Date of Hearing: January 12, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Mike Gipson, Chair

AB 1265 (Haney) – As Amended January 5, 2026

SUSPENSE

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Income taxes: credits: rehabilitation of certified historic structures

SUMMARY: Allows the current state historic tax credit (HTC) program's statutory provisions to expire on December 31, 2027, and authorizes a similar tax credit program, with modifications, to be effective from January 1, 2027, to January 1, 2031. Specifically, **this bill**:

1) Provides, for taxable years beginning on or after January 1, 2027, and before January 1, 2031, that the HTC is equal to 20% of the qualified rehabilitation expenditures for a certified historic structure.

2) Extends the $50 million cap on the total amount of HTCs to the 2031 taxable year.

3) Revises the new HTC program in the following ways:

   a) Provides that the maximum HTC amount is $5 million per taxpayer;

   b) Removes the 5% credit uplift for qualified rehabilitation expenditures for specified priority projects; and,

   c) Eliminates the qualified residence category.

4) Extends, from January 1, 2027, to January 1, 2031, the requirement for the Legislative Analyst's Office (LAO) to collaborate with the California Tax Credit Allocation Committee (CTCAC) to review the effectiveness of the tax credit program. The review must include, but is not limited to, an analysis of all of the following:

   a) The demand for the tax credit;

   b) The amount of jobs created by the use of the tax credit;

   c) The types of projects receiving the tax credit; and,

   d) The economic impact of the tax credit.

5) Takes immediate effect as a tax levy.

6) States legislative intent to comply with Revenue and Taxation Code (R&TC) Section 41.

EXISTING LAW:

1) Allows a credit, under both the Personal Income Tax (PIT) Law and the Corporation Tax (CT) Law, for qualified costs paid or incurred by a taxpayer when rehabilitating a certified historic structure for taxable years beginning on or after January 1, 2021, and before January 1, 2027. (R&TC Sections 17053.91 and 23691.)

2) Provides that the tax credit shall remain in effect even if Congress repeals the federal credit.

3) Provides that the credit is equal to 20% of the qualified rehabilitation expenditures with respect to a certified historic structure.

4) Provides that the applicable credit percentage increases to 25% in the case of a certified historic structure that meets one of the following criteria as defined in existing law:

   a) The structure is located on federal, state, or local surplus property;

   b) The rehabilitated structure includes affordable housing for lower income households;

   c) The structure is located in a designated census tract;

   d) The structure is part of a military base reuse authority; or,

   e) The structure is a transit-oriented development that is a higher-density, mixed-use development within a walking distance of one-half mile of a transit station.

5) Defines "certified historic structure" as a structure located in California that appears on the California Register of Historic Places.

6) Provides that the HTC is available for qualified rehabilitation expenditures related to a taxpayer's qualified principal residence if:

   a) The expenses are determined to rehabilitate the historic character and improve the integrity of the residence;

   b) The taxpayer has adjusted gross income of $200,000 or less and uses the structure as their principal residence; and,

   c) The credit amount is equal to more than $5,000 but does not exceed $25,000.

7) Requires the Office of Historic Preservation (OHP) to adopt regulations to implement the HTC.

8) Requires the OHP, in coordination with CTCAC, to establish a written application, which requires the applicant to include a summary of the expected economic benefits of the project. The economic benefits shall include, but are also not limited to, all of the following:

   a) The number of jobs created by the rehabilitation project, both during and after the rehabilitation of the structure;

b) The expected increase in state and local tax revenues derived from the rehabilitation project, including those from increased wages and property taxes;

c) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments; and,

d) Findings of a public benefit in the case of the rehabilitation of a qualified residence.

9) Requires the OHP to establish a process to approve, or reject, all tax credit applications.

10) Requires the CTCAC to allocate the credit on a first-come-first-served basis.

11) Caps the credit at an aggregate annual amount of $50 million, with any unallocated credits carried forward to subsequent years.

12) Requires the CTCAC to set aside $10 million in tax credits each calendar year to allocate as follows:

a) $8 million for taxpayers with qualified rehabilitation expenditures of less than $1 million for any certified historic building that is not a qualified residence. To the extent this amount is unused, the unused portion shall become available for taxpayers with larger projects; and,

b) $2 million for taxpayers with qualified rehabilitation expenditures for a certified historic structure that is a qualified residence. To the extent this amount is unused, the unused portion shall become available in subsequent years for taxpayers with certified historic structures that are qualified residences.

13) Allows the taxpayer to carry forward the tax credit for up to eight years or until the credit is exhausted.

14) Allows the credit to reduce the taxpayer's tax liability below the tentative minimum tax.

15) Requires taxpayers to claim the HTC in the first taxable year in which the structure is placed in service.

