STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Ortega, et al.	Sponsor:	Bill Number: AB 2465
	Related Bills: See Legislative History	Amended: July 8, 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 GOV, PITL and CTL to any disqualified taxpayer, as defined. In addition, 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 July 8, 2026, amendments added coauthors, added and modified definitions, modified the exceptions, removed the exception for a health care provider defined under Civil Code (CIV) section 56.05, added that taxpayers ineligible to claim credits cannot assign them to a member of the same combined reporting group, and made other technical corrections.

REASON FOR THE BILL

The reason for the bill is to disallow tax credits for those taxpayers that participate in certain immigration enforcement related activities.

ANALYSIS

For taxable years beginning on or after January 1, 2027, under the PITL and CTL, this bill would make any disqualified taxpayer ineligible to claim any tax credit, including a carryover of a credit previously allowed for the taxable year, with the below exceptions.

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 would not apply to any of the following:

- Tax credits received by any direct or indirect partner or member of a nonprofit sponsored venture to which the taxpayer has made a direct or indirect loan or capital contribution.
- Any low-income housing tax credit allowed pursuant to Revenue and Taxation Code (RTC) sections 12206, 17058, or 23610.5 originally issued to a nonprofit housing sponsor or nonprofit sponsored venture.
- Any credit provided under RTC section 19002 (related to tax withholding payments) or Section 19023 (corporate estimated payments).

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.
- "Covered services" means detention, transportation, custody, or deportation services and includes providing software, information technology, surveillance equipment and technology, data analytics, artificial intelligence, applications, trainings for officers engaging in immigration enforcement, weapons, and digital systems or platforms used and specifically contracted to support immigration enforcement. It does not include any service provided by a provider of health care, as defined under CIV section 56.05(p), under a contract with a private detention facility or agency engaging in immigration enforcement for the purpose of providing health care services for injured or ill individuals detained by, or whose care is the financial responsibility of, an agency engaging in immigration enforcement.
- "Disqualified taxpayer" means a taxpayer that satisfies either of the following:
- Is directly invested in, owns, or manages a private detention facility.
- Is, or is related to, a publicly traded company that contracts with a private detention facility or agency engaging in immigration enforcement to provide covered services and that has a market capitalization of at least $150 billion on any day after September 30, 2026. A taxpayer that satisfies this provision is a disqualified taxpayer only for taxable years beginning with the first taxable year

in which they satisfy this provision. For purposes of this provision, a person is related to a publicly traded company if they are treated as related under Internal Revenue Code section 267, 318, or 707.

- "Immigration enforcement," referencing GOV section 7284.4, 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 (US).
- "Invests in" means an entity that owns at least 5% of the ownership shares or interests of a private detention facility or private detention facility operator. It does not include holdings in a custodial, fiduciary, or similar capacity where the business entity does not have discretionary authority to select the issuer or direct the investment, including passive index-tracking strategies.
- "Manages" means an entity that the owner contracts with to control the daily operations of a private detention facility or private detention facility operator.
- "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 California Housing Finance 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 a limited partnership or a limited liability company where a nonprofit housing sponsor or an entity wholly owned by a nonprofit housing sponsor is designated as the managing general partner of the partnership or managing member of the limited liability company.
- "Owns" means an entity that owns at least 5% of the ownership shares or interests 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. It does not include ownership interests held solely on behalf of clients in a custodial, fiduciary, or similar capacity.
- "Private detention facility" and "private detention facility operator" have the same meanings as those terms are defined in GOV section 7320.

The bill provides that, under the CTL, a taxpayer ineligible for a credit in the taxable year could not assign the credit to an eligible assignee, i.e., a member of the same combined reporting group, pursuant to Section 23663.

Additionally, the bill states that the FTB must 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 taxpayers 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” (Fund) to be created in the State Treasury. Upon receiving an estimate from the FTB of the amount of funds attributable to taxpayers 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 Fund.

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

Effective/Operative Date

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

Federal/State Law

Federal Law

No comparable provision 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 definition of a disqualified taxpayer was modified to add a taxpayer that is, or is related to, a publicly traded company and includes within this definition the term, “market capitalization” in Sections 17137(b)(3)(B)(i) and 23637(b)(3)(B)(i). For clarity, the author may want to amend the bill to define the term.

