SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 1265 (Haney) - Income taxes: credits: rehabilitation of certified historic structures

Version: June 25, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: REV. & TAX. 4 - 0
Mandate: No
Consultant: Robert Ingenito

Bill Summary: AB 1265 would continue the State's modified conformity to the federal Historic Tax Credit (HTC) by reauthorizing the HTC program for taxable years 2027 through 2031.

Fiscal Impact:

- The Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue losses of $1.6 million in 2027-28 and $5.9 million in 2028-09. These estimates assume the Legislature annually authorizes credit allocations and that taxpayers may claim credits only after a rehabilitated building is placed in service. As a result, FTB projects credit usage would begin in 2028 and increase in subsequent years, resulting in correspondingly higher General Fund revenue losses. FTB's administrative costs would be minor and absorbable.

- The Office of Historic Preservation (OHP) indicates that it would incur unknown but potentially significant General Fund costs to implement the provisions of the bill, primarily resulting from the additional workload associated with administering two rounds of applications each year. Administrative costs to the California Tax Credit Allocation Committee (CTCAC) would be minor and absorbable. This bill continues to allow CTCAC and OHP to charge a reasonable fee to recover program administration costs.

- The bill would result in potentially absorbable costs to the LAO to conduct the required reviews as specified (General Fund). While preparing any single report would likely result in minor additional workload, the cumulative effect of such reporting requirements would reduce the LAO's capacity to fulfill other existing and future legislative mandates and requests, particularly because the LAO's budget is constrained by the Legislature's constitutional spending cap.

Background: Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed $94 billion annually.

California does not automatically conform to federal tax law changes, except for certain retirement provisions. Instead, the Legislature must affirmatively adopt federal changes through either individual conformity bills or omnibus conformity legislation. California generally conforms to the Internal Revenue Code (IRC) as of January 1, 2025 (SB 711, McNerney, 2025).

Existing federal law authorizes a 20 percent HTC for qualified rehabilitation expenditures incurred to rehabilitate certified historic structures. Enacted in 1976, the federal HTC is intended to encourage private investment in the preservation and rehabilitation of historic buildings and is administered by the National Park Service and the Internal Revenue Service.

California established a modified state HTC in 2019 (SB 451, Atkins), modeled after the federal credit. The state credit equals 20% of qualified rehabilitation expenditures, or 25 percent for certain projects, including those providing affordable housing or located in specified areas. The credit is available for both the Personal Income Tax and Corporation Tax and may be carried forward for up to eight years.

The state HTC is subject to an annual aggregate allocation of up to $50 million, contingent upon an appropriation in the Budget Act. CTCAC, in consultation with OHP, administers the program and allocates credits on a first-come, first-served basis. Although the Budget Act of 2021 authorized a one-time $50 million allocation, implementing regulations were not finalized until late 2024, and the first round of credits was awarded in 2025. The program is scheduled to sunset on January 1, 2027.

Proposed Law: This bill, among other things, would do the following:

- Maintains the State's existing modified conformity to the federal HTC by reauthorizing the HTC program for taxable years 2027 through 2031. The re-authorized HTCs would modify the existing state HTCs by repealing the current HTC statutes and enacting similar, with the exception of (among other things) the following changes: (1) establishing a $5 million maximum credit amount per taxpayer, (2) removing the qualified residence, (3) eliminating the 5 percent credit uplifts, (4) eliminating the $50 million annual aggregate credit allocation cap (instead requiring the annual limit to be set by the Legislature, as specified), and (5) directing OHP to allocate, to the extent feasible, 40 percent of credits to northern California, 40 percent of credits to southern California, and 20 percent of credits to central California, as provided.

- Require the Legislative Analyst to submit a review of the effectiveness of the tax credits, as specified.

Related Legislation: SB 451 (Atkins, Chapter 703, Statutes of 2019) authorized a state HTC equal to 20 percent of qualified rehabilitation expenditures for a certified historic structure appearing on the California Register of Historic Places, as specified.

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