STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Lee, et al.

Sponsor:

Bill Number: AB 1675

Related Bills: See Legislative History

Amended: June 16, 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 Department of Homeland Security (DHS), either directly or through subcontracts, to provide goods or services with certain exceptions. 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 June 16, 2026, amendments revised definitions, added two new definitions, and added two exceptions to the disallowance of tax credits. None of the considerations discussed in the FTB's analysis of the bill as amended on April 29, 2026, were resolved.

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, except for:

- A tax credit received by any direct or indirect partner or member of a nonprofit sponsored venture to which the claiming party has made a direct or indirect loan or capital contribution.
- A low income housing tax credit directly or indirectly purchased from a nonprofit housing sponsor.

The bill would provide the following definitions under the CTL:

- "Contracting corporation" means any taxpayer that contracts with DHS, either directly or through subcontracts, to provide goods or services through the federal government procurement or contracting process that does not include goods or services acquired through a platform or mechanism available to the general public.
- "Department of Homeland Security" refers to DHS when DHS is contracting on behalf of either the United States (U.S.) Customs and Border Protection or the U.S. Immigration and Customs Enforcement (ICE), and the following agencies that are an operational or supporting component of the department:
  - U.S. Customs and Border Protection.
  - U.S. ICE.
- "Nonprofit housing sponsor" has the same meaning as Health and Safety Code section 50091 and is defined to mean a nonprofit corporation, a cooperative housing corporation, a nonprofit student housing cooperative, or a limited equity housing cooperative and that is certified by the agency as qualified to own a housing development if financed or assisted by the agency, or a tribally designated housing entity.
- "Nonprofit sponsored venture" means either a limited partnership in which a nonprofit housing sponsor or an entity wholly owned by a nonprofit housing sponsor is designated as the managing general partner, or a limited liability company in which a nonprofit housing sponsor or an entity wholly owned by a nonprofit housing sponsor is designated as the managing member.

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 Administrative Procedures Act.

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 may want to 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 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 has been referred to the Senate Appropriations Committee.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's estimated costs to implement this bill are approximately $40,000 for fiscal year 2026-2027 and $80,000 for fiscal year 2027-2028.

ECONOMIC IMPACT

Revenue Estimate

This bill would, under the CTL, disallow applicable tax credits for specified 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

Senate Revenue and Taxation Committee Analysis, dated June 19, 2026

Support

California Community Foundation
California Federation of Teachers
Drug Policy Alliance
Los Angeles County Democratic Party
Santa Monica Democratic Club
Western Center on Law & Poverty, Inc.

Opposition

Acclamation Insurance Management Services
Allied Managed Care
American Petroleum and Convenience Store Association Associated General Contractors - San Diego Chapter Associated General Contractors, California
CalBroadband
California Association of Sheet Metal & Air Conditioning Contractors National Association California Bankers Association
California Chamber of Commerce
California Chapters of the National Electrical Contractors Association California Legislative Conference of Plumbing, Heating & Piping Industry California Taxpayers Association
California Trucking Association Construction Employers' Association
Flasher Barricade Association
National Electrical Contractors Association
Screen Credits, LLC

Southern California Contractors Association United Contractors
Wall and Ceiling Alliance
Western Wall and Ceiling Contractors Association

ARGUMENTS

Assembly Floor Analysis, dated May 20, 2026

Proponents

This bill is supported by the California Community Foundation, which notes in part:

> Since 2015, CCF has invested more than $40 million in immigrant-serving nonprofits advancing social, civic, and economic inclusion. However, the continued erosion of safety and stability for immigrant communities forces individuals and families to live in fear, undermining their ability to fully participate in the economy, engage in civic life, and support their families' well-being.
>
> CCF does not support directing public resources to entities whose business practices contribute to or sustain fear, harm, and instability in immigrant communities. We remain committed to advancing policies and investments that protect and strengthen the well-being of immigrant communities, particularly as new challenges emerge.
>
> AB 1675 would ensure that California's tax policy does not subsidize or incentivize business practices that contribute to harm in our communities. It establishes a clear and values-driven standard where public resources should not support or reward systems that undermine the safety, stability, and dignity of our immigrant communities.
>
> Additionally, the California Immigrant Resilience Fund would reinvest funding to expand access to legal representation, removal defense, and other critical services that help ensure fairness and due process—especially at a time when demand for these supports continues to grow.

Opponents

This bill is opposed by a coalition of business advocates led by the California Chamber of Commerce, which notes in part:

> AB 1675 is not limited to companies with any direct contact with immigration detention facilities. Any businesses who has a contract (recent, or signed during a prior administration) to provide any services or supplies to any element of DHS and its named agencies, regardless of whether there is a connection to an immigration detention facility, will face the punishment of AB 1675.

The opposition also provides a number of examples to support, "For context: it is worth noting that DHS performs many critical, non-controversial duties – including but not limited to:…" In addition, they provide examples of products that would be covered by this bill. They conclude:

> With this overbreadth in mind, we see AB 1675 potentially erasing the essential tax benefits that help keep companies operating in California, despite the higher cost of living and amenities.

LEGISLATIVE CONTACT

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