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, does each credit get an extra year of carryover even if the taxpayer would have been unable to use all of the 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.

LEGISLATIVE HISTORY

AB 1675 (Lee, et al., 2025/2026), under the RTC, would deny all tax expenditures to any taxpayer that contracts with US Department of Homeland Security. AB 1675, scheduled for a Senate Revenue and Taxation Committee hearing, was cancelled at the request of the author.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's estimated costs to implement this bill are approximately $153,000 for fiscal year 2026-2027 and $384,000 for fiscal year 2027-2028.

ECONOMIC IMPACT

Revenue Estimate

This bill would prohibit the allowance of certain tax credits, including tax credit carryover amounts previously allowed, to a disqualified taxpayer. A disqualified taxpayer is a taxpayer that directly invested in, owns, or manages a private detention facility, or is, or is related to, a publicly traded company that contracts with a private detention facility or agency engaging in immigration enforcement.

To determine the magnitude of the potential revenue impact of this bill, the number of taxpayers no longer eligible for tax credits and the amount of tax credits that would no longer be available to those taxpayers must be known. Because it is difficult to predict the number of affected taxpayers 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

Senate Judiciary Report, dated June 29, 2026

Support

California Immigrant Policy Center (co-sponsor)
PICO California (co-sponsor)
American Federation of State, County and Municipal Employees (AFSCME) California

American Federation of State, County and Municipal Employees Local 3299
A New PATH (Parents for Addiction Treatment & Healing)
A New Way of Life Reentry Project
AAPI Force
ACCESS REPRODUCTIVE JUSTICE

Al Otro Lado
Alianza Sacramento
Alliance for a Better Community
Alliance San Diego
Asian Prisoner Support Committee
Bend the Arc: California
Buen Vecino
Building Skills Partnership (BSP)
California Coalition for Women Prisoners
California Coalition for Rural Housing
California Community Foundation
California Coverage & Health Initiatives (CCHI)
California Faculty Association
California Federation of Labor Unions, AFL-CIO
California Federation of Teachers AFL-CIO
California Healthy Nail Salon Collaborative
California Immigration Project
California Latinas for Reproductive Justice
California National Organization for Women (CA NOW)
California Native Vote Project
California Religious Action Center of Reform Judaism (RAC-CA)
California Rural Legal Assistance Foundation
California State Legislative Board of the Smart - Transportation Division
California Teachers Association
Californians United for a Responsible Budget (CURB)
Canal Alliance
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
Community Action Board of Santa Cruz County, Inc. (CAB)
Congregations Organized for Prophetic Engagement (COPE)
Courage California
Democratic Socialists of America - Los Angeles
Disability Rights California
Empowering Marginalized Asian Communities
End Child Poverty California
Ensuring Opportunity Contra Costa
Episcopal Diocese of San Joaquin
Esperanza Community Housing
Friends Committee on Legislation of California
Harbor Institute for Immigrant & Economic Justice
Haywood Burns Institute
Health in Partnership

Healthy Contra Costa
Housing Authority of the County of Santa Barbara
Housing California
Immigrant Defenders Law Center
Immigrant Justice in Action Coalition (IJAC)
Immigrant Legal Defense
Immigrant Legal Resource Center (ILRC)
Indivisible Alta-Pasadena
Indivisible CA: StateStrong
Indivisible San Francisco
Inland Coalition for Immigrant Justice
Interfaith Movement for Human Integrity
Justice2Jobs Coalition
La Defensa
Labor Community Strategy Center
Local Progress California
Majdal: Arab Community Center of San Diego
Moreno Institute
New Light Wellness
Non-Profit Housing Association of Northern California
ORALE: Organizing Rooted in Abolition Liberation and Empowerment
Orange County Equality Coalition
Pacifica Social Justice
Pilipino Workers Center of Southern California
PowerCA Action
Public Counsel
Public Interest Law Project
SALVA
San Bernardino Community Service Center, Inc.
San Diego Refugee Communities Coalition
Secure Justice Service Employees International Union California
Services, Immigrant Rights and Education Network (SIREN)
South Asian Network
South Bay People Power
Southeast Asia Resource Action Center (SEARAC)
Street Level Health Project
Thai Community Development Center (Thai CDC)
The California LGBTQ Health and Human Services Network
The Kennedy Commission
The San Diego LGBT Community Center
UnCommon Law
UDW/AFSCME Local 3930
The Unity Council
Universidad Popular

