

ASSEMBLY THIRD READING
AB 1265 (Haney)
As Amended January 16, 2026
Majority vote

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.

Major Provisions

- 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) Provides that, unless otherwise specified in the budget, the amount of credit allowed is zero dollars.
- 5) Requires the Legislative Analyst's Office (LAO) to collaborate with the Office of Historic Preservation (OHP) and the California Tax Credit Allocation Committee (CTCAC) to review the effectiveness of the tax credits for the 2025 through 2027 taxable years and submit the review to the Legislature on or before July 1, 2028.

COMMENTS

Federal HTC Program. Existing federal law allows a federal HTC administered by the National Park Service in partnership with the OHP. Under the federal HTC program, over 42,200 projects to rehabilitate historic buildings have been undertaken since completion of the first project in 1977.

Existing State HTC Program. SB 451 (Atkins), Chapter 703, Statutes of 2019, authorized a state HTC under the PIT Law and CT Law equal to 20% of qualified rehabilitation expenditures for a certified historic structure appearing on the California Register of Historic Places. The credit amount increases to 25% if the structure meets certain criteria, such as including affordable housing. SB 451 capped the aggregate amount of allocated credits at \$50 million annually, with \$10 million in credits set aside for smaller projects: (a) \$2 million for rehabilitation of a taxpayer's principal residence, and (b) \$8 million for rehabilitation of a structure that is not a

principal residence with expenditures under \$1 million. SB 451 required CTCAC to coordinate with OHP to establish an application process and allocate credits on a first-come-first-served basis. OHP finalized program regulations at the end of 2024, with applications due in January 2025.

SB 451 set the credit amount at \$0 unless a budget appropriation was made for the credit for the applicable taxable year. However, the Budget Act of 2021 included an allocation of \$50 million for the HTC program, and CTCAC awarded the first round of credits at its April 8, 2025, meeting. Because the credits were available on a first-come-first-served basis, two projects exhausted the \$40 million in funds not set aside for smaller projects. Of the funds set aside for smaller projects, nearly \$9.7 million remained after the initial round of awards. Thus, SB 132 (Committee on Budget and Fiscal Review), Chapter 17, Statutes of 2025, reallocated the unspent funds to applicants with larger projects including affordable housing.

New State HTC Program. With the existing HTC program set to end with the 2026 taxable year, this bill creates a new HTC program modified to reflect lessons learned from the existing program: (a) prohibit the maximum credit amount from exceeding \$5 million per taxpayer, (b) no longer allow a 5% credit uplift for specified priority projects, and (c) eliminate the credit set aside for smaller projects. However, this bill retains the first-come-first-served credit allocation process.

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 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.

This bill also retains the existing HTC program limitation that sets the credit amount at \$0 unless a budget appropriation is made for the credit for the applicable taxable year. Thus, additional funding must be allocated in the state budget before a future project may receive a credit under the new HTC program.

According to the Author

AB 1265 extends the [HTC] 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.

Arguments in Support

Writing in support of this bill, the California Preservation Foundation, a co-sponsor and 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.

Arguments in Opposition

Writing 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.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations:

- 1) Cost pressures of approximately \$50 million over five years to appropriate funds to allow the new HTC program to become operative (General Fund (GF)). The author plans to request a \$50 million appropriation for this purpose in future budget years.

The Franchise Tax Board (FTB) assumes that if the new HTC program is funded at \$50 million, credit usage would begin in fiscal year (FY) 2027-28, as allocated credits may not be used until the structure is placed into service. FTB estimates GF revenue loss of approximately \$1.1 million in fiscal year (FY) 2027-28 and \$4.3 million in FY 2028-29, with GF revenue loss increasing each year thereafter.

- 2) Costs of an unknown amount, potentially in the low hundreds of thousands of dollars, across FTB, CTCAC, and OHP to administer the new HTC program (GF). This bill continues to allow CTCAC and OHP to charge a reasonable fee to recover program administration costs. CTCAC assumes that if the new HTC program is funded at \$50 million, its administrative costs would be absorbable within the appropriation.
- 3) Costs of an unknown, but likely absorbable, amount to the LAO to conduct the annual review with CTCAC and OHP (GF). However, this committee sees a wide array of bills that require the LAO to measure different tax expenditures. Generally, a request to prepare an individual report would not generate significant new workload for the LAO. But, taken together, these proposals strain the ability of the LAO fulfill other existing or future legislative mandates and requests, as the LAO's budget is subject to the Legislature's constitutional spending cap.

VOTES

ASM HOUSING AND COMMUNITY DEVELOPMENT: 12-0-0

YES: Haney, Patterson, Ávila Farías, Caloza, Gallagher, Garcia, Kalra, Lee, Quirk-Silva, Ta, Wicks, Wilson

ASM REVENUE AND TAXATION: 5-0-2

YES: Gipson, Ta, Carrillo, McKinnor, Quirk-Silva

ABS, ABST OR NV: Bains, DeMaio

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Hoover, Stefani, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Bauer-Kahan, Pacheco, Pellerin, Solache, Ta, Tangipa

UPDATED

VERSION: January 16, 2026

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FN: 0002245