
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

Bill No: AB 2465

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Consultant: Grinnell

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Tax Levy: No

Fiscal: Yes

STATE GOVERNMENT: BENEFITS

Makes a business entity ineligible for any credit under the Personal Income or Corporation Taxes if it 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.

Background

Businesses can be organized in many different forms by filing specified documents with the Secretary of State. Once formed, for-profit businesses incur state income tax obligations. How California taxes a business depends largely on the entity's form. Specifically:

- Businesses formed as C-corporations are subject to California's Corporation Tax, and generally taxed on their net income or profit at the entity level. A corporation's owners or shareholders also incur a tax liability on their personal income tax returns when the corporation pays a dividend, or when they generate a capital gain from the sale of stock.
- Other business types are taxed as pass-through entities, where income tax is usually not applied at the entity level, but rather the income of the business is "passed through" to owners who report the income from the business on their personal income tax returns and are subject to the Personal Income Tax. Pass-through entities (PTEs) include S-corporations, Limited Liability Companies (LLCs), partnerships, and disregarded-entity pass-throughs (single-owner entities) such as sole proprietorships, single-member LLCs, and qualified Subchapter S subsidiaries. However, in some cases, these entities may elect to be taxed as corporations. California also imposes entity-level taxes on most PTEs under the Personal Income Tax.

Corporation Tax. While some states apply taxes on a business's gross receipts, California taxes net apportioned *business* income and allocated net *nonbusiness* income of corporations doing business in California at a rate of 8.84%, or imposes the \$800 minimum tax, whichever is greater. California applies the combined report method for corporate taxation. This method requires a corporation computing its California tax liability to include the tax returns of each of its unitary subsidiaries and affiliates into one report. The combined report method generally allows for the cancellation of any intercompany transactions, such as dividends paid from a subsidiary to its corporate parent. However, taxpaying corporations can elect to exclude the income and expenses of its foreign subsidiaries from its combined report, called the "water's edge" election, with some exceptions.

Tax expenditures. California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts such 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 credit. The Department of Finance (DOF) is required to annually publish a list of tax expenditures, which currently total around \$94.2 billion per year.¹

Tax credits. Among its tax expenditures, California currently offers several credits against Personal Income and Corporation Taxes to create incentives for certain behavior, including:

- The California Competes Tax Credit
- California Motion Picture and Television Production Tax Credit, including the Soundstage Filming Tax Credit
- Cannabis Equity Credit
- College Access Tax Credit
- Disabled Access for Eligible Small Business
- Donated Fresh Fruits and Vegetables
- High-Road Cannabis Employer
- Homeless Hiring Credit
- Low-Income Housing Tax Credit
- Natural Heritage Preservation
- New Advanced Strategic Aircraft
- New Employment Credit
- Prior Year Alternative Minimum Tax Credit
- Prison Inmate Labor
- Research and Development
- State Historic Preservation Credit

Credit Limitation. In 2024, the Legislature limited the total of all business credits, with some exceptions, including credit carry forwards, to \$5 million 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.

Immigration Enforcement. Beginning in January 2025, Immigration and Customs Enforcement (ICE) launched an interior enforcement campaign with no parallel in recent history in both its scale and its tactics. According to the Brookings Institution, federal immigration policy previously worked through the criminal justice system and remained largely out of public view, and a person generally had to be arrested for something unrelated to their immigration

¹ <https://dof.ca.gov/media/docs/forecasting/revenue-and-taxation/tax-expenditure-reports/2025-26-Tax-Expenditure-Report.pdf>

status before ICE decided whether to begin removal proceedings.² Agents conducted worksite raids, entered private homes, and made arrests outside schools, churches, and hospitals. Of the 115,000 arrests ICE made in the first half of 2025, 55,000 were at large, meaning they took place in the community, rather than in jails or detention facilities. Videos of these encounters spread widely on social media, and news coverage was extensive and sustained.

The Brookings reports adds:

The consequences of arrest are serious and well-publicized. Detainees report overcrowded, freezing conditions. At least 46 people died in detention. ICE transferred individuals to a maximum-security prison in El Salvador and sent others to South Sudan. Family members have been unable to locate detained relatives. Though unauthorized immigrants were most at risk, legal status offered unreliable protection. ICE deported Kilmar Ábrego García despite a standing court order barring his removal, a case that drew national attention but was not isolated. Additionally, current policy creates a “chilling effect”, whereby immigrant households, including those with legal status, withdrew from public life out of fear of interacting with government officials.

Private prisons. The federal government contracts with private detention facilities throughout the country to house immigration detainees and federal criminal pretrial detainees. On May 15, 2026, Attorney General Rob Bonta released the Department of Justice (DOJ)’s fifth report on immigration detention facilities operating in California, where noncitizens are detained by Immigration and Customs Enforcement, pursuant to a requirement enacted by the Legislature (AB 103, Committee on Budget, 2017).

