

ASSEMBLY THIRD READING

AB 1675 (Lee, et al.)

As Amended April 29, 2026

2/3 vote. Tax Levy

SUMMARY

Enacts the No Tax Breaks for ICE Contractors Act of 2026, which denies, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, all tax credits otherwise available under the Corporation Tax (CT) Law to a taxpayer that contracts with the U.S. Department of Homeland Security (DHS).

Major Provisions

- 1) Defines "contracting corporation" as any taxpayer that contracts with DHS, either directly or through subcontracts, to provide goods or services.
- 2) Defines DHS to also refer to the following agencies that are an operational or support component of the department: (a) U.S. Customs and Border Protection, (b) U.S. Immigration and Customs Enforcement (ICE), and (c) Management Directorate.
- 3) Establishes the California Immigrant Resilience Fund (Fund) in the State Treasury.
- 4) Requires the Franchise Tax Board (FTB), in consultation with the Department of Finance (DOF), to annually estimate the amount of additional revenue resulting from the denial of tax credits, notify the State Controller (SCO) of the amount, and require the SCO to transfer the amount to the Fund, with money in the Fund available, upon appropriation, for grants, contracts, and state operations with certain organizations to provide immigration-related services, including removal defense.

COMMENTS

- 1) *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 California. 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 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 California 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.

- 2) *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.

According to the Author

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.

Arguments in Support

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.

Arguments in Opposition

This bill is opposed by a coalition of business advocates led by the California Chamber of Commerce, which 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:

- 1) Overseeing the Federal Emergency Management Agency (FEMA) and its life-saving, post-disaster response.
- 2) Protecting the United States' cyber infrastructure via the Cybersecurity and Infrastructure Agency.
- 3) 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:

- 1) 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.
- 2) 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.
- 3) 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.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations:

- 1) Potential CT revenue gain of an unknown amount, potentially in the tens of millions of dollars or more, approximately equal to the amount of tax credits claimed by a taxpayer that would become ineligible for credits under this bill (General Fund (GF)). The FTB notes that to determine the magnitude of the potential revenue impact, the number of taxpayers no longer eligible to claim a CT credit and the value of such credits must be known, which are difficult to predict. Additionally, certain application-based tax credit programs may subsequently allocate a credit that would have gone to a disallowed taxpayer to a non-disallowed taxpayer, offsetting the amount of revenue gain.

By increasing CT revenue, this bill also likely increases Proposition 98 GF spending by approximately 40% of the revenue gain (the exact amount depends on the operative test of the annual Proposition 98 guarantee), despite requiring revenues be subsequently transferred to the Fund.

- 2) Costs of an unknown, but potentially significant amount, in excess of \$150,000, to the FTB to administer the credit disallowance and estimate the revenue impact with DOF (General Fund).
- 3) Likely absorbable costs to DOF to estimate the revenue impact with the FTB and to the SCO to transfer revenues to the Fund.
- 4) Potential GF cost pressures to provide grants and contracts to certain organizations to fund immigration-related services, to the extent sufficient revenues are not deposited into the Fund to support such services.

The Legislative Analyst's Office recently warned of General Fund structural deficits of around \$35 billion per year beginning in the 2027-28 fiscal year.

VOTES

ASM REVENUE AND TAXATION: 5-2-0

YES: Gipson, Carrillo, McKinnor, Quirk-Silva, Michelle Rodriguez

NO: Sanchez, DeMaio

ASM APPROPRIATIONS: 11-4-0

YES: Wicks, Aguiar-Curry, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache

NO: Hoover, Dixon, Ta, Tangipa

UPDATED

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