

Date of Hearing: April 21, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

AB 296 (Gipson) – As Introduced January 25, 2021

Policy Committee: Revenue and Taxation Vote: 10 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill extends an existing sales and use tax (SUT) exclusion for another five years, until January 1, 2027, provided when a customer buys back their property from a pawnbroker after defaulting on a loan

FISCAL EFFECT:

Annual state and local revenue losses of approximately \$34,000. Minor absorbable administrative costs to the California Department of Tax and Fee Administration (CDTFA) to notify affected pawnbrokers, audit claims, amend regulations and answer public inquiries.

COMMENTS:

- 1) **Purpose.** According to the author, AB 296 seeks to continue to ensure that a borrower is not charged twice when recovering property seized as collateral relating to a pawnshop loan, by extending the sunset to exempt sales tax to a pledger who can prove sales tax was already paid on the item. If this sunset is not extended, when a borrower defaults and seeks to reacquire seized collateral, sales tax must be paid on the reacquired item, regardless of whether sales tax has already been paid on the initial purchase. This bill is sponsored by the California Pawnbrokers Association.
- 2) **Background.** Every pawnbroker loan for which goods are received as security must be evidenced by a written contract, and the loan contract must set forth the loan period and the date on which the loan will become due and payable. Pawnbrokers are required by law to retain every article pledged for the duration of the applicable loan period. If any pledged article is not redeemed within the designated period, the pawnbroker becomes automatically vested with title to the pledged article. The pawnbroker may then sell or dispose of the property as they wish.

Pawnbrokers are considered retailers under the SUT Law as they are in the business of making retail sales of tangible personal property (TPP). For this reason, tax applies to pawnbroker sales to the same extent as it does to sales by any other retailer of TPP in this state. When a customer seeks to repurchase the collateral, the transaction constitutes a retail sale. However, until January 1, 2022, existing law excludes such transactions from SUT if: a) the transfer occurs no more than six months after the pawnbroker obtained title to the vested property; b) the repurchase price is no more than the unpaid loan balance and

allowable charges and interest; and, c) the customer has proof that SUT was originally paid on the item.

- 3) **Prior Legislation.** AB 119 (Committee on Budget), Chapter 21, Statutes of 2017, created the SUT exclusion for repurchased collateral, as specified, until January 1, 2022.

AB 1978 (Gipson), of the 2019-20 Legislative Session, would have extended the SUT exclusion for repurchased collateral, from January 1, 2022 to January 1, 2027. The bill was held in the Assembly Revenue and Taxation Committee.

Analysis Prepared by: Irene Ho / APPR. / (916) 319-2081