

Date of Hearing: April 27, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 1675 (Lee) – As Amended March 23, 2026

SUSPENSE

2/3 vote. Tax levy. Fiscal committee.

SUBJECT: Corporation Tax Law: tax expenditures: No Tax Breaks for ICE Contractors Act of 2026

SUMMARY: Enacts the No Tax Breaks for ICE Contractors Act of 2026. Specifically, **this bill:**

- 1) Makes a "contracting corporation" ineligible, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, for any "tax expenditure" under the Corporation Tax (CT) Law that is subject to reporting in the Department of Finance's annual tax expenditure report.
- 2) Defines the following terms:
 - a) "Contracting corporation" means any taxpayer that contracts with the Department of Homeland Security, either directly or through subcontracts, to provide goods or services.
 - b) "Department of Homeland Security" refers to the United States Department of Homeland Security and the following agencies that are an operational or support component of the department:
 - i) United States Customs and Border Protection;
 - ii) United States Immigration and Customs Enforcement; and,
 - iii) Management Directorate.
 - c) "Tax expenditure" means a credit, deduction, exclusion, exemption, or other tax benefit provided under the CT Law.
- 3) Requires, no later than June 1, 2027, the Franchise Tax Board (FTB), in consultation with the Department of Finance, to estimate the amount of revenue that would have resulted if the modifications made with respect to the calculation of taxable income by this bill had applied to taxable years beginning on or after January 1, 2026, and before January 1, 2027, and notify the State Controller of that amount.
- 4) Requires, no later than June 1, 2028, and annually thereafter, the FTB in consultation with the Department of Finance, to estimate the amount of additional revenue resulting from the modifications made with respect to the calculation of taxable income by this bill for the

taxable years beginning on or after January 1 of the calendar year immediately preceding the year in which the estimate is made and before January 1 of the calendar year in which the estimate is made and notify the State Controller of that amount.

- 5) Creates the California Immigrant Resilience Fund in the State Treasury and provides that, upon notification from the FTB, the State Controller shall transfer an amount as described above from the General Fund (GF) to the California Immigrant Resilience Fund to be made available, upon appropriation by the Legislature, for grants or contracts, and state operations to provide immigration-related services, including removal defense, as specified.
- 6) Repeals these provisions on December 1, 2032.
- 7) Takes immediate effect as a tax levy.

EXISTING LAW:

- 1) Prohibits any local government agency from entering into or renewing a contract with the federal government or a private corporation to house or detain noncitizens in a detention facility for purposes of civil immigration custody. (Civil Code Section 1670.9.)
- 2) Allows various tax credits under the PIT Law and CT Law. These credits are generally designed to provide tax relief for taxpayers that incur certain expenses (e.g., motion picture production costs) or to influence behavior, including business practices and decisions (e.g., research credits or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake. (R&TC Sections 17041 *et seq.* and 23608 *et seq.*)
- 3) Generally allows for a credit generated by any member of a combined group to be assigned and used by another member of a combined group. The election to assign the credit is irrevocable and cannot be modified once an election is made. (R&TC Section 23663.)
- 4) Requires the Department of Finance to provide an annual report to the Legislature on tax expenditures by no later than November 1 of each year, including, but not limited to, the following information:
 - a) A comprehensive list of tax expenditures exceeding \$5,000,000 in annual cost;
 - b) The statutory authority for each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law;
 - c) A description of the legislative intent for each tax expenditure, if the act adding or amending the expenditure contains legislative findings and declarations of that intent, or that legislative intent is otherwise expressed or specified by that act;
 - d) The sunset date of each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law, if applicable;
 - e) A brief description of the beneficiaries of the credit, deduction, exclusion, exemption, or other tax benefit as provided by state law;

- f) For corporation tax and sales and use tax expenditures, the number of returns filed or business entities affected, as applicable, for the most recent tax year for which full year data is available;
- g) A listing of any comparable federal tax benefit, if any; and,
- h) A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last report made under this section. (Government Code Section 13305.)

FISCAL EFFECT: According to the FTB: "To determine the magnitude of the potential revenue impact of this bill, the number of taxpayers no longer eligible to claim tax expenditures and the amount of tax expenditures that would no longer be claimed must be known. Because it is difficult to predict these values, the revenue impact of this bill is unknown." Committee staff estimate that the revenue increases resulting from disallowed tax expenditures pursuant to this bill exceed this Committee's Suspense File threshold.

COMMENTS:

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

ICE is executing Americans, abducting toddlers, and violently breaking into homes and cars to drag innocent people into their unmarked vehicles. More kidnappings mean more profits for ICE contractors. By doing business with armed and masked thugs acting with impunity, corporations are raking in multi-million deals and tearing families apart. ICE must be abolished and its rogue elements prosecuted. The No Tax Breaks for ICE Contractors Act ensures that California does not subsidize corporations that profit off of ICE's terror campaign, and instead directs public investments to our communities.

