



Bill Analysis

Author: Ortega, et al.

Sponsor:

Bill Number: AB 2465

Related Bills: See Legislative

Amended: May 18, 2026

SUBJECT

No Taxpayer Dollars for Family Separation

SUMMARY

This bill would, under the Government Code (GOV), Personal Income Tax Law (PITL) and the Corporation Tax Law The (CTL), for taxable years beginning on or after January 1, 2027, disallow any state provided grant, loan or tax credit (including tax credit carryovers) 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 Franchise Tax Board (FTB) to estimate the amount of credits that would not be claimed because of this bill and then deposit those funds into the new fund named the “Due Process for All Fund” 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 May 18, 2026, amendments defined the term “business entity,” modified the definition of “Agency engaging in immigration enforcement,” added a prohibition on the usage of credit carryover, and renamed the fund created by the bill. These amendments resolved one of the Implementation considerations discussed in FTB's analysis of the bill as introduced on February 20, 2026, and amended on April 6, 2026, and created a new policy consideration. The remainder of the implementation and policy considerations still apply.

REASON FOR THE BILL

The reason for the bill is not to allow taxpayer dollars to go to business entities in the form of tax credits for those businesses that invest in certain immigration enforcement related activities, as specified.

ANALYSIS

For taxable years beginning on or after January 1, 2027, under the PITL and CTL, this bill would make any business entity that is 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, ineligible to claim any tax credits, including tax credit carryover previously allowed. The entity would be ineligible for any credit for the taxable year during which the investing, owning, managing, profiting, or contracting occurs.

The carryover period for any credit carried over from a prior year that is not allowed to be claimed as a result of this bill, would be increased by one taxable year, only for the first taxable year during which the taxpayer is not allowed to claim the credit.

The bill states that the credit provided under Section 19002 (related to tax withholding payments) and the credit allowable for estimated tax payments paid pursuant to Section 19023 (corporate estimated payments) would be allowed.

The bill would define the following terms under the PITL and CTL:

- “Agency engaging in immigration enforcement” means any out-of-state agency or federal agency that engages in arresting, detaining, transporting, or deporting individuals pursuant to federal immigration law.
- “Business entity,” referencing Section 82005 of the GOV, is defined as any organization or enterprise operated for profit, including, but not limited to, a proprietorship, partnership, firm, business trust, joint venture, syndicate, corporation or association.
- “Immigration enforcement,” referencing Section 7284.4 of the GOV, means all efforts to investigate, enforce, or assist in the investigation or enforcement of any federal civil immigration law or any federal criminal immigration law that penalizes a person’s presence in, entry, or reentry to, or employment in, the United States.
- “Invests in” means an entity that owns at least 5 percent of a private detention facility or private detention facility operator.
- “Manages” means an entity that the owner contracts with to control the daily operations of a private detention facility or private detention facility operator.
- “Owns” means an entity that owns at least 5 percent of a private detention facility or private detention facility operator or that owns or leases the building or land on which a private detention facility operates.

- “Private detention facility” and “private detention facility operator” have the same meanings as those terms are defined in Section 7320 of the GOV.

The bill states that the FTB would require a taxpayer to declare whether they are an entity ineligible for credits for each taxable year in the form and manner prescribed by the FTB.

This bill would exempt the FTB's criteria, procedures, determinations, rules, notices, or guidelines from the requirements of the Administrative Procedure Act.

The bill would also require the FTB on or before July 1, 2029, and on or before July 1 annually thereafter, to estimate the amount of tax collected, attributable to business entities being made ineligible for tax credits by this section for the taxable year that is two years prior and to report that estimate to the Controller.

The bill would **establish the “Due Process for All Fund”** to be created in the State Treasury. Upon receiving an estimate from the FTB of the amount of funds attributable to business entities being made ineligible for tax credits, the Controller would be required to transfer an amount equal to that estimate from the General Fund to the Due Process for All Fund.

The bill provides that the reporting provisions of this subdivision would be treated as an exception to the confidential taxpayer disclosure rules under Section 19542.

Effective/Operative Date

This bill would be effective January 1, 2027, and specifically operative for taxable years beginning on or after January 1, 2027.

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 credit generated by any member of a combined group to be assigned and used by another member of a combined group.

The election to assign the credit is irrevocable and cannot be modified once an election is made.

Implementation Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

The bill would define an agency engaging in immigration enforcement to mean any out-of-state agency or federal agency that assists with or engages in immigration enforcement. As a result, if a taxpayer contracts with any California state agency that assists with or engages in immigration enforcement, that taxpayer would still be allowed to claim tax credits provided under the PITL and CTL. If this is contrary to the author's intent, the bill should be amended.

The bill would specify that the carryover period for any credit carried over from a prior year that is not allowed to be claimed as a result of this bill, would be increased by one taxable year, only for the first taxable year during which the taxpayer is not allowed to claim the credit. It is unclear if this means that if the credit continues to be disallowed by the provisions of this bill if all credits available would only be extended by one year or something else. For example, if a taxpayer has 3 credits all expiring the year they are unable to claim the credit, do they each get an extra year of carryover? Even if the taxpayer would have been unable to use all of their credits to offset tax liabilities. For clarity and to capture author's intent, it is recommended that the bill be amended.

Technical Considerations

None noted.

Policy Considerations

This bill does not provide a sunset date, which would generally allow periodic review of the effectiveness of the tax law change. If this is contrary to the author's intent, the author may wish to amend the bill.