The report found that conditions in these facilities had largely worsened as the Trump Administration’s mass deportation campaign led to overcrowding and strained resources, especially impacting access to medical care and conditions of confinement. Tragically, there were six deaths of detainees between September 2025 and March 2026 — the highest number since the DOJ started conducting reviews in 2017. These deaths, coupled with DOJ’s findings of substandard conditions that fail to meet ICE’s own detention standards, raise serious concerns about these facilities’ ability to safely detain a growing detainee population and underscore the need for greater accountability and oversight.

According to USA Spending, the federal government has paid out \$604.9 million in contracts related to the operation of 12 California-based private detention facilities, operated by CoreCivic (five), GEO Group (six), and Management and Training Corporation (one). From 2023 to 2024, outlays rose from \$116.0 million to \$321.2 million, and in 2025, they increased further to \$388.3 million. According to IBISWorld, revenue for California’s private detention facilities is projected to reach \$600 million in the 2027-28 fiscal year, followed by a 2% decline in subsequent years.

AB 32 (Bonta, 2019) prohibited California Department of Corrections and Rehabilitation (CDCR) from entering into, or renewing, contracts with private for-profit prisons after January 1, 2020, and eliminates their use by January 1, 2028. AB 32 also prohibits the operation of a

² Marcela Escobari, Ian Seyel, and Paul Beach. “Shock, awe, and economic fallout: The employment effects of ICE enforcement in US cities.” *Brookings*. May 29, 2026. <https://www.brookings.edu/articles/ice-enforcement-employment-effects-us-cities/>

private detention facility (including those housing immigration detainees) within the state, with some exceptions. However, the federal government challenged AB 32, and the United States Court of Appeals for the Ninth Circuit held that the statute violated the Supremacy Clause of the United States Constitution (*Geo Group, Inc. v. Newsom*, 50 F.4th 745 (2022)).

Seeking to eliminate tax subsidies from companies who have increasingly profited from mass deportation and immigration detention, the author wants to make companies contracting with the Department of Homeland Security ineligible for state tax credits.

Proposed Law

Assembly Bill 2465 makes a taxpayer ineligible for any credit under the Personal Income or Corporation Taxes for a taxable year in which the entity:

- Is directly invested in, owns, or manages a private detention facility, or
- Contracts with a private detention facility or agency engaging in immigration enforcement.

Except for:

- Tax credits received by any direct or indirect partner or member of a nonprofit sponsored venture to which a taxpayer has made a direct or indirect loan, capital contribution, or Low-Income Housing Tax Credit directly or indirectly purchased from a nonprofit housing sponsor.
- A provider of health care, defined by reference to the Civil Code, that contracts with a private detention facility or agency engaging in immigration enforcement for the purposes of providing health care services for injured or ill individuals detained by, or whose care is the financial responsibility of, an agency engaging in immigration enforcement.

The measure also does not apply to the credit against tax for amounts withheld by employers, or for PTEs filing a group return as agent for electing nonresident partners or shareholders. The measure extends a credit carryforward for credits affected by its provisions, but only for the first year.

The Franchise Tax Board (FTB) must require a taxpayer to declare whether they are an entity ineligible to claim credits for that taxable year in a form and manner it prescribes. The bill provides that the Administrative Procedures Act does not apply to any standard, criterion, procedure, determination, rule, notice, guideline, or any other guidance it establishes or issues.

On or before July 1, 2029, and on or before July 1 annually thereafter, FTB must estimate additional amounts of tax collected due to the bill, for the taxable year that is two years prior and report that estimate to the Controller, who must then transfer an amount equal to that estimate from the General Fund to the Due Process for All Fund, which the bill creates in the State Treasury. The Legislature can appropriate moneys in the fund for purposes of immigration-related services and programs within the state. However, appropriations cannot be used to justify reducing, eliminating, or failing to increase other appropriations for immigration-related services and programs, nor to supplant existing state funds for immigration-related services and programs.

The measure states that a taxpayer meeting the criteria for its tax credit ineligibility is also ineligible for a state-provided grant or loan, and directs any state agency that administers a program to provide, or that otherwise provides, a grant or loan to screen applicants or otherwise eligible recipients to determine whether they are ineligible.

The measure defines several terms by reference to the Government and Health and Safety Codes, and contains stand-alone definitions for the following terms:

- “Agency engaging in immigration enforcement” means any out-of-state agency or federal agency that engages in arresting, detaining, transporting, or deporting individuals pursuant to federal immigration law.
- “Invests in” means an entity that owns at least 5% of a private detention facility or private detention facility operator.
- “Manages” means an entity that the owner contracts with to control the daily operations of a private detention facility or private detention facility operator.
- “Owns” means an entity that owns at least 5% of a private detention facility or private detention facility operator or that owns or leases the building or land on which a private detention facility operates.