16) Requires the OHP to establish in regulations the time period that a taxpayer that receives a tax credit must commence rehabilitation. If rehabilitation is not commenced within that time period, the tax credit is forfeited.

17) Allows the CTCAC and the OHP to adopt a reasonable fee to cover their expenses directly related to administering the program.

18) Requires the CTCAC to provide the Franchise Tax Board (FTB) with an annual list of taxpayers that received a credit.

19) Requires the LAO, beginning January 1, 2021, and annually thereafter, to collaborate with the CTCAC and the OHP to review the effectiveness of the tax credit program. The review must include an analysis of all of the following:

a) The demand for the tax credit;

b) The amount of jobs created by the use of the tax credit;

c) The types of projects receiving the tax credit; and,

d) The economic impact of the tax credit.

20) Sets the total credit amount allowed at $0, unless otherwise specified in any bill providing for appropriations related to the Budget Act.

FISCAL EFFECT: The FTB estimates General Fund (GF) revenue losses of $4.3 million in the 2027-28 fiscal year.

COMMENTS:

1) The author has provided the following statement in support of this bill:

> California's historic buildings are invaluable economic and cultural assets, but many remain underutilized due to the high cost of rehabilitation. The California Historic Tax Credit is a proven tool to unlock investment, create jobs, and bring vacant historic buildings back into productive use, while preserving the character that defines our state. AB 1265 extends the Historic Tax Credit for an additional five years to provide certainty for continued investment and updates the program to ensure the awarding process is more equitable. By strengthening and modernizing this incentive, the bill helps activate underused buildings, support economic growth, and ensure California's historic preservation efforts deliver broad and lasting benefits.

2) Writing in support of this bill, the California Preservation Foundation, as part of a broad coalition of local historic preservation groups, notes, in part:

> California's historic buildings are powerful community assets—yet many remain vacant or underutilized because rehabilitation costs are prohibitively high. The HTC was created to change that. However, the initial launch highlighted structural barriers that limited access and prevented the program from delivering the broad statewide benefits it was designed to achieve. The amendments in AB 1265 directly address these challenges and set the program on a stronger, more equitable footing…. These improvements reflect a pragmatic, data-driven approach. The experience from the first application round—when two substantial Bay Area projects were allocated $40 million in tax credits —illustrate the urgent need for clearer caps and equitable access. AB 1265 incorporates these lessons and offers a framework that can benefit California's communities, large and small, urban and rural.

3) In opposition to this bill, the California Teachers Association notes, in part:

> According to the Department of Finance, the state provided over $91.5 billion in General Fund tax expenditures in 2024-25 (including income, sales and use, corporate and other taxes). This number continues to grow each year. This revenue would have otherwise gone to the General Fund, of which, approximately 39 percent would have gone toward Proposition 98 for K-14 education. Due to existing tax expenditures, approximately $35 billion is redirected away from schools and community colleges each year. While we understand these bills are well intended, CTA does not support this approach, as it would

reduce overall funding for education. CTA believes Proposition 98 should be protected from reductions through the creation of new or expanding existing tax expenditures or cuts to tax rates.

4) Committee Staff Comments:

a) *Double-referred*: This bill was also referred to the Assembly Committee on Housing and Community Development, which passed this bill unanimously on April 9, 2025.

b) *What is a "tax expenditure"*? Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).

As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote.

c) *Federal Historic Tax Credit*: The Federal Historic Preservation Tax Incentives Program, created in 1976, is administered by the National Park Service in partnership with the OHP. The goal of the program is to promote community revitalization and encourage private investment through historic building rehabilitation. Over 42,293 projects to rehabilitate historic buildings have been undertaken since the first project using the historic tax incentives was completed in 1977.[1]

Housing has been the single most important use for rehabilitated historic buildings under the program. The Federal HTC in California (2001-2023) funded 235 projects, with total development costs of over $4.2 billion, and generated an estimated 58,644 jobs. Thirty-one percent of these projects created or maintained housing. When adding the number of housing units created or maintained as mixed-use projects, the percentage exceeds 40%.

