



## Bill Analysis

Author: Lee, et al.

Sponsor:

Bill Number: AB 1675

Related Bills: See Legislative  
History

Amended: April 29, 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 credit 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 credits that were not claimed because of this bill and then deposit those funds into the new fund named the “California Immigrant Resilience Fund” (the Fund) to be created in the State Treasury.

This analysis 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 April 29, 2026, amendments replaced the prohibition on specified tax expenditures for a “contracting corporation” with a prohibition on tax credits provided under the CTL for a “contracting corporation.” The amendments also added an exemption from the Administrative Procedures Act (APA) for FTB. In addition, the amendments replaced FTB's estimation of the amount of revenue resulting from the prohibition on tax expenditures to the revenue associated with the tax credits.

The April 29, 2026, amendments resolved some of the implementation considerations, and the technical consideration discussed in the FTB's analysis of the bill as amended on March 23, 2026, and created an additional implementation consideration and an additional technical consideration.

## REASON FOR THE BILL

The reason for the bill is to prevent taxpayer dollars from going to taxpayers in the form of tax credits 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 credit provided under the CTL for the taxable year.

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.

The bill would require that the FTB in consultation with DOF, no later than June 1, 2027, estimate the amount of revenue that would have resulted if the modifications made with respect to the eligibility for tax credits 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 DOF, would be required to estimate the amount of additional revenue resulting from the modifications made with respect to the eligibility for tax credits 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 Fund in the State Treasury. Upon receiving an estimate from the FTB of the amount of funds attributable to the limitations on tax credits 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 also exempt the FTB's standards, criteria, procedures, determinations, rules, notices, guidelines, or any other guidance established or issued from the requirements of the APA.

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 credits 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.

The bill uses the phrase, "eligibility for tax credits," in Section 25003(a)(1) that is undefined. For clarity, the author may wish to amend the bill to modify this subsection to read, "...shall estimate the amount of revenue that would have resulted if the modifications made by this chapter had applied to taxable years beginning on or after January 1, 2026, and..."

This bill would also require the FTB to estimate the amount of savings that would be achieved by the modifications made to tax credits as specified in this bill, had the modification been applied to taxable years beginning on or after January 1, 2026, and before January 1, 2027. 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 would be by 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*

In Section 25003(c), replace "board" with "Franchise Tax Board".

#### *Policy Considerations*

This bill would remove the ability to claim tax credits 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 tax credits. 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 Government Code, the PITL, and the CTL, for taxable years beginning on or after January 1, 2027, disallow any state 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 Fund created in the State Treasury. AB 2465 is currently in the Senate.

## 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, under the CTL, disallow any tax credits 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 credits and the amount of tax credits 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 credits claimed by qualified taxpayers who would become ineligible under this bill, the estimated revenue gain could be up to \$1 million.

## LEGAL IMPACT

None noted.

## EQUITY IMPACT

None noted.

## APPOINTMENTS

None noted.

## SUPPORT/OPPOSITION

Assembly Revenue and Taxation Committee Report, dated April 24, 2026

*Support*

California Community Foundation  
Los Angeles County Democratic Party  
Santa Monica Democratic Club

*Opposition*

American Petroleum and Convenience Store Association  
Associated General Contractors, California  
Associated General Contractors-San Diego Chapter  
CalBroadband  
California Association of Sheet Metal & Air Conditioning Contractors National Association  
California Chamber of Commerce  
California Taxpayers Association  
California Trucking Association  
Construction Employers' Association

## ARGUMENTS

Assembly Committee on Appropriations, dated May 12, 2026

*Proponents*

This bill is supported by a labor organization and community groups, with the California Community Foundation arguing this bill “would ensure that California’s tax policy does not subsidize or incentivize business practices that contribute to harm in our communities.”

*Opponents*

This bill is opposed by a coalition of business groups, led by the California Chamber of Commerce, which argues “it will force businesses into the middle of a political dispute between state and federal authorities, and will punish even businesses who are in no way involved in the targeted conduct.”

## LEGISLATIVE CONTACT

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