State Revenue Impact

According to FTB, “To determine the magnitude of the potential revenue impact of this bill, the number of business entities no longer eligible for tax credits and the amount of tax credits that would no longer be available to those businesses must be known. Because it is difficult to predict the number of affected business entities that would be ineligible for any tax credits and the amount of disallowed tax credits, the revenue impact of this bill is unknown. However, it is assumed that for every \$1 million in tax credits claimed by qualified taxpayers who would become ineligible under this bill, the estimated revenue gain would be \$1 million.”

Comments

1. **Purpose of the bill.** According to the author, “In California, we believe in welcoming immigrants and valuing all who come to contribute to our communities. As federal immigration authorities continue to terrorize our communities, violate the rights of Californians, and tear apart families, our state must not allow taxpayer funds to subsidize this unlawful, militarized, and racist federal policy. AB 2465 will bar any business that holds contracts with agencies that conduct immigration enforcement, or which owns or directly invests in private detention facilities, from receiving any tax credits, grants, or loans from the State of California. With these savings, the bill will establish the Due Process for All Fund to support immigrant services and programs.”

2. **Precedents.** The Legislature has enacted several tax incentives over the years to encourage taxpayers to do something they would otherwise not do, but for the tax credit. While the Legislature has limited the utilization of tax credits for all taxpayers to generate revenue (and may do so again soon), and denied business expense deductions for clubs that restrict membership or the use of its services or facilities on the basis of ancestry, it hasn’t limited a taxpayer’s ability to claim credits because it disfavors its otherwise lawful business activities. Additionally, proceeds of the state’s general taxes – Personal Income, Corporation, and Sales and Use – flow to the General Fund, from which the Legislature appropriates them in the Budget Act.

AB 2465 would instead allocate its revenues outside the Budget Act to the Due Process for All Fund, only allowing the Legislature to then appropriate those funds for purposes of immigration-related services and programs within the state. The Legislature can appropriate any funds it wishes for those purposes by appropriation or the Budget Act. Lastly, the measure also isn't clear whether additional revenues are subject to Proposition 98's K-14 educational guarantee or whether Proposition 2's Budget reserve must be satisfied before the Controller transfers moneys from the General Fund to the Due Process for All Fund.

3. Proportionality. AB 1675 applies to a taxpayer who contracts with the Department of Homeland Security, either directly or through subcontracts, to provide goods or services. Its credit limitation applies regardless of the number or duration of the contracts, or the type of goods or services contracted for. As a result, firms that provide goods and services that directly support mass deportation are treated in the same way as a company that provides products and services necessary to facility operation, like food service or janitorial supplies.

4. Self-reporting. AB 1675 would have each of the state's 17 million Personal Income Tax and 1.1 million annual Corporation Tax filers answer a question on the return whether they meet the criteria set by the bill, making them ineligible to claim a tax credit. If they answer "No", they can claim a credit, but if they answer "Yes," FTB must deny any claimed credit. As a result, the bill's effectiveness will largely depend on truthful voluntary self-reporting and auditing efforts. While taxpayers are subject to a penalty of perjury when filing a return, criminal convictions are rare. If FTB were to go beyond the taxpayer's answer for the question on the return, an audit would require inspecting a company's contracts to determine whether the entities they contract with met the criteria in the bill, or examining its treasury functions and investment portfolio to do the same, which would differ from FTB's current audit process that mainly seeks to verify that the amount of tax paid is accurate.

5. Loophole. Large companies can have thousands, if not tens of thousands, of subsidiaries and affiliates. Two or more corporations conducting a unitary business within and outside of California must use the combined reporting approach to determine California source income. However, AB 2465 applies to individual corporate taxpayers, not combined groups. As a result, a corporation taxpayer with tax credits that would be ineligible to claim them because it is invested in or contracts with an entity defined in AB 2465 could simply assign them to another company within its combined group using current law (AB 1452, Committee on Budget, 2008). The taxpayer receiving the credit could simply claim the credit assigned to it to reduce its tax, therefore leaving the combined group no worse off as a result of the bill.

6. Scope. AB 2465 applies to "any out-of-state agency or federal agency that engages in arresting, detaining, transporting, or deporting individuals pursuant to federal immigration law." The current federal government's immigration enforcement policy extends to more agencies than ever before. Does the bill apply to the United States Department of Justice? The Department of Treasury?

7. Not everything. AB 2465 applies solely to credits against the Corporation Tax and the Personal Income Tax. Additionally, the measure would not apply to the California Alternative Energy and Advanced Transportation Financing Authority's (CAEATFA's) sales and use tax exclusion program, which awards state and local sales and use tax exemptions to successful applicants who are manufacturers of alternative source technology used for renewable electricity generation, advanced transportation, advanced manufacturing, and that use recycled feedstock.