To qualify for the federal HTC, a project must satisfy the requirements of Internal Revenue Code Section 47 and related regulations, as well as architectural standards published by the National Parks Service. Certification of Historic Significance is the first step in establishing eligibility for the HTC. A building must be individually listed in the national Register of Historic Places or be certified as contributing to a registered historic district to qualify for the 20% credit (the 10% tax credit for the rehabilitation of non-historic buildings placed in service before 1936 is no longer available). A developer

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[1] *Federal Tax Incentives for Rehabilitating Historic Buildings*, U.S. Department of the Interior, National Park Service, Statistical Report and Analysis for Fiscal Year 2016.

must submit an application detailing the plans and specifications for the rehabilitation. The plans must satisfy the Secretary of Interior Standards for Rehabilitation. Once the project is completed, a request for certification of completion is submitted. If the request is granted, the rehabilitation is considered a "certified rehabilitation." A certification of a completed project is issued only when all work has been finished on the certified historic building. Generally, the HTC must be claimed in the tax year in which the rehabilitated building is placed in service.

d) *California enacts an HTC*: SB 451 (Atkins), Chapter 703, Statutes of 2019, authorized a new tax credit, under both the PIT and CT laws, for qualified costs paid or incurred by a taxpayer when rehabilitating a certified historic structure. The credits are equal to 20% of the qualified rehabilitation expenditures with respect to a certified historic structure, defined as a structure located in California that appears on the California Register of Historic Places. The credits increase the applicable percentage to 25% in the case of a certified historic structure that meets one of the following criteria as defined in existing law:

- The structure is located on federal, state, or local surplus property;
- The rehabilitated structure includes affordable housing for lower-income households;
- The structure is located in a designated census tract;
- The structure is part of a military base reuse authority; or,
- The structure is a transit-oriented development that is a higher-density, mixed-use development within a walking distance of one-half mile of a transit station.

The credits are also available for qualified rehabilitation expenditures related to a taxpayer’s qualified principal residence so long as the taxpayer has gross income of $200,000 or less, uses the structure as their principal residence, and the structure has a public benefit. For projects relating to a qualified principal residence, the credit amount must be equal to or more than $5,000, and less than $25,000.

SB 451 required the CTCAC, in coordination with the OHP, to establish an application process and allocate credits on a first-come, first-serve basis. The written applications were required to include the following information:

- The number of jobs created by the rehabilitation project, both during and after the rehabilitation of the structure;
- The expected increase in state and local tax revenues derived from the rehabilitation project, including those from increased wages and property taxes;
- Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments; and,
- Findings of a public benefit in the case of the rehabilitation of a qualified residence.

The credit amount is subject to a $50 million aggregate annual cap, with any unallocated credits carried forward to subsequent years. SB 451 required the CTCAC to set aside $10 million in tax credits each calendar year for taxpayers with qualified expenditures of less than $1 million. To the extent this amount is unused, the unused portion became available for taxpayers with larger projects.

SB 451 allows the taxpayer to carry forward the tax credit for up to eight years or until the credit is exhausted and disallows a business expense deduction for any expenses incurred for which the tax credit is used. The taxpayer must also reduce their basis of the property by the amount of the credit, and the credit can reduce the taxpayer's tax liability below the tentative minimum tax.

SB 451 provided the CTCAC with the authority to recapture the tax credit if the taxpayer does not start the rehabilitation project within 18 months or if the taxpayer sells the property within five years. The CTCAC may adopt a reasonable fee to cover its expenses directly related to administering the program. SB 451 also required the CTCAC to provide the FTB with an annual list of taxpayers that have received a credit.

e) *Early results*: Although the tax credit was created in 2019, the OHP did not promulgate regulations until the end of 2024, and applications were first made available and due in January 2025. The CTCAC made the following awards at their April 8, 2025, meeting:

HTC Category	**Total Allocation**	**Project Applications**	**Approved Applications**	**Remaining Balance**[2]
Qualified rehabilitation expenditures of $1,000,000 or more	$40,000,000	8	2	$0
Qualified rehabilitation expenditures of less than $1,000,000	$8,000,000	4	2	$7,800,000
Qualified principal residence	$2,000,000	13	6	$1,890,940

The two projects with qualified rehabilitation expenditures of $1 million or more that were approved by the CTCAC are the Hearst Building located in San Francisco, which is being converted from an office building into a hotel and is estimated to receive $29.6 million, and Building 8 at the Alameda Naval Air Station, which is being converted into commercial and residential space and is estimated to receive $10.4 million.

[2] CTCAC 2025 Preliminary Recommendations for State Historic Rehabilitation Tax Credits – REVISED, California State Treasurer -- California Tax Credit Allocation Committee (April 8, 2025). https://www.treasurer.ca.gov/ctcac/programreg/State-Historic-Rehabilitation-Tax-Credit-Preliminary-Recommendations.pdf.

Because the tax credits were available on a first-come, first-served basis, of the qualified projects under the "commercial projects over $1 million" category that applied for the HTC, only two were recommended for approval, and all funds were exhausted by those two projects.

