Office of Senate Floor Analyses
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THIRD READING

Bill No: AB 2465
Author: Ortega (D) and Lee (D), et al.
Amended: 8/13/26 in Senate
Vote: 27

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

SENATE JUDICIARY COMMITTEE: 11-2, 6/30/26
AYES: Umberg, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Stern, Wahab, Weber Pierson, Wiener
NOES: Niello, Valladares

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/13/26
AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto, Dahle

ASSEMBLY FLOOR: 55-20, 5/27/26 - See last page for vote

SUBJECT: State government: benefits

SOURCE: State Superintendent of Public Instruction Tony Thurmond; California Immigrant Policy Center; PICO California.

DIGEST: This bill makes business entities with specified relationships to private prisons or immigration enforcement agencies ineligible for state-provided loans, grants, or tax credits.

ANALYSIS:

Existing law:

1) Enacts the Personal Income Tax Law, which applies to pass-through entities (PTEs) doing business in California, including S-corporations, Limited Liability

Companies, 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.

2) Enacts the Corporation Tax Law, which among other provisions, 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.

3) Applies the combined report method for corporate taxation, which requires a corporation computing its California tax liability to include the tax returns of each of its unitary subsidiaries and affiliates in one combined report.

4) Permits corporation taxpayers to assign tax credits to other taxpayers within their combined group under specified conditions.

5) Directs the Franchise Tax Board (FTB) to administer the Personal Income and Corporation Tax Laws.

6) Enacts several tax expenditures, including several credits against Personal Income and Corporation Taxes to create incentives for certain behavior, including:

   a) The California Competes Tax Credit.

   b) California Motion Picture and Television Production Tax Credit, including the Soundstage Filming Tax Credit.

   c) Cannabis Equity Credit.

   d) College Access Tax Credit.

   e) Disabled Access for Eligible Small Business.

   f) Donated Fresh Fruits and Vegetables Credit.

   g) High-Road Cannabis Employer Credit.

   h) Homeless Hiring Credit.

   i) Low-Income Housing Tax Credit.

   j) Natural Heritage Preservation Credit.

k) New Advanced Strategic Aircraft Credit.

l) New Employment Credit.

m) Prior Year Alternative Minimum Tax Credit.

n) Prison Inmate Labor Credit.

o) Research and Development Credit.

p) State Historic Preservation Credit.

7) 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.

8) Requires the Department of Justice (DOJ) to report on immigration detention facilities operating in California.

9) Prohibits the 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.

10) Defines "private detention facility" in the Government Code as "a detention facility that is operated by a private, nongovernmental, for-profit entity pursuant to a contract or agreement with a governmental entity."

11) Defines "private detention facility operator" in the Government Code, as "any private person, corporation, or business entity that operates a private detention facility."

This bill:

1) Makes ineligible for any state provided grant, loan, or tax credit, a business entity that is directly invested in, owns, operates, or manages a private detention facility or contracts with a private detention facility or agency engaging in immigration enforcement to provide covered services.

2) Provides that a "disqualified taxpayer," as defined, is ineligible to claim any credit allowed against the Personal Income or Corporation Taxes, for the taxable year, commencing in the 2027 taxable year.

3) Defines "disqualified taxpayer" as one that satisfies either of the following:

   a) Is directly invested in, owns, operates, or manages a private detention facility, defined by reference to the Government Code.

   b) Is, or is related to, a publicly traded company that contracts with a private detention facility or agency engaged in immigration enforcement, and that has a market capitalization if at least $150 billion on any day after September 30, 2026. A taxpayer is a disqualified taxpayer only for taxable years beginning with the first taxable year in which they meet this condition.

4) Provides that its state-provided loan and grant provisions, as well as its tax credit ones, do not apply to the following:

   a) 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, or capital contribution.

   b) Any Low-Income Housing Tax Credit under the Gross Premiums, Personal Income, or Corporation Taxes, that was originally issued to a nonprofit housing sponsor or nonprofit sponsored venture.

5) Provides that its tax credit provisions additionally do not apply to the credit for estimated tax or for PTEs filing a group return as the agent for electing nonresident partners or shareholders.

6) States that a taxpayer the bill makes ineligible for tax credits cannot assign them to other taxpayers in their combined report.

