
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

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Author:	Haney	Tax Levy:	Yes
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Consultant:	Summers		

INCOME TAXES: CREDITS: REHABILITATION OF CERTIFIED HISTORIC STRUCTURES

Maintains the state's modified conformity to the federal HTC by reauthorizing the HTC program for tax years 2027-2030.

Background

Tax expenditures. California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts tax incentives to compensate taxpayers for incurring certain expenses, such as child adoption, or to influence certain behavior, such as charitable giving. The Legislature uses tax incentives to encourage taxpayers to do something they would otherwise not do, but for the tax benefit. The Department of Finance is required to publish annually a list of tax expenditures, which currently totals around \$94.2 billion in forgone general fund revenue.

Credits. Tax credits reduce the amount of tax owed by a taxpayer on a dollar-for-dollar basis. Credit amounts that exceed the taxpayer's current tax year liability can either be refunded to the taxpayer or carried forward to reduce tax in future years. However, except for the Earned Income Tax Credit, the Young Child Tax Credit, the Foster Youth Tax Credit, and the Motion Picture and Television Production Credit, all credits against California Personal Income and Corporation Tax are nonrefundable.

Credit Limitation. In 2024, the Legislature limited the total of all business credits, with some exceptions, including credit carry forwards, to \$5,000,000 in the 2024, 2025, and 2026 taxable years, unless the Director of Finance determines that General Fund money over the multiyear forecast is sufficient *without* the revenue impact of the net operating loss suspension and credit limitation (SB 167 and SB 175, Committee on Budget & Fiscal Review). Taxpayers can make an irrevocable election to receive an annual refundable credit claimed in future tax years for business credits equal to credit amounts not claimed due to the limitation.

In his 2026-27 May Revision to the Governor's Budget, Governor Newsom proposed to permanently limit tax credit use to \$5 million or 50% of liability, whichever is greater, effective in the 2027 taxable year and thereafter. This week, the Legislature approved SB 122 (Committee on Budget & Fiscal Review), which extends the current temporary limitation while maintaining the refundable credit election until the 2030 taxable year, with some modifications, after which time credits are limited to 75% of liability or \$5 million, whichever is greater.

Conformity. State law does not automatically conform to changes in federal tax law, except for specific retirement provisions. Instead, the Legislature must affirmatively conform to federal changes, which it can do in two different ways. First, the Legislature can pass an individual tax bill that conforms to a specific federal provision, such as the Regulated Investment Company Modernization Act (AB 1423, Perea, 2011). Second, the Legislature can enact one omnibus bill to provide that state law conforms to federal law as of a specified date. Currently, state law generally conforms to federal tax law as of January 1, 2025 (SB 711, McNerney, 2025).

Federal Historic Tax Credit. The Historic Tax Credit (HTC) is a federal income tax credit that promotes the rehabilitation of income-producing historic properties. Congress enacted the program in 1976 to encourage private investment in the rehabilitation of historic buildings and community revitalization. Under Internal Revenue Code (IRC) Section 47, the program is administered by the National Park Service (NPS) and the Internal Revenue Service (IRS), in partnership with State Historic Preservation Offices. The credit equals 20% of qualified rehabilitation expenditures (QRE).

Taxpayers must use straight-line depreciation or the alternative depreciation system for rehabilitation expenditures to qualify under the provision. A QRE must be an amount properly chargeable to capital account (generally meaning used in computing the basis) of depreciable property that is nonresidential real property, residential rental property, real property with a class life of more than 12.5 years, or an addition or improvement to the preceding three types of property, and incurred in connection with the rehabilitation of a “qualified rehabilitated building” (QRB), including its structural components. The QRB must be listed individually on the National Register of Historic Places (National Register) as a “certified historic structure” as contributing to a registered historic district, and the rehabilitation must satisfy federal preservation standards.

The application process generally consists of three parts: certification of historic significance, review of the proposed rehabilitation, and certification of completed work. NPS certifies the building’s historic status and whether the completed rehabilitation preserves its historic character; the IRS administers the tax credit claim. Under IRC Section 47, the taxpayer claims the 20% credit ratably over a five-year period beginning in the taxable year in which the QRB is placed in service. Federal law also contains a recapture rule under IRC Section 50, requiring recapture of some or all of the credit if, within five years after the building is placed in service, the building is sold or otherwise ceases to qualify as investment-credit property. Taxpayers can couple the HTC with other local, state, and federal tax programs.

Under the federal HTC program, the NPS issued 939 certifications of completed work in Fiscal Year (FY) 2025 (which ended Sept. 30, 2025), constituting more than \$8.64 billion in private investment, according to the report.¹ Since the program’s inception, over 51,055 projects have been undertaken using the program’s incentives, representing \$146.5 billion in estimated rehabilitation investment; 329,548 rehabilitated housing units; 377,293 new housing units; and 216,592 low- and moderate-income housing units. Between FY 2014 and 2025, California had 509 completed federal HTC projects.² Comparable state historic tax credits are available in 38 other states.

