



Tax Insights
from State and Local Tax
Services

California proposal disallows credits for contractors with private detention facilities and immigration enforcement agencies

September 23, 2026

In brief

What happened?

Proposed legislation sent to California Governor Gavin Newsom (D) on September 3 would restrict grants and loans and disallow tax credits for an entity that is directly invested in, owns, operates, or manages a private detention facility or that contracts to provide "covered services" to an out-of-state or federal agency engaging in immigration enforcement including certain technologies, transportation services, and supplies. The credit disallowance would apply to tax years beginning on or after January 1, 2027, for publicly traded companies providing covered services that have a market capitalization of at least \$150 billion or entities that are related to such a publicly traded company.

[A.B. 2465, enrolled and presented to the Governor, 9/3/2026]

Why is it relevant

The credit disallowance could apply broadly, reaching many suppliers, technology providers, and security contractors. The credit disallowance could result in an entire combined group becoming ineligible for any tax credit benefit in years in which any member of a group is disqualified for providing covered services.

Actions to consider

Taxpayers should consider that they may fall within the scope of the proposal even though they provide services to agencies outside the state. Governor Newsom has until September 30 to sign the proposed legislation, veto it, or allow it to become law on October 1 without his signature. Impacted businesses should monitor for the Governor's action on the proposed legislation by the end of September.

In detail

The proposed legislation would disallow any state-provided grant, loan, or personal or corporation tax credit (and credit carryforward) to business entities in any year in which they are directly invested in (with at least 5% ownership), operate, or manage a private detention facility or contract with a private detention facility or out-of-state or federal agency engaging in immigration enforcement to provide "covered services." An "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.

Observation: The corporation tax provisions of the proposed legislation do not specifically disallow current year credits, although other provisions in the proposal suggest an intent that both corporation and personal tax credits would be disallowed for both the current year credits and for credit carryforwards.

Such covered services include:

- detention, transportation, custody, or deportation services;
- providing software, information technology, or surveillance equipment;
- providing technology, data analytics, artificial intelligence, or applications;
- training officers engaging in immigration enforcement;
- supplying weapons; or
- providing digital systems or platforms used and specifically contracted to support immigration enforcement.

"Covered services" do not include any service provided by a health care provider under a contract with a private detention facility or agency engaging in immigration enforcement for the purpose 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.

To be a "disqualified taxpayer," the taxpayer must satisfy either of the following:

- is directly invested in, owns, operates, or manages a private detention facility; or
- is a publicly traded company (or related under IRC Sections 267, 318, or 707 to a publicly traded company) that
 - contracts with a private detention facility or agency engaging in immigration enforcement to provide covered services and
 - has a market capitalization of at least \$150 billion.

Observation: The \$150 billion market capitalization requirement likely would limit the reach of the disallowance to certain large publicly traded companies, but taxpayers should be aware that combined group members also would be "disqualified taxpayers" if they are related to such a disqualified publicly traded company.

Notwithstanding the tax credit carryforward period, the amount of any credit or credit carryforward that is disallowed in any tax year may be carried over to reduce the "net tax" or "tax" in the following tax year if the taxpayer is no longer a disqualified taxpayer in that tax year.

Observation: This provision appears to only allow a disallowed credit to be used in the immediately following tax year if the taxpayer is no longer ineligible in that tax year. If the taxpayer is still ineligible, it appears that the credits and credit carryforwards disallowed in the prior year would be extinguished.

Certain credits, including the credit for estimated tax paid, would continue to be allowed.

Let's talk

To discuss the potential impact of this proposed legislation on your business, please contact:

State and Local Tax Services

Chris Whitney
+1 310-739-3146
chris.whitney@pwc.com

Jon Sperring
916-601-9707
jon.a.sperring@pwc.com

Ben Muilenburg
+1 (916) 201-1788
benjamin.r.muilenburg@pwc.com

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