

# ALEX PADILLA

U.S. SENATOR  for CALIFORNIA

## Protect Innocent Victims of Taxation After Fire Extension Act

*Sens. Alex Padilla (D-CA), Cynthia Lummis (R-WY), Ron Wyden (D-OR), and Tim Sheehy (R-MT)*

Unfortunately, utility-caused fires are becoming increasingly common, meaning more states now have qualifying settlements or active litigation related to such disasters. Making this exclusion permanent will ensure wildfire survivors are no longer subject to the financial uncertainty of not knowing how much of their claim will be made available for recovery.

Under the Internal Revenue Code (IRC), settlement payments are subject to federal income tax unless specifically excluded. **This bill would extend and make permanent the law passed by unanimous consent in December 2024 as part of the *Federal Disaster Tax Relief Act* (P.L. 118-148), which excluded from federal income tax calculations, wildfire-related settlement payments for disaster losses or costs, including living expenses, lost wages, or compensation for injury, death, or emotional distress.** This exclusion is set to expire at the end of the 2025 calendar year. Failure to extend this provision means any wildfire-related settlement payments beginning in 2026 will again be subject to federal income tax obligations.

This extension represents a bipartisan and bicameral commitment to ensuring wildfire survivors receive the help they need without facing additional financial barriers. Congress must give families and individuals the certainty they deserve while they work to recover and rebuild after devastating fires.

### **What the bill would do:**

- Make permanent the exclusion from the gross income of a taxpayer, for income tax purposes, qualified wildfire relief payments, including compensation for losses, expenses, or damages (including compensation for additional living expenses, lost wages, personal injury, death, or emotional distress) paid in connection with a qualifying wildfire disaster.
- Allow victims to claim the exemption in the year they receive payments rather than to amend prior tax returns for a refund.