8. Implementation. AB 2465 would also benefit from clarity in the following aspects:

- Specifying a duration of ownership and investment in entities that make taxpayer ineligible for credits.
- Clarify whether the measure’s one-year extension of credit carryforwards as a result of the taxpayer being ineligible to claim the credit applies to every taxable year the taxpayer is ineligible.

9. Related legislation. At its June 24th hearing, the Committee will also consider:

- AB 1633 (Haney), which imposes 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 1675 (Lee) would enact the No Tax Breaks for ICE Contractors Act of 2026, which would make any corporation that provides goods or services pursuant to contracts with DHS, either directly or through subcontracts, ineligible for tax against the Corporation Tax.

10. 2/3. AB 2465 constitutes a change in state statute that would result in any taxpayer paying a higher tax, which requires a 2/3 vote by each house of the Legislature to be enacted under Section 3 of Article XIII A of the California Constitution.

11. Double-referred. The Senate Rules Committee ordered a double referral for AB 2465: first, to the Committee on Revenue & Taxation, then to the Committee on Judiciary.

Assembly Actions

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| Assembly Judiciary Committee: | 9-3 |
| Assembly Revenue & Taxation Committee: | 5-2 |
| Assembly Appropriations Committee: | 11-4 |
| Assembly Floor: | 55-20 |

Support and Opposition (6/18/26)

- Support: State Superintendent of Public Instruction Tony Thurmond (Sponsor)
 805 Undocufund
 A New PATH (Parents for Addiction Treatment & Healing)
 AAPI Force
 AAPIs for Civic Empowerment
 Access Reproductive Justice
 Alianza
 Alianza Sacramento
 Alliance for a Better Community
 American Federation of State, County and Municipal Employees (AFSCME) California
 American Federation of State, County and Municipal Employees Local 3299
 Asian Prisoner Support Committee
 Bend the Arc California
 Buen Vecino
 Building Skills Partnership

California Coalition for Women Prisoners
California Community Foundation
California Coverage Health Initiatives
California Faculty Association
California Federation of Labor Unions, AFL-CIO
California Federation of Teachers, AFL-CIO
California Healthy Nail Salon Collaborative
California Immigrant Policy Center
California Immigration Project
California Latinas for Reproductive Justice
California LGBTQ Health and Human Services Network
California Religious Action Center of Reform Judaism
California State Legislative Board of the SMART – Transportation Division
California Teachers Association
California United for a Responsible Budget
Center for Human Rights and Constitutional Law
Central American Resource Center – CARECEN – of California
Central Valley Immigrant Integration Collaborative
Communities United for Restorative Youth Justice
Community Action Board of Santa Cruz County, Inc.
Congregations Organized for Prophetic Engagement
Courage California
Democratic Socialists of America – Los Angeles
Disability Rights California
End Child Poverty in California
Esperanza Community Housing
Felony Murder Elimination Project
Friends Committee on Legislation of California
Harbor Institute for Immigrant and Economic Justice
Haywood Burns Institute
Health in Partnership
Housing California
Immigrant Defenders Law Center
Indivisible Alta-Pasadena
Indivisible CA: Statestrong
Indivisible San Francisco
Inland Coalition for Immigrant Justice
Interfaith Movement for Human Integrity
Justice2Jobs Coalition
LA Defensa
Labor Community Strategy Center
Latino Health Access
Local Progress
Majdal Arab Community Center of San Diego
Moreno Institute
New Light Wellness
ORALE: Organizing Rooted in Abolition Liberation and Empowerment
Orange County Equality Coalition
Pacifica Social Justice
PICO California

Pilipino Workers Center of Southern California
Public Counsel
Salva
San Diego Refugee Communities Coalition
Secure Justice
Service Employees International Union, California State Council
SIREN: Services Immigrant Rights and Education Network
South Asian Network
South Bay People Power
Street Level Health Project
Thai Community Development Center
The San Diego LGBT Community Center
UDW/AFSCME Local 3930
Uncommon Law
Unidos 805
Unity Council
Universidad Popular
Western Center on Law & Poverty
Working Partnerships USA
Youth Leadership Institute

Opposition: Acclamation Insurance Management Services
Allied Managed Care
American Petroleum and Convenience Store Association
Associated General Contractors - San Diego Chapter
Associated General Contractors, California
CalBroadband
California Bankers Association
California Chamber of Commerce
California Construction and Industrial Materials Association
California Taxpayers Association
California Trucking Association
California's Credit Unions
Construction Employers' Association
Flasher Barricade Association
National Electrical Contractors Association
Screen Credits, LLC
Software & Information Industry Association
TechCA
TechNet
United Contractors

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