SENATE RULES COMMITTEE AB 1265
Office of Senate Floor Analyses
(916) 651-4171

THIRD READING

Bill No: AB 1265
Author: Haney (D)
Amended: 6/25/26 in Senate
Vote: 21

SENATE REVENUE AND TAXATION COMMITTEE: 4-0, 6/24/26
AYES: McNerney, Ashby, Becker, Grayson
NO VOTE RECORDED: Alvarado-Gil

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26
AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 73-0, 1/26/26 - See last page for vote

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

SOURCE: California Preservation Foundation

DIGEST: This bill maintains the state's modified conformity to the federal Historic Tax Credit (HTC) by reauthorizing the HTC program for tax years 2027-2030.

ANALYSIS:

Existing federal law authorizes the HTC for federal income tax purposes pursuant to Internal Revenue Code 47, which allows taxpayers to claim the credit equals 20% of qualified rehabilitation expenditures (QRE) for the rehabilitation expenses of older and historic buildings.

Existing state law:

1) Allows various income tax credits and deductions, as well as sales and use tax exemptions.

2) Limits the total of all business credits, including credit carry forwards, to $5 million or 50% of liability, whichever is greater, commencing in the 2024 taxable year and ending before the 2030 taxable year, after which limits credits to $5 million or 75% of liability, whichever is greater, with some exceptions (SB 167, Committee on Budget & Fiscal Review, Chapter 34, Statutes of 2024 and SB 122, Committee on Budget & Fiscal Review, Chapter 23, Statutes of 2026). 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.

3) Enacts a stand-alone state HTC program, which conforms, with modifications, to the federal HTC, authorizing taxpayers under the Personal Income and Corporation Taxes a credit for qualified costs paid or incurred by a taxpayer when rehabilitating a certified historic structure (SB 451, Atkins, Chapter 703, Statutes of 2019).

4) Provides that the state HTC is available for taxable years 2021 through 2026 and remains in effect even if Congress repeals the federal credit.

5) Defines a certified historic structure as a structure in this state that is listed on the California Register of Historical Resources.

6) Provides that the state HTC is equal to 20% of the QREs.

7) Authorizes a 5% credit uplift if the case of a certified historic structure is:

   a) Located on federal, state, or local surplus property;

   b) Includes affordable housing for lower-income households;

   c) Located in a designated census tract;

   d) Part of a military base reuse authority; or

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

8) Authorizes the credit for QREs related to a taxpayer's qualified principal residence if:

   a) The expenses rehabilitate the historic character and integrity of the residence;

   b) The taxpayer has an adjusted gross income of less than $200,000; and

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

9) Allows the taxpayer to carry forward the tax credit for up to eight years.

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

11) Limits the credit by establishing an annual aggregate credit cap by:

   a) 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.

   b) Limiting the aggregate annual credit allocation authority to $50 million, with any unallocated credits carried forward to subsequent years.

   c) Requiring TCAC to set aside $10 million in credits each year to allocate as follows:

      i) $8 million for taxpayers with QREs of less than $1 million for any certified historic building that is not a qualified residence.

      ii) $2 million for taxpayers with QREs for a qualified residence.

12) 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:

   a) TCAC to award credit allocations on a first-come, first-served basis.

   b) 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:

i) The number of jobs created by the rehabilitation project;

ii) The expected increase in state and local tax revenues from the rehabilitation;

iii) Any contributions for rehabilitation from federal, state, or local governments; and

iv) Findings of a public benefit in the case of a rehabilitated qualified residence.

c) OHP to establish a process to approve or reject all tax credit applications.

d) TCAC to provide the Franchise Tax Board (FTB) with a list of taxpayers allocated credit.

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

13) Authorized TCAC, through the Budget Act of 2021, to allocate up to $50 million for calendar year 2022 in state HTCs (AB 128, Ting, Chapter 21, Statutes of 2021).

14) Repeals the state HTC on December 1, 2027.

This bill:

1) Maintains the state's existing modified conformity to the federal HTC by reauthorizing the HTC program for tax years 2027 to 2031.

2) Modifies the existing state HTCs by repealing the current HTC statutes and enacting substantively identical statutes with the following changes:

a) Establishing a $5 million maximum credit amount per taxpayer.

b) Eliminating the "qualified residence" credit eligibility.

c) Eliminating the 5% credit uplifts.

d) Eliminating the $50 million annual aggregate credit allocation cap and instead allowing the aggregate allocation cap to be established by the Legislature pursuant to a Budget Act.

e) Specifies that for purposes of allocating credits, instead of a first-come-first-served approach, applicants shall be ranked based on a scoring system that considers the QREs 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:

   i) The qualified rehabilitation costs of the applicant.

   ii) The number of housing units created, preserved, or rehabilitated by the proposed rehabilitation multiplied by $600,000.

f) Directs OHP to allocate, to the extent feasible, 40% of credits to northern California, 40% to southern California, and 20% to central California.

g) Directs OHP to accept applications beginning on August 1, 2027.

h) Directs OHP to reserve 20% of credits available for applicants with qualified rehabilitation costs of less than $2.5 million.

i) 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.

3) Defines several terms and makes other technical and conforming changes

Background

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. 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, California has 12 historic districts designated, and the California Register has approximately 4,300 identified historical resources.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- 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.

- 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.

SUPPORT: (Verified 8/14/26)

California Preservation Foundation (Source)
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 Big City Mayors Coalition
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 Organization
Save Our Sausalito
Structural Engineers Association of California
West Adams Heritage Association

OPPOSITION: (Verified 8/14/26)

California Teachers Association

ARGUMENTS IN SUPPORT: 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."

ARGUMENTS IN OPPOSITION: According to the California Teachers Association, "While we understand this bill is 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."

ASSEMBLY FLOOR: 73-0, 1/26/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Rivas
NO VOTE RECORDED: Arambula, Flora, Muratsuchi, Papan, Celeste Rodriguez, Ta, Zbur

Prepared by: Haley Summers / REV. & TAX. / (916) 651-4117
8/15/26 12:32:05

****** END ******