



Bill Analysis

Author: Lee, et al.

Sponsor:

Bill Number: AB 1675

Related Bills: See Legislative
History

Amended: March 23, 2026

SUBJECT

No Tax Breaks for ICE Contractors Act of 2026

SUMMARY

This bill would, under the Corporation Tax Law (CTL), for taxable years beginning on or after January 1, 2027, and before January 1, 2032, disallow any tax expenditure under the CTL for any corporation that contracts with the United States (U.S.) Department of Homeland Security (DHS), either directly or through subcontracts, to provide goods or services. Further, the bill would require the Franchise Tax Board (FTB) in consultation with the Department of Finance (DOF) to estimate the amount of tax expenditures that were not claimed because of this bill, and then deposit those funds into the new fund named the "California Immigrant Resilience Fund" to be created in the State Treasury.

This is the FTB's first analysis of the bill and only addresses the provisions of the bill that would impact the FTB's programs or operations.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The March 23, 2026, amendments removed intent language and replaced it with the provisions discussed in this analysis and added co-authors.

REASON FOR THE BILL

The reason for the bill is to prevent taxpayer dollars from going to taxpayers in the form of tax expenditures for those businesses that contract with the DHS and certain agencies within DHS.

ANALYSIS

This bill would, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, under the CTL, make a contracting corporation ineligible to claim any tax expenditure for corporations subject to reporting pursuant to Section 13305 of the Government Code (GOV).

The bill would provide the following definitions under the CTL:

- “Contracting corporation” means any taxpayer that contracts with the DHS, either directly or through subcontracts, to provide goods or services.
- “Department of Homeland Security” refers to the U.S. DHS and the following agencies that are an operational or supporting component of the department:
 - U.S. Customs and Border Protection.
 - U.S. Immigration and Customs Enforcement (ICE).
 - Management Directorate.
- “Tax expenditure” means a credit, deduction, exclusion, exemption, or other tax benefit as provided for by this part.

The bill would require that the FTB in consultation with the DOF, no later than June 1, 2027, estimate the amount of revenue that would have resulted if the modifications made with respect to the calculation of taxable income by the bill had applied to taxable years beginning on or after January 1, 2026, and before January 1, 2027, and notify the Controller of that amount.

Further, no later than June 1, 2028, and annually thereafter, the FTB in consultation with the DOF, would be required to estimate the amount of additional revenue resulting from the modifications made with respect to the calculation of taxable income by the bill for the taxable years beginning on or after January 1 of the calendar year immediately preceding the year in which the estimate is made and before January 1 of the calendar year in which the estimate is made and notify the Controller of that amount.

The bill would also establish the “California Immigrant Resilience Fund” (the Fund) in the State Treasury. Upon receiving an estimate from the FTB of the amount of funds attributable to the limitations on tax expenditures provided in this bill, the Controller would be required to transfer an amount equal to that estimate from the General Fund to the Fund, to be made available by the Legislature upon appropriation.

This bill would remain operative only until December 1, 2032, and as of that date would be repealed.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2027, and before January 1, 2032.

Federal/State Law

Federal Law

No comparable provisions in federal law.

State Law

Existing state laws provide various tax expenditures designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current state law generally allows for credits generated by any member of a combined group to be assigned and used by another member of the combined group. The election to assign the credit is irrevocable and cannot be modified once an election is made on the original timely filed tax return.

Implementation Considerations

The FTB has identified the following considerations for purposes of a high-level discussion; additional considerations may be identified as the bill moves through the legislative process. FTB staff is available to work with the author's office to resolve these and other considerations that may be identified.

There are numerous items needing clarity within the bill to ensure the program can be administered as intended and the bill produces the desired outcome. The author may wish to amend the bill to clarify how the program would be administered.

The bill uses the broad term "tax expenditures." While the definition is provided to be "a credit, deduction, exclusion, exemption, or other tax benefit as provided for by this part," this bill does not have the administrative details necessary to implement the provisions specified in the bill and to determine the impact to the FTB's systems, processes, and forms. Some of these considerations include, but are not limited to:

- How would the tax expenditure be disallowed if the tax benefit is based on the taxpayer's method of filing? For example, if a taxpayer files on a water's-edge basis, and is later determined to be a "contracting corporation" (as defined), would that remove the entire combined reporting group from the water's-edge filing method? Or would only the company doing the contracting be impacted? When would the filing method be allowed again or would it be removed as an option during operation of the law?

