sunset provision and therefore complies with the Committee's policy on sunset dates.

- h) *Appropriately targeted?* This bill currently does not limit the deduction, meaning a taxpayer can deduct the total amount of premiums paid or incurred during the year for homeowner's insurance. As described above, itemized deductions disproportionately benefit higher income taxpayers. Given the high cost of homeownership in California, homeowners typically have access to more financial resources than renters. As currently drafted, this bill does not limit the deduction based on a taxpayer's income, meaning even very high-income filers who can afford their insurance costs could claim the deduction. The Committee may wish to consider whether a deduction is appropriately targeted to achieve the stated goal of relieving financial burdens for those who are struggling to pay for homeowners' insurance costs.

- i) *Implementation Considerations:*

- i) *Lack of conformity:* This bill proposes a deduction that has no counterpart in the federal tax code. In general, state conformity with federal law promotes greater simplicity and eases administration of complex tax laws. This bill would bring California further out of conformity with federal law as the deduction created by this bill could not be claimed on a federal return. In the absence of similar federal treatment, taxpayers may need to keep separate accounting for state and federal tax purposes.
- ii) *Definitions:* As currently drafted, this bill does not define "homeowners' insurance policy" and existing insurance laws define "homeowners' insurance" and "residential property insurance" to include different types of coverage. The author may wish to amend the bill to provide a specific definition to reduce potential taxpayer confusion.
- iii) *Report timeline:* This bill would require the FTB to submit a report to the Legislature detailing the number of taxpayers claiming the deduction by December 1, 2027. If the author's intent is to review a report that contains complete information for the

2026 taxable year, the FTB recommends that the reporting due date be extended to July 2028.

- j) *Related legislation:* AB 1354 (Wallis) would have allowed a credit for amounts paid or incurred in residential property insurance premiums equal to the amount a taxpayer's premiums had increased compared to amounts paid in 2023, as specified. AB 1354 was held on this Committee's Suspense File.
- k) *Prior legislation:* AB 1867 (Sanchez), of the 2023-24 Legislative Session, was substantially similar to this bill. AB 1867 was held on this Committee's Suspense File.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Realtors
California Hispanic Chambers of Commerce
Southern California Rental Housing Association (SCRHA)
Southwest California Legislative Council

Opposition

California Tax Reform Association

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