The two projects with qualified rehabilitation expenditures of less than $1 million that were approved by the CTCAC were the Crescent Store and Crescent Hotel, both located in Crescent Mills within Plumas County. Both of these projects will continue to be used for their original purposes and do not include new housing.

f) *Remaining funds reallocated*: Nearly $9.7 million of the original $50 million budget allocation remained after the initial round of awards. This money was originally set aside for qualified principal residences and projects with qualified rehabilitation expenditures of less than $1 million. SB 132 (Budget and Fiscal Review), Chapter 17, Statutes of 2025, reallocated these unspent funds and made them available to taxpayers with qualified rehabilitation expenditures of $1 million or more that had applied in January of 2025, but did not receive an award and were affordable housing projects. On September 30, 2025, the CTCAC awarded all remaining funds to the following projects:

   i) $4,031,997 to the Harrower Laboratory and Clinic project in Glendale, which is converting educational space into apartments, and,

   ii) $5,638,493 to the Capitol Park Hotel / St. Clare at Capitol Park project in Sacramento, which is converting a hotel into mixed commercial and residential space.[3]

   There is no remaining funding from the original $50 million allocation available for future projects. For any future project to receive an HTC, additional funding must be allocated in the state budget.

g) *A better way*? There are many ways to allocate scarce resources when the demand from qualifying entities exceeds the amount of available funding. The first-come, first-served process required by SB 451 is administratively straightforward and requires little additional work from staff at the CTCAC and OHP. As noted above, however, this process resulted in just two projects exhausting the initial $40 million allocation for projects of qualified rehabilitation expenditures of $1 million or more. Neither of these projects received the 25% credit because they did not qualify under any of the categories prioritized by SB 451, such as providing affordable housing.

   Critics of the first-come, first-served allocation process argue that submitting the application as soon as the portal opened should not be the dispositive factor in receiving the HTC. Instead, some have suggested that the CTCAC could create a process similar to

[3] CTCAC 2025 Preliminary Recommendations for State Historic Rehabilitation Tax Credits, California State Treasurer -- California Tax Credit Allocation Committee (September 30, 2025). https://www.treasurer.ca.gov/ctcac/2025/State-Historic-Rehabilitation-Tax-Credit-Preliminary-Recommendations.pdf.

the Low-Income Housing Tax Credit (LIHTC) program, which they also administer. The LIHTC application is extremely detailed, and the more generous credits are competitive, which is meant to incentivize developers to take actions that they otherwise would not. Projects are ranked according to the established scoring criteria that considers a number of benefits and public policy goals, such as paying prevailing wages during construction, meeting energy efficiency targets, and the project's access to public transit and other amenities.[4]

h) *Committee's tax expenditure policy*: Both R&TC Section 41 and Committee policy require any tax expenditure bill to outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. A tax expenditure bill will not be eligible for a Committee vote unless it has complied with these requirements.

   In its current form, this bill states legislative intent to comply with R&TC Section 41 and extends the existing requirement for the LAO to collaborate with CTCAC and OHP to review the effectiveness of the credit on an annual basis until January 1, 2031. The review must include, but is not limited to, an analysis of the demand for the tax credit, the types and uses of projects receiving the tax credit, the jobs created by the use of the tax credits, and the economic impact of the tax credits. Existing law and this bill do not, however, require the review or report to be submitted to the Legislature. Should this bill advance, the author has agreed to amendments requiring the LAO to submit a review of projects that have been awarded an HTC to the Legislature no later than July 1, 2028.

   In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote. According to this policy, an "appropriate sunset provision" means five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" means ten years. This bill, as currently drafted, complies with the Committee's policy on sunset dates.

i) *Prior legislation*:

   i) SB 132 (Budget and Fiscal Review), Chapter 17, Statutes of 2025, reallocated unspent HTC funds and made them available to taxpayers with qualified rehabilitation expenditures of $1 million or more that had applied for an HTC but did not receive an award and were an affordable housing project.

   ii) SB 451 (Atkins), Chapter 703, Statutes of 2019, authorized the HTC, under both the PIT and CT laws, for qualified costs paid or incurred by a taxpayer when rehabilitating a certified historic structure.

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[4] CTCAC LIHTC Application Information, California State Treasurer -- California Tax Credit Allocation Committee. https://www.treasurer.ca.gov/ctcac/2025/application.asp.

REGISTERED SUPPORT / OPPOSITION:

Support

American Institute of Architects California (Co-sponsor)
California Preservation Foundation (Co-sponsor)
Berkeley Architectural Heritage Association
Historical Sites Society of Arcata
La Jolla Historical Society
Los Angeles Conservancy
Napa County Landmarks
National Trust for Historic Preservation
Palm Springs Modern Committee
Preservation Action Council of San Jose
Preservation Sacramento
Preserve Orange County
Redlands Conservancy
San Francisco Heritage
San Mateo Heritage Alliance
Santa Monica Conservancy
Save Our Heritage Organization
Structural Engineers Association of California

Opposition

California Teachers Association

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