- When an entity is determined to be a “contracting corporation,” would each taxable year stand on its own? For example, if the company was no longer a “contracting corporation,” could they then be eligible for all tax expenditures?
- The definition of tax expenditure is those expenditures provided under Part 11 of the Revenue and Taxation Code (RTC) but is also linked in the bill to what is included under GOV section 13305. GOV section 13305 requires reporting when expenditures exceed \$5 million in annual costs. It is unclear whether only those contracting corporations with expenditures that require reporting pursuant to GOV section 13305 would be limited or if once a contracting corporation with an expenditure subject to reporting then cannot be eligible for any Part 11 tax expenditures. In addition, because data for this list is reported after the close of the taxable year, it is not clear which list should match to which taxable year for purposes of disallowing a tax expenditure.

Because the bill does not specify otherwise, the FTB would be subject to the rulemaking procedures required under the Administrative Procedure Act (APA) (GOV section 11340 et seq.). Following these procedures may delay the immediate implementation of the bill. To prevent delays, it is recommended that the author add a provision exempting the FTB from the APA when the FTB is prescribing rules, guidelines, or procedures necessary to carry out the bill's purpose.

This bill would require the FTB to estimate the amount of savings achieved by the disallowance of tax expenditures as specified in this bill. The bill states that the report must be provided no later than June 1, 2027, and that the bill is operative for taxable years beginning on or after January 1, 2027. The earliest that 2027 tax year returns would be filed for business entities is in March 2028, and complete tax return data would not be available until later in 2029 to account for fiscal year filers. To receive a report that contains complete information for the 2027 taxable year, it is recommended that the reporting due date be extended to July 2029 and then annually thereafter. If the reporting due date remains unchanged, the report would not include any 2027 tax year data.

Additionally, the bill would require multiple estimates over different taxable years. It is unclear which estimate should be transferred during each taxable year. To clarify intent, the author could amend the bill to specifically state which estimates apply to each taxable year and when they are transferred to by the controller.

Technical Considerations

Strike out the phrase “for corporations subject to reporting pursuant to Section 13305 of the Government Code” from Section 25002 and insert that phrase into the definition of tax expenditure.

Policy Considerations

This bill would remove the ability to claim tax expenditures for corporations under the CTL that would be available to other business entities under the Personal Income Tax Law (PITL), such as limited partnerships, limited liability companies not classified as corporations, limited liability partnerships, charitable, regulated investment companies, real estate investment trusts, real estate mortgage investment conduits, financial asset securitization investment trusts, and qualified S corporations. Thus, this bill would provide different treatment based solely on classification. If this is contrary to the author's intent, the bill should be amended.

The bill would disallow credits to certain business entities that are determined to be "contracting corporations" (as defined) and to be ineligible for certain tax expenditures. Current law allows members of the same reporting group to transfer credits within the combined group. If the credit that is disallowed for one member of the combined group is then transferred to another member of the same combined reporting group that is still eligible for credits, then the credit could be allowed to that company in that case. If this is contrary to the author's intent, the bill should be amended to specify whether the transfer of those credits would be allowed when one member of the combined reporting group is unable to claim the credit because they are a "contracting corporation."

LEGISLATIVE HISTORY

AB 2465 (Ortega, et al., 2025/2026), would, under the GOV, PITL, and the CTL, for taxable years beginning on or after January 1, 2027, disallow any state provided benefit, subsidy, grant, loan or tax credit provided under the PITL and CTL to any business entity that directly invested in, owns, manages, or profits from a private detention facility or contracts with a private detention facility or agency engaging in immigration enforcement, as specified. Further, the bill would require the FTB to estimate the amount of credits that were not claimed because of this bill, and then deposit those funds into the new fund named the "California Immigrant Resilience Fund" created in the State Treasury. AB 2465 has been referred to the Assembly Committee on Revenue and Taxation.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT*Revenue Estimate*

This bill would disallow any tax expenditure claims for contracting corporations. To determine the magnitude of the potential revenue impact of this bill, the number of taxpayers no longer eligible to claim tax expenditures and the amount of tax expenditures that would no longer be claimed must be known. Because it is difficult to predict these values, the revenue impact of this bill is unknown.

However, it is assumed that for every \$1 million in tax expenditures no longer claimed, the estimated revenue gain could be up to \$1 million.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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