Western Center on Law & Poverty
Working Partnerships USA
Youth Leadership Institute
Unidos 805
805 Undocufund

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 Taxpayers Association (CALTAX)
California Trucking Association
California's Credit Unions
Construction Employers' Association
Flasher Barricade Association
National Electrical Contractors Association (NECA)
Screen Credits Ltd. Liability Co.
Software & Information Industry Association
TechCA
TechNet
United Contractors (UCON)

ARGUMENTS

Senate Judiciary Report, dated June 29, 2026

Proponents

According to the California Immigrant Policy Center and PICO California, which are the sponsors of AB 2465, and a broad coalition of support:

> California is home to the largest immigrant population in the United States: 1 in 4 Californians are immigrants, and nearly half of all children in the State live in immigrant families. However, Californians are witnessing continued patterns of aggressive, militarized, and unlawful federal immigration enforcement actions as well a drastic increase in detention, including indiscriminate arrests and mass raids, Constitutional violations at the hands of federal immigration officials, and an increase in mandatory detention. Mass detention and immigration enforcement are threatening

the health and safety of all Californians, destabilizing families and communities. Families are being separated, an entire generation of children are being traumatized, many pregnant patients are skipping prenatal medical visits out of fear, workplaces are being disrupted, and school attendance is down in areas with high immigrant populations.

Despite the damaging human toll of these actions, some corporations operating in California are generating billions in profits from the suffering of our communities and continue to receive state tax credits, grants and loans. For example, private detention facility owners and operators reported a 13%, or $2 billion, increase in profits in 2025 than in prior years1 due to an increased amount of people detained across the country. Additionally, a report recently released by Good Jobs First2 found that in 2025, California companies received more than $3 billion dollars worth of contracts with Immigration and Customs Enforcement (ICE). The report also notes that most contractors with ICE have extensive records of regulatory violations and legal settlements. Despite these poor business practices, many of those companies continue to receive contracts with the federal government and profit billions off of immigration enforcement and detention.

California has long maintained that public funds should not support industries or business practices that undermine the state's values, including accountability in private detention facilities and the protection of all people's civil and constitutional rights. AB 2465 ensures that precious state taxpayer dollars are not used to subsidize business practices that conflict with California's values or that support and further the detention and deportation of Californians. It also establishes the Due Process for All Fund to fund immigrant-related services and programs. AB 2465 makes it clear that the State has authority over how its business benefits operate and a responsibility to protect California's resources from being used to support unlawful federal immigration enforcement and detention.

Opponents

According to the California Chamber of Commerce and others in opposition to AB 2465:

> AB 2465 essentially attempts to punish any company who does any of the following: (1) "contracts with ... a[n] agency engaging in immigration enforcement ..."; (2) "invest[s] in, owns, manages, or profits from a private detention facility;" or (3) "contracts with a private detention facility."

Any company who enters into any contracts (or "profits from" such facilities) as described above, loses all "state provided grant[s], loan[s], or tax credit..." for the taxable year.

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).

Despite AB 2465 not clearly identifying what federal agencies are "off-limits" or what contracts would trigger its harsh penalties, AB 2465 places the onus on the covered business to declare whether or not it has had such a contract in filing its taxes.

In simplest terms: we read this bill as potentially punishing any company who works with an undefined list of federal agencies by revoking all state-provided subsidies, grants, loans, or any tax credits. This is a terrifyingly powerful sanction in light of how little the bill does to clearly define what conduct is "off-limits". […]

AB 2465's overbroad terms mean that any contract with an undefined list of federal agencies – no matter how mundane – will trigger a loss of benefits and credits. And by removing the tax credits and subsidies that help counterbalance California's high cost of doing business, AB 2465 will make it even harder for businesses to continue to operate in California. […]

At a philosophical level, we do not believe that businesses should be compelled to participate in disagreements between California policymakers and the federal policies of the present – or any future – administration.

LEGISLATIVE CONTACT

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