The bill would make certain business entities that are 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 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 of the provisions of this bill.

LEGISLATIVE HISTORY

AB 1675 (Lee, et al., 2025/2026), under the Revenue and Taxation Code, would deny all tax expenditures to any taxpayer that contracts with United States Department of Homeland Security. AB 1675 passed out of the Assembly and has moved to the Senate Rules Committee.

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 prohibit the allowance of any tax credit to any business entity that directly invests in, owns, manages, or profits from a private detention facility, or that contracts with a private detention facility or with an agency engaging in immigration enforcement for the purpose of aiding in or furthering immigration enforcement.

To determine the magnitude of the potential revenue impact of this bill, the number of business entities no longer eligible for tax credits and the amount of tax credits that would no longer be available to those businesses must be known. Because it is difficult to predict the number of affected business entities that would be ineligible for any tax credits and the amount of disallowed tax credits, 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 would be \$1 million.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Assembly Committee on Revenue and Taxation Analysis, dated April 17, 2026

Support

A New Path (parents for Addiction Treatment & Healing), AAPIs for Civic Empowerment, Alianza, Alianza Sacramento, Alliance for a Better Community, Bend the Arc California, Buen Vecino, Building Skills Partnership, CA Healthy Nail Salon Collaborative, California Coalition for Women Prisoners, California Community Foundation, California Coverage & Health Initiatives, California Federation of Labor Unions, California Immigrant Policy Center California, LGBTQ Health and Human Services Network, California United for a Responsible Budget (CURB,) Center for Human Rights and Constitutional Law, Central American Resource Center of California (CARECEN-LA,) Central Valley Immigrant Integration Collaborative, Communities United for Restorative Youth Justice (CURYJ), Congregations Organized for Prophetic Engagement (COPE), Courage California, Democratic Socialists of America - Los Angeles, Disability Rights California, End Child Poverty CA, Esperanza Community Housing, Felony Murder Elimination Project, Friends Committee on Legislation of California, Grace Institute - End Child Poverty in CA, Haywood Burns Institute, Immigrant Defenders Law Center, Indivisible CA Statestrong, Justice2Jobs Coalition, LA Defensa, Latino Health Access, Majdal Arab Community Center of San Diego, Moreno Institute, Órale: Organizing Rooted in Abolition Liberation and Empowermen, PICO California, Pilipino Workers Center of Southern California, San Diego Refugee Communities Coalition, Secure Justice, South Asian Network, South Bay People Power, State Superintendent of Public Instruction Tony Thurmond, Street Level Health Project, Thai Community Development Center, The San Diego LGBT Community Center, UDW/AFSCME Local 3930, Universidad Popular, Working Partnerships USA, Youth Leadership Institute

Opposition

Acclamation Insurance Management Services, Allied Managed Care, American Petroleum and Convenience Store Association, Associated General Contractors, California, Associated General Contractors-San Diego Chapter, CalBroadband, California Bankers Association, California Chamber of Commerce, California Construction and Industrial Materials Association, California Trucking Association, Construction Employers' Association, Flasher Barricade Association, Software & Information Industry Association, TechCA, TechNet

ARGUMENTS

Assembly Floor Analysis, dated May 20, 2026

Proponents

The bill is supported by Superintendent of Public Instruction Tony Thurman, noting in part:

Over the past year, the federal administration has intensified its immigration enforcement policies on our immigrant communities, violating the constitutional and civil rights of Californians. The mass detention and deportation practices are threatening the health and safety of our TK-12 students. The fear of enforcement is creating a chilling effect on attendance, academic performance, and district resources – leading some to describe it as the ICE pandemic. Schools function best when they are safe and predictable environments, and any immigration enforcement in our communities undermines that foundation.

I am deeply disturbed by some of the cruel immigration enforcement practices, including the deportation of a six-year-old Deaf student who has been enrolled in the Department of Education's own California School for the Deaf in Fremont. He was detained and deported without access to critical medical devices that support his ability to hear. He has been deprived of the ability to communicate and understand even what is happening to him.

While California has led the nation in taking steps to limit the use of for-profit incarceration, ensure accountability, and support our immigrant communities, current law does not explicitly prevent California taxpayer dollars from supporting companies that profit from private detention and unlawful immigration enforcement. AB 2465 helps close the disconnect in state policy and sends a clear message that state resources will no longer subsidize business practices that conflict with California's public policy and values or support the dehumanization of immigrants in California.

Opponents

The bill is opposed by a coalition of business advocates led by the California Chamber of Commerce, noting in part:

Though the bill purports to target “any entity that “invests in, owns, manages, or profits from a private immigration detention facility,” that category of entities is, for purposes of our concerns, subsumed by the broader category – **contracting with an “agency engaging in immigration enforcement”** – so we will focus on the broad category covered by the bill.

“State-provided benefit” is also undefined, meaning it is unclear what other state programs might be considered a “state-provided benefit” and therefore prohibited under AB 2465. For example – would a state contract to provide a basic service be considered a “state-provided benefit”? Certainly, it is state resources being provided to a company.

The list of problematic federal agencies under AB 2465 is also undefined. Though the term “agency engaging in immigration enforcement” is defined in the bill, the definition is circular, so it does not actually clarify the covered agencies who might trigger a violation of the bill. We can only assume that it would include all federal agencies potentially involved in, or assisting in, “immigration enforcement,” which we would assume includes, but is not limited to, ICE or Department of Homeland Security (DHS), Customs and Border Patrol (CBP).

LEGISLATIVE CONTACT

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