¹ <https://www.novoco.com/public-media/documents/nps-htc-report-2025-annual-03052026.pdf>

² https://ohp.parks.ca.gov/?page_id=31750; https://ohp.parks.ca.gov/?page_id=30704

State Historic Tax Credit. The California Historic Rehabilitation Tax Credit was enacted in 2019 through SB 451 (Atkins), which conformed, with modification, to the federal HTC. Specifically, the state HTC:

- Provides that the tax credit is available for taxable years 2021 through 2026.
- Remains in effect even if Congress repeals the federal credit.
- Defines a certified historic structure as a structure in this state that is listed on the California Register of Historical Resources.
- Provides that the credit is equal to 20% of the QRE with respect to a certified historic structure.
- Authorizes a 5% credit uplift if the case of a certified historic structure is:
 - Located on federal, state, or local surplus property;
 - Includes affordable housing for lower-income households;
 - Located in a designated census tract;
 - Part of a military base reuse authority; or
 - A transit-oriented development that is a higher-density, mixed-use development within a walking distance of one-half mile of a transit station.
- Authorizes the credit for QREs related to a taxpayer's qualified principal residence if:
 - The expenses rehabilitate the historic character and integrity of the residence,
 - The taxpayer has an adjusted gross income of \$200,000, and
 - The credit amount is equal to more than \$5,000 but does not exceed \$25,000.
- Allows the taxpayer to carry forward the tax credit for up to eight years.
- Allows the credit to reduce the taxpayer's tax liability below the tentative minimum tax.

State law limits the credit by establishing an annual aggregate credit cap by:

- Setting the total credit amount allowed at \$0, unless credit allocation authority is granted to the California Tax Credit Allocation Committee (TCAC) in a Budget Act.
- Limiting the aggregate annual credit allocation authority to \$50 million, with any unallocated credits carried forward to subsequent years.
- Requiring TCAC to set aside \$10 million in credits each year to allocate as follows:
 - \$8 million for taxpayers with QREs of less than \$1 million for any certified historic building that is not a qualified residence.
 - \$2 million for taxpayers with QREs for a qualified residence.

State law tasks TCAC and the Office of Historic Preservation (OHP) with administering the allocation and application process of the state HTC. Specifically, state law requires:

- TCAC to award credit allocations on a first-come, first-served basis.
- OHP, in connection with TCAC, to establish a written application requiring the applicant to include a summary of the expected economic benefits of the project, including, but not limited to:
 - The number of jobs created by the rehabilitation project;
 - The expected increase in state and local tax revenues from the rehabilitation;
 - Any contributions for rehabilitation from federal, state, or local governments; and
 - Findings of a public benefit in the case of a rehabilitated qualified residence.
- OHP to establish a process to approve or reject all tax credit applications.
- TCAC to provide the Franchise Tax Board (FTB) with a list of taxpayers allocated credit.

- OHP to establish in regulations the time period a taxpayer must commence rehabilitation to claim a tax credit.

In 2021, the Budget Act authorized TCAC to allocate up to \$50,000,000 for calendar year 2022 in state HTC's (AB 128, Ting, 2021). However, TCAC and OHP regulations, including the application procedures, did not become effective until November 12, 2024. As a result, the first round of applications were accepted beginning January 6, 2025, and has been fully awarded. With no additional credit allocation amounts authorized to CTAC, OHP is not accepting applications for the state HTC's program at this time. The state HTC program will sunset on January 1, 2027.

California Register. The California Register of Historical Resources (California Register) includes buildings, sites, structures, objects, and districts significant in the architectural, engineering, scientific, economic, agricultural, educational, social, political, military, or cultural annals of California.³ California resources listed in the National Register, and California Historical Landmarks #770 and above, are automatically listed in the California Register. Points of Historical Interest designated after December 1997 and recommended by the State Historical Resources Commission are also listed in the California Register.

As of May 26, 2026, there are 12 historic districts currently designated in California, and the California Register has approximately 4,300 resources identified.⁴ The top ten counties with the most resources listed in the California Register are:

County	Total
Los Angeles	598
San Francisco	227
Alameda	218
San Diego	213
San Bernardino	211
Santa Clara	202
Sacramento	175
Orange	156
Riverside	150
San Mateo	118

Together, these ten counties have more historic resources listed in the registry than all the other 48 counties combined. However, OHP notes that the Register is not a comprehensive list and that more accurate information can be obtained by one of the eight designated Information Centers located on California State University campuses or museums throughout the state.⁵

The California Preservation Foundation wants to extend the state HTC through January 1, 2031, thereby continuing the state's historic preservation efforts.