- 2) This bill is supported by the California Community Foundation, which notes, in part:

Since 2015, CCF has invested more than \$40 million in immigrant-serving nonprofits advancing social, civic, and economic inclusion. However, the continued erosion of safety and stability for immigrant communities forces individuals and families to live in fear, undermining their ability to fully participate in the economy, engage in civic life, and support their families' well-being.

CCF does not support directing public resources to entities whose business practices contribute to or sustain fear, harm, and instability in immigrant communities. We remain committed to advancing policies and investments that protect and strengthen the well-being of immigrant communities, particularly as new challenges emerge.

AB 1675 would ensure that California's tax policy does not subsidize or incentivize business practices that contribute to harm in our communities. It establishes a clear and values-driven standard where public resources should not support or reward systems that undermine the safety, stability, and dignity of our immigrant communities.

Additionally, the California Immigrant Resilience Fund would reinvest funding to expand access to legal representation, removal defense, and other critical services that help

ensure fairness and due process—especially at a time when demand for these supports continues to grow.

- 3) This bill is opposed by a coalition of business advocates led by the California Chamber of Commerce. The coalition makes efforts to clarify that they do not assume their position in order to support the actions of the federal government: "To the contrary, we oppose the economic disruption caused by recent federal immigration activities and have long supported the creation of a pathway to citizenship for undocumented workers..."

Further, the coalition notes, in part:

AB 1675 is not limited to companies with any direct contact with immigration detention facilities. Any businesses who has a contract (recent, or signed during a prior administration) to provide any services or supplies to any element of DHS and its named agencies, regardless of whether there is a connection to an immigration detention facility, will face the punishment of AB 1675.

For context: it is worth noting that DHS performs many critical, non-controversial duties – including but not limited to:

- Overseeing the Federal Emergency Management Agency (FEMA) and its life-saving, post-disaster response.
- Protecting the United States' cyber infrastructure via the Cybersecurity and Infrastructure Agency.
- Overseeing the US Coast Guard, which patrols US waterways.

In that context, a few examples of covered products help illustrate the scope of AB 1675:

- A contract to provide blankets to FEMA would seem to qualify as a contract with DHS, and therefore trigger a loss of any California tax benefits.
- A contract to provide information technology (IT) support to the Cybersecurity and Infrastructure Agency would be a contract with DHS, and therefore trigger a loss of any California tax benefits.
- A contract to repair a US Coast Guard vessel (which is under DHS in peacetime) would be a contract with DHS, and therefore trigger a loss of any California tax benefits.

With this overbreadth in mind, we see AB 1675 potentially erasing the essential tax benefits that help keep companies operating in California, despite the higher cost of living and amenities.

4) Committee Staff Comments:

- a) *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.

- b) *Getting into the weeds*: Despite falling into the same general category, there are important differences between tax credits, deductions, exclusions, and elections. Briefly, a credit reduces, dollar-for-dollar, the amount of tax owed; it is 'credited' against one's tax bill. A deduction or exclusion, on the other hand, allows a taxpayer to reduce the amount of income that is subject to tax. For personal income taxes, most taxpayers take the standard deduction and perhaps an "above-the-line" deduction if they made qualifying contributions to a retirement account or made qualifying student loan interest payments. For corporate income taxes, however, deductions are far more common and complicated. Necessary and ordinary business expenses, for example, are deductible under Internal Revenue Code (IRC) Section 162 and California R&TC Section 24343. Disallowing common deductions for corporations would raise significant administrative complexities for both the FTB and taxpayers.
- c) *Prior attempts to ban private prisons*: Since Donald Trump first took office in 2017, the Legislature has responded to both Trump Administrations' aggressive immigration tactics by enacting bills that prohibit state and local governments from contracting for immigration detention centers, require the Attorney General to develop and disseminate guidance for state and local agencies in their interactions with immigration enforcement agents, and require schools and daycares to restrict federal agents' access to their campuses, among numerous other efforts.

While some of California's legislation in response to the Trump Administration's immigration enforcement has withstood legal scrutiny, the state has not always been successful. In 2019, the Legislature enacted AB 32 (Bonta), Chapter 739, Statutes of 2019, which prohibited privately owned detention facilities from operating in the state. Although the language captured *any* private detention facility, including private prisons, it functionally undermined the ability of the federal government to detain and house immigrants in California due to its outsized reliance on private detention facilities. The Trump Administration challenged the new statute and after a series of hearings and appeals, the state requested an en banc review of the case before the Ninth Circuit. In that review, the court held that the statute likely violated the Supremacy Clause of the United States Constitution. *Geo Group, Inc. v. Newsom*, 50 F.4th 745 (2022).