7) Requires any state agency that administers a program to provide a grant or loan to screen applicants to determine whether they are ineligible as a result of the bill.

8) Directs FTB to require taxpayers to declare whether they are an entity ineligible to claim credits due to the bill.

9) States that when the bill makes a disqualified taxpayer ineligible for a credit, any amount of credit or credit carryforward allowable for any taxable year may be carried forward once the taxpayer is no longer a disqualified taxpayer in that

taxable year, notwithstanding specific carry forward provisions in credit statutes.

10) Provides that the Administrative Procedures Act does not apply to any standard, criterion, notice, guideline, or any other guidance issued by FTB to implement the bill.

11) Directs FTB to estimate the amount of tax collected attributable to disqualified taxpayers being ineligible to claim credits for the taxable year that is two years prior by July 1, 2029, and each July 1 thereafter, and report the estimate to the Controller.

12) Creates the Due Process for All Fund in the State Treasury, and directs the Controller to transfer from the General Fund to the Fund an amount equal to FTB's estimate.

13) Permits the Legislature to appropriate moneys from 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.

14) Defines several terms, including, among others:

   a) "Agency engaged in immigration enforcement" to mean any out-of-state agency or federal agency that engages in arresting, detaining, transporting, or deporting individuals pursuant to federal immigration law.

   b) "Covered services" to mean detention, transportation, custody, or deportation services and includes providing software, information technology, surveillance equipment, and technology data analytics, artificial intelligence, applications, trainings for officers engaging in immigration enforcement, weapons, and digital systems or platforms used and specifically contracted to support immigration enforcement. "Covered services" does not include any service provided by a provider of health care, as defined in the Civil Code, under a contract with a private detention facility or agency engaged in immigration enforcement for the purposes of providing health care services for injured or ill individuals detained by, or whose care if the financial responsibility of, an agency engaging in immigration enforcement.

c) "Invests in" means an entity that owns at least 5% of a private detention facility or private detention facility operator. The tax credit provisions of this bill specify that the ownership refers to the ownership shares or interests, and additionally provide that "invests in" does not include holdings in a custodial, fiduciary, or similar capacity where the business entity does not have discretionary authority to select the issuer or direct the investment, including passive index-tracking strategies.

d) "Manages" and "Operates" means an entity that the owner contracts with to control the daily operations of a private detention facility or private detention facility operator.

e) "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. The tax credit provisions of this bill specify that the ownership refers to the ownership shares or interests and additionally provide that "invests in" does not include holdings in a custodial, fiduciary, or similar capacity where the business entity does have discretionary authority to select the issuer or direct the investment, including passive index-tracking strategies.

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

According to the Senate Appropriations Committee:

- This bill would prohibit specified taxpayers from claiming certain tax credits. According to the Franchise Tax Board (FTB), the number of affected taxpayers and the total amount of disallowed credits cannot be estimated. FTB assumes that each $1 million in denied tax credits would increase tax revenues by a corresponding $1 million. However, because the bill requires an equivalent amount to be transferred to the newly created Due Process for All Fund, the measure would have no net fiscal effect on the General Fund.

- FTB would incur administrative costs of $153,000 in 2026-27, and $384,000 in 2027-28, to implement the provisions of the bill (General Fund).

- This bill would result in increased workload (to screen applicants and recipients) across state agencies that administer benefit, subsidy, grant, or loan programs. The magnitude is unknown, but at a minimum, would likely reach the hundreds of thousands of dollars annually (General Fund and special funds.

SUPPORT: (Verified 8/14/26)

State Superintendent of Public Instruction Tony Thurmond (Co-Source)
California Immigrant Policy Center (Co-Source)
PICO California (Co-Source)
805 Undocufund
A New PATH (Parents for Addiction Treatment & Healing)
A New Way of Life Reentry Project
AAPI Force
AAPIs for Civic Empowerment
Access Reproductive Justice
Al Otro Lado
Alianza
Alianza Sacramento
Alliance for a Better Community
Alliance San Diego
American Federation of State, County and Municipal Employees California
American Federation of State, County and Municipal Employees Local 3299
Asian Prisoner Support Committee
Bay Resistance
Bend the Arc California
Buen Vecino
Building Skills Partnership
California Coalition for Rural Housing
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 Immigration Project
California Latinas for Reproductive Justice
California LGBTQ Health and Human Services Network
California National Organization for Women
California Native Vote Project
California Nurses Association
California Religious Action Center of Reform Judaism
California Rural Legal Assistance Foundation
California State Legislative Board of the SMART - Transportation Division
California Teachers Association