Proposed Law

³ <https://ohp.parks.ca.gov/listedresources>

⁴ <https://ohp.parks.ca.gov/ListedResources/?view=all>; https://ohp.parks.ca.gov/?page_id=27283

⁵ https://ohp.parks.ca.gov/?page_id=1068; <https://ohp.parks.ca.gov/pages/1068/files/IC%20Roster.pdf>

Assembly Bill 1265 maintains the state's existing modified conformity to the federal HTC by reauthorizing the HTC program for tax years 2027-2030. The re-authorized HTCs modify the existing state HTCs by repealing the current HTC statutes and enacting substantively identical statutes, with the exception of the following changes:

- Establishing a \$5,000,000 max credit amount per taxpayer.
- Eliminating the "Qualified residence" credit eligibility.
- Eliminating the 5% credit uplifts.
- Eliminating the \$50,000,000 annual aggregate credit allocation cap.

The bill also makes other technical and conforming changes and contains legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

According to the FTB, the 1/1/2026 version of AB 1265 will result in a revenue loss of approximately \$1.1 million in FY 2027-28 and \$4.3 million in FY 2028-29, with general fund revenue loss increasing each year thereafter.

Comments

1. Purpose of the bill. According to the author, "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, build more housing, support economic growth, and ensure California's historic preservation efforts deliver broad and lasting benefits."

2. "Windfall" or "but for" tax benefit? Tax expenditures produce two different outcomes. The first outcome is a "windfall," in which the tax expenditure rewards behavior that would have occurred even without the tax benefit. The second outcome is a "but for tax benefit," where a particular activity would not have occurred without the incentive created by the tax expenditure. Here, the credit is intended to offset the high cost of rehabilitating historic structures and to encourage projects that preserve culturally significant buildings while generating economic activity. The credit is intended to assist projects where rehabilitation costs may otherwise deter investment or make preservation financially infeasible. Thus, serves a "but for" tax benefit because the credit is designed to make costly historic rehabilitation projects more economically viable. However, some projects may receive a windfall to the extent the taxpayer already planned to rehabilitate the structure and would have completed the project without the state credit, particularly where federal, local, or private financing already makes the project feasible. On balance, this credit serves primarily as a "but for" tax benefit by reducing the financial barrier to historic rehabilitation. However, the first-come, first-served allocation structure may not fully distinguish between projects that need the credit to proceed and projects that would proceed regardless.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing a credit against personal income tax, AB 1265 will result in the State General Fund receiving less revenue. As a result, the state will have to reduce spending or increase taxes to offset the loss. Additionally, because Proposition 98 establishes a minimum funding guarantee for K-14 education in California, which generally represents roughly 40% of the state's General Fund revenues, every dollar of General Fund loss results in approximately 40 cents less of funding for K-14 education.

However, any revenue loss from AB 1265 depends on the credit allocation authority being granted to TCAC through the budget process. The author is also seeking a budget request for TCAC allocation authority in the amount of \$50 million, which has not yet materialized in a Budget Bill.

4. Precedent. If the Legislature allows an income tax credit for historic structures on the California Register, why should it not allow other income tax credits for buildings in cultural districts that may not yet be in the register? This may lead to a slippery slope in which more income tax credits are authorized for privately held building improvements, thereby eroding the income tax base and reducing General Fund revenues.

5. Equity. California's historical resources reflect the cultural experiences of diverse communities across the state's history. Preserving historical resources can advance social equity by protecting sites that tell the stories of communities often underrepresented in traditional historic preservation efforts. However, because this bill provides an income tax credit to taxpayers who own or invest in certified historic structures, the benefits may flow primarily to property owners and investors with sufficient capital and tax liability to undertake rehabilitation projects. The Committee may wish to consider whether the credit is adequately structured to preserve California's diverse heritage and to ensure equitable public benefits, such as affordable housing, community-serving uses, preservation of historically marginalized communities' cultural assets, or economic opportunities for local residents.

6. Mills Act. Both commercial and residential buildings that are qualified historical properties may already receive some tax relief. Specifically, the Mills Act Program, enacted in 1972, authorizes participating cities and counties to enter into contracts with owners of qualified historic properties who agree to restore, maintain, and protect those properties in accordance with specified historic preservation standards and conditions. In exchange, the property may qualify for property tax relief. The program is state-authorized but administered and implemented by local governments, not by the OHP. Each participating local government establishes its own eligibility criteria, application procedures, contract terms, and limits on the number of contracts it will allow. Mills Act contracts are for an initial 10-year term, automatically renew each year, and remain with the property when it is sold, binding subsequent owners. Property tax savings vary depending on local rental values, assessment methodology, and annual county assessor review. The Committee may wish to consider whether historic structures need additional tax relief in light of this existing local property tax incentive and the availability of the federal HTC.

