STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Ortega, et al. Bill Number: AB 2465

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 would require the Controller to transfer an amount equal to that estimate into the new fund named the "Due Process for All Fund" created in the State Treasury.

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 amount of any credit or credit carryforward allowable for any taxable year that is ineligible to be claimed in the taxable year may be carried over to reduce the "net tax" in the following taxable year if the taxpayer is no longer a disqualified taxpayer in that taxable year. 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 Civil Code 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, operates, 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" and "operates" mean 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 a 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

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 1675 (Lee, et al., 2025/2026), under the RTC, would have denied 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 Floor Analyses, dated August 21, 2026

Support

State Superintendent of Public Instruction Tony Thurmond (Co-Source)
California Immigrant Policy Center (Co-Source)
PICO California (Co-Source)

805 Undocufund
A New PATH (Parents for Addiction Treatment & Healing)
A New Way of Life Reentry Project
AAPI Force
AAPIs for Civic Empowerment
Access Reproductive Justice
Al Otro Lado
Alianza
Alianza Sacramento
Alliance for a Better Community
Alliance San Diego
American Federation of State, County and Municipal Employees California
American Federation of State, County and Municipal Employees Local 3299
Asian Prisoner Support Committee
Bay Resistance
Bend the Arc California
Buen Vecino
Building Skills Partnership
California Coalition for Rural Housing
California Coalition for Women Prisoners
California Community Foundation
California Coverage Health Initiatives
California Democratic Party
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 LGBTQ Health and Human Services Network
California National Organization for Women
California Native Vote Project
California Nurses Association
California Religious Action Center of Reform Judaism
California Rural Legal Assistance Foundation
California State Legislative Board of the SMART - Transportation Division
California Teachers Association
California United for a Responsible Budget
Canal Alliance
Center for Human Rights and Constitutional Law
Central American Resource Center – CARECEN – of California
Central Valley Immigrant Integration Collaborative
Church State Council
City of Alameda

City of Oakland
Communities United for Restorative Youth Justice
Community Action Board of Santa Cruz County, Inc.
Congregations Organized for Prophetic Engagement
County of San Mateo
Courage California
Democratic Socialists of America – Los Angeles
Disability Rights California
Empowering Marginalized Asian Communities
End Child Poverty in California
Ensuring Opportunity Contra Costa
Episcopal Diocese of San Joaquin
Esperanza Community Housing
Felony Murder Elimination Project
Friends Committee on Legislation of California
Harbor Institute for Immigrant and 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
Immigrant Legal Defense
Immigrant Legal Resource Center
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
Latino Health Access
Local Progress
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
Orange County Justice Fund
Orange County Rapid Response Network
Pacifica Social Justice

Pilipino Workers Center of Southern California
Power CA Action
Public Counsel
Public Interest Law Project
Riverside County Democratic Party
SALVA
San Bernardino Community Service Center, Inc.
San Diego Refugee Communities Coalition
Santa Monica Democratic Club
Secure Justice
Service Employees International Union, California State Council
SIREN: Services, Immigrant Rights and Education Network
South Asian Network
South Bay People Power
Southeast Asia Resource Action Center
St. Joseph Justice Center
Street Level Health Project
Thai Community Development Center
The Kennedy Commission
The San Diego LGBT Community Center
UDW/AFSCME Local 3930
UFCW – Western States Council
Uncommon Law
Unidos 805
Unity Council
Universidad Popular
Western Center on Law & Poverty
Working Partnerships USA
Youth Leadership Institute
One Individual

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 Chamber of Commerce
California Construction and Industrial Materials Association
California Manufacturers and Technology Association
California Taxpayers Association
California Trucking Association

California's Credit Unions
Construction Employers' Association
Flasher Barricade Association
National Electrical Contractors Association
Screen Credits, LLC
Software & Information Industry Association
TechCA
TechNet
United Contractor

VOTES

Location	Date	Yes Votes	No Votes
Concurrence	August 26, 2026	58	19
Senate Floor	August 25, 2026	30	10
Assembly Floor	May 27, 2026	55	20

LEGISLATIVE STAFF CONTACT

FTBLegislativeServices@ftb.ca.gov

Nick Maduros
Agency Secretary, GovOps
Work (916) 651-9011

Luis Larios
Legislative Deputy, GovOps
Work (916) 651-9373

Selvi Stanislaus
Executive Officer, FTB
Work (916) 845-4543

Jessica Deitchman
Legislative Director, FTB
Work (916) 845-6333