California United for a Responsible Budget
Canal Alliance
Center for Human Rights and Constitutional Law
Central American Resource Center – CARECEN – of California
Central Valley Immigrant Integration Collaborative
Church State Council
City of Alameda
City of Oakland
Communities United for Restorative Youth Justice
Community Action Board of Santa Cruz County, Inc.
Congregations Organized for Prophetic Engagement
County of San Mateo
Courage California
Democratic Socialists of America – Los Angeles
Disability Rights California
Empowering Marginalized Asian Communities
End Child Poverty in California
Ensuring Opportunity Contra Costa
Episcopal Diocese of San Joaquin
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
Healthy Contra Costa
Housing Authority of the County of Santa Barbara
Housing California
Immigrant Defenders Law Center
Immigrant Justice in Action Coalition
Immigrant Legal Defense
Immigrant Legal Resource 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
Non-Profit Housing Association of Northern California
ORALE: Organizing Rooted in Abolition Liberation and Empowerment
Orange County Equality Coalition
Orange County Justice Fund
Orange County Rapid Response Network
Pacifica Social Justice
Pilipino Workers Center of Southern California
Power CA Action
Public Counsel
Public Interest Law Project
Riverside County Democratic Party
SALVA
San Bernardino Community Service Center, Inc.
San Diego Refugee Communities Coalition
Santa Monica Democratic Club
Secure Justice
Service Employees International Union, California State Council
SIREN: Services, Immigrant Rights and Education Network
South Asian Network
South Bay People Power
Southeast Asia Resource Action Center
St. Joseph Justice Center
Street Level Health Project
Thai Community Development Center
The Kennedy Commission
The San Diego LGBT Community Center
UDW/AFSCME Local 3930
UFCW – Western States Council
Uncommon Law
Unidos 805
Unity Council
Universidad Popular
Western Center on Law & Poverty
Working Partnerships USA

Youth Leadership Institute
One Individual

OPPOSITION: (Verified 8/14/26)

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 Chamber of Commerce
California Construction and Industrial Materials Association
California Manufacturers and Technology 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 Contractor

ARGUMENTS IN SUPPORT: 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."

ARGUMENTS IN OPPOSITION: According to the California Chamber of Commerce and other business organizations, "Any company who enters into any contracts for 'covered services' (which the bill broadly defines as including 'providing software, information technology,... data analytics, artificial intelligence, applications, ... and digital systems or platforms...') then loses all tax credits that they would otherwise have been able to claim under California law. The bill also provides narrow and specific exemptions aimed at healthcare services and some housing tax credits. This summary masks the vague and yet-to-be-determined scope of these terms, which we expect will require significant litigation to resolve. In simplest terms: we read this bill as potentially punishing any company who works with an undefined list of federal agencies by revoking all state-provided subsidies, grants, loans, or any tax credits. This is a terrifyingly powerful sanction in light of how little the bill does to clearly define what conduct is 'off-limits.' AB 2465 then places the burden on companies to attest to the Franchise Tax Board whether they have offended its overbroad terms. We expect this mechanism to generate considerable disagreement and litigation, as California companies attempt their best guess at whether their particular contracts will offend AB 2465's broad language."

ASSEMBLY FLOOR: 55-20, 5/27/26
AYES: Addis, Aguiar-Curry, Ahrens, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Elhawary, Fong, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Michelle Rodriguez, Rogers, Blanca Rubio, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Ward, Wicks, Wilson, Zbur, Rivas
NOES: Alanis, Castillo, Chen, Davies, DeMaio, Dixon, Ellis, Flora, Gallagher, Jeff Gonzalez, Hadwick, Hoover, Johnson, Lackey, Macedo, Patterson, Sanchez, Ta, Tangipa, Wallis
NO VOTE RECORDED: Gabriel, Patel, Ransom, Celeste Rodriguez, Schiavo

Prepared by: Colin Grinnell / REV. & TAX. / (916) 651-4117
8/17/26 11:19:12

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