7. Section 41. Section 41 of the Revenue and Taxation Code requires any bill enacting a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve and detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). A bill that would authorize a new gross income exclusion is exempt from the requirement that the bill contain detailed performance indicators

and data collection reporting if the Legislature determines there is no available data to collect and report (AB 3289, Committee on Revenue and Taxation, 2024). To satisfy these requirements, AB 1265 states that the specific goal of this credit is to help address the high costs of rehabilitating California's historic buildings, preserve their cultural significance, and stimulate economic growth. The data used for the Legislature to evaluate whether the credits are achieving the intended goal are all of the following:

- 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 revenue 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.

To aid the Legislature in determining whether this act meets the goals, purposes, and objectives, AB 1265 directs the Legislative Analyst's Office to collaborate with the OHP and TCAC to review the effectiveness of the tax credits for taxable years beginning on or after January 1, 2025, and before January 1, 2027, and shall submit the review to the Legislature on or before July 1, 2028.

8. Committee amendments. The Committee could amend AB 1265 in the following ways:

- Revises the applicable tax years the credits shall be authorized for from 2027 through 2030 to instead be 2027 to 2031.
- Requires applicants to provide the OHP and TCAC information, which includes but is not limited to the following:
 - The location of the structure proposed for rehabilitation and demonstration of site control.
 - Documentation showing the structure is listed on the California Register.
 - A projection of the number of housing units created, preserved, or rehabilitated by the proposed rehabilitation.
 - An enumeration of the QREs associated with proposed rehabilitation.
 - Evidence of a financing gap that necessitates the tax credit for completion of the rehabilitation project.
 - Evidence the project shall commence no later than 180 calendar days after the award of the tax credit allocation.
 - An attestation that the project has not already been completed prior to the submission of the application.
- Specifies that for purposes of allocating credits, instead of a first-come-first serve approach, applicants shall be ranked based on a scoring system that considers the QREs of each applicant and the number of new housing units developed by each applicant. The score of each applicant shall be expressed as a monetary value calculated as the sum of the following:
 - The qualified rehabilitation costs of the applicant.
 - The number of housing units created, preserved, or rehabilitated by the proposed rehabilitation multiplied by \$600,000.
- Defines "housing unit" to mean one or more habitable rooms which are occupied or which are intended or designed to be occupied by one family with facilities for living, sleeping, cooking, and eating.
- Directs OHP to allocate, to the extent feasible, 40% of credits to northern California,

- 40% of credits to southern California, and 20% of credits to central California.
- Defines “Northern California” as the Counties of Alameda, Contra Costa, Del Norte, Humboldt, Lake, Marin, Mendocino, Monterey, Napa, Trinity, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma.
- Defines “Southern California” as the Counties of Imperial, Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, and Ventura.
- Defines “Central California” as any county not included in northern California or southern California.
- Directs OHP to accept applications pursuant to the following schedule beginning on August 1, 2027.
 - OHP shall accept applications from August 1 through August 31, with evaluation of those applications occurring between September 1 and September 30, and allocations being announced no later than October 15.
 - OHP shall accept applications from February 1 through February 28, with evaluation of those applications occurring between March 1 and March 31, and allocations being announced no later than April 15.
- Directs OHP to reserve 20% of credits available for applicants with qualified rehabilitation costs of less than \$2.5 million.
- Modifies the Section 41 findings and declarations by:
 - Specifying that the performance indicators shall be the number of taxpayers allocated a credit and the total dollar value of credits allowed.
- Directs OHP, no later than June 1, 2028, and annually thereafter, to submit a report to the Legislature, stating the number of taxpayers allocated a credit in the last taxable year, and the total dollar value of credits allocated.
- Makes other technical and conforming changes.

Assembly Actions

Assembly Housing and Community Development	12-0
Assembly Revenue & Taxation Committee:	5-2
Assembly Appropriations Committee:	15-0
Assembly Floor:	73-7

Support and Opposition (6/18/2026)

Support: California Preservation Foundation (Sponsor)
 Donna Colson, Councilmember, City of Burlingame
 Todd Gloria, Mayor, City of San Diego
 American Institute of Architects California
 Association of California Cities - Orange County
 Berkeley Architectural Heritage Association
 California Association for Local Economic Development
 California Main Street
 City and County of San Francisco
 City of Arcata
 City of Bakersfield
 City of Los Alamitos
 Coalition of Historic Preservation Students

Historical Sites Society of Arcata
Housing Action Coalition
La Jolla Historical Society
Los Angeles Conservancy
Napa County Landmarks
National Trust for Historic Preservation
Oakland Heritage Alliance
Palm Springs Modern Committee
Pasadena Heritage
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 Organisation
Save Our Sausalito
Structural Engineers Association of California
West Adams Heritage Association

Opposition: California Teachers Association

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