The Ninth Circuit acknowledged a distinction between federal contractors and federal instrumentalities, and that the measure potentially imposed a restriction on federal contractors. Whether AB 32 dictated the actions of the federal government then came down to whether the challenged statute interfered with or controlled the operations of the federal government by deciding who got federal work. The Ninth Circuit ultimately determined that "AB 32 would give California the power to control ICE's immigration

detention operations in the state by preventing ICE from hiring the personnel of its choice. [...] To comply with California law, ICE would have to cease its ongoing immigration detention operations in California and adopt an entirely new approach in the state." *Id.* at 757-58. Under the court's logic, by banning private detention centers in California, the state was functionally controlling who the federal government could contract with to carry out immigration detention operations.

The Ninth Circuit further held that AB 32 also violated the Supremacy Clause's doctrine of intergovernmental immunity by discriminating against the federal government via its contractors. In making this determination, the court reasoned that although AB 32's prohibitions applied to all private detention facilities, including those traditionally under the jurisdiction of the state to manage, in effect the statute heavily impacted federal immigration facilities that were not under the state's traditional control. The court reasoned that "Congress sought to delegate to the DHS Secretary the responsibility to 'arrange for appropriate places of detention[,] [and] AB 32 frustrates that congressional intent [...] [...] Such interference with the discretion that federal law delegates to federal officials goes to the heart of obstacle preemption." *Id.* at 762.

In sum, the Ninth Circuit held that AB 32 both improperly dictated who the federal government could contract with in order to carry out its obligations and frustrated the ability of their proxies to function in the state so as to create an obstacle for the federal government to engage in immigration detention. Therefore, California's attempt to ban private detention facilities in the state amounted to unconstitutional control of the federal government and discrimination against those who contract with the federal government by the state in violation of the Supremacy Clause.

- d) *Doctrine of intergovernmental immunity*: The Supremacy Clause of the Constitution has also been interpreted to impose limits on the extent to which the state and federal governments can encroach on each other's sovereignty. Since 1819, the Supreme Court has held that states cannot directly tax the federal government or its instrumentalities. *McCulloch v. Maryland*, 17 U.S. 316 (1819). The Supreme Court has further interpreted the Supremacy Clause to, in part, prohibit the states from "interfering with or controlling the operations of the Federal Government" but a law that indirectly imposes a cost on the federal government may be constitutional "so long as the law imposes those costs in a neutral, nondiscriminatory way." *United States v. Washington*, 596 U.S. 832, 838-39 (2022). While otherwise generally applicable sales and property taxes paid by federal government contractors have survived judicial review, disallowing the use of certain tax benefits based on a corporation's contracts with the federal government, as proposed by this bill, may be challenged as discriminatory and, thus, unconstitutional.
- e) *Implementation considerations*: The FTB has identified a number of considerations, including, but not limited to:
 - i) *All expenditures?* As currently drafted, the definition of tax expenditure in this bill refers to those provided under Part 11 of the R&TC. However, this bill also references tax expenditures reported pursuant to Government Code Section 13305, which requires the Department of Finance to annually report only those tax expenditures that exceed \$5 million in annual costs. Additionally, because data for this list is reported after the close of the taxable year, it is not clear which list should

match to which taxable year for purposes of disallowing a tax expenditure.

- ii) *Administrative details:* As currently drafted, this bill lacks the administrative details necessary to implement its provisions and to determine the impact to the FTB's systems, processes, and forms. For example, when an entity is determined to be a "contracting corporation," would each taxable year stand on its own? If the company was no longer a "contracting corporation," could they then be eligible for all tax expenditures?

f) *Related legislation:*

- i) AB 1633 (Haney) would enact the Private Detention Facility Tax Law, which would impose, beginning January 1, 2027, an annual tax upon all private detention facility operators equal to 50% of the operator's gross receipts derived from the operation of each private detention facility in California. AB 1633 is currently pending hearing by this Committee.
- ii) AB 2465 (Ortega) would enact the No Taxpayer Dollars for Family Separation Act, which would make ineligible for any tax credit under the Personal Income Tax (PIT) Law or CT Law any business entity that is directly invested in, owns, manages, or profits from a private detention facility or contracts with a private detention facility or agency engaging in immigration enforcement for the purpose of aiding in or furthering immigration enforcement. AB 2465 was referred to the Assembly Committee on Judiciary, which passed the bill on April 14, 2026, by a vote of 9 to 3. AB 2645 will be heard by this Committee today.

REGISTERED SUPPORT / OPPOSITION:

Support

California Community Foundation
Los Angeles County Democratic Party
Santa Monica Democratic Club

Opposition

American Petroleum and Convenience Store Association
Associated General Contractors, California
Associated General Contractors-San Diego Chapter
CalBroadband
California Association of Sheet Metal & Air Conditioning Contractors National Association
California Chamber of Commerce
California Taxpayers Association
California Trucking Association
Construction Employers' Association

Analysis Prepared by: Wesley Whitaker / REV. & TAX. / (916) 319-2098