

ASSEMBLY THIRD READING  
AB 2641 (Michelle Rodriguez)  
As Amended April 21, 2026  
Majority vote. Tax Levy

## SUMMARY

Extends, for five years, the exclusion for the transfer of vested property by a pawnbroker to the person who pledged it under the Sales and Use Tax (SUT) Law.

### Major Provisions

- 1) Extends the exclusion's current inoperative date to January 1, 2032.
- 2) Provides that, for purposes of complying with Revenue and Taxation Code (R&TC) Section 41, the Legislature finds and declares the following:
  - a) The specific goals, purposes, and objectives of this bill are to prevent a customer from paying double sales tax when redeeming the customer's property from a pawnbroker; and,
  - b) The performance indicators and data collection requirements to enable the Legislature to determine if the tax exclusion is meeting, failing to meet, or exceeding its specified goals, purposes, and the objectives are the California Department of Tax and Fee Administration's (CDTFA's) estimate of utilization.
- 3) Provides that, notwithstanding existing law, the state shall not reimburse any local agencies for SUT revenues lost as a result of this exclusion.
- 4) Takes immediate effect as a tax levy.

## COMMENTS

- 1) *How does the SUT Law apply to pawnbrokers?* Pawnbrokers are considered retailers under the SUT Law as they are in the business of making retail sales of tangible personal property (TPP). As such, tax generally applies to pawnbroker sales to the same extent as sales by any other retailer of TPP in California. If a customer defaults on a pawnbroker loan, the collateral becomes the pawnbroker's "vested property." After title has vested with the pawnbroker, the customer no longer has any legal right to the property. Before the enactment of AB 119 (Committee on Budget), Chapter 21, Statutes of 2017, when a customer subsequently sought to purchase their former collateral, the transaction constituted a taxable retail sale under the SUT Law.
- 2) *How we got the current exclusion:* In 2016, the State Board of Equalization, which was then charged with administering the SUT Law, sponsored legislation to address this issue. Specifically, AB 2365 (Gipson), of the 2015-16 Legislative Session, was introduced to exclude from the computation of SUT a pawnbroker's receipts derived from a transaction where a customer buys back their property after defaulting on a loan. AB 2365 passed the Legislature, with an amendment to add a five-year sunset to the exclusion. Governor Brown, however, vetoed AB 2365. In his veto message, Governor Brown noted that "[n]ew sales tax

exemptions, like new spending on programs, need to be considered comprehensively as part of the budget deliberations."

On June 27, 2017, Governor Brown signed AB 119 (Committee on Budget), Chapter 21, Statutes of 2017, as part of that year's budget. In addition to its many other provisions, AB 119 added R&TC Section 6010.15 to address the issue of pawnbroker sales of vested property. Specifically, R&TC Section 6010.15 excludes from the definition of a "sale" and "purchase" the transfer of title to vested property by a pawnbroker to a person who pledged the property as collateral, provided certain conditions are satisfied. As with the prior legislative effort, the budget trailer bill included a sunset date of January 1, 2022. This sunset date was subsequently extended to January 1, 2027 by AB 296 (Gipson), Chapter 164, Statutes of 2021.

- 3) *What would this bill do?* This bill would extend, by five years, the sunset for the existing SUT provisions for pawnbrokers.

### **According to the Author**

"This bill addresses an unfair and unintended consequence in California's tax code that can result in consumers paying sales tax twice on the same item. Individuals who purchase goods have already paid the appropriate sales tax at the point of sale; however, if they later use that item as collateral for a loan and seek to reclaim it from a pawnbroker, current law can treat that transaction as a new taxable sale. While existing law provides a temporary exclusion to prevent this outcome, that protection is set to expire, creating uncertainty and the risk of reinstating double taxation. This measure simply extends that common sense protection, ensuring that Californians are not penalized for accessing short term financial services. By preventing duplicative taxation and promoting fairness in the tax system, this bill provides a modest but meaningful safeguard for consumers, particularly those who rely on pawnbrokers during times of financial need."

### **Arguments in Support**

This bill is supported by the California Pawn Brokers Association, which notes:

In a typical pawn transaction, a consumer pledges personal property (e.g., jewelry, electronics) as collateral for a loan. If the loan is not repaid, the pawnbroker obtains title to the item. If the original owner later seeks to reclaim the item, the transaction may be treated as a "sale," potentially triggering sales tax again, even though tax was already paid at the time of the original purchase. The current statutory exclusion was created to address this issue but is set to expire in 2027, thus the need for passage of AB 2641.

### **Arguments in Opposition**

None on file

## **FISCAL COMMENTS**

According to the Assembly Appropriations Committee:

- 1) SUT revenue loss of approximately \$11,000 in fiscal year (FY) 2026-27 and \$22,000 in FY 2027-28 and annually thereafter. Since 3.9375% of SUT revenues support the General Fund

(GF) with the remaining revenues allocated to local governments, the GF revenue loss is approximately \$4,900 in FY 2026-27 and \$9,900 in FY 2027-28.

By reducing GF revenue, this bill also likely decreases Proposition 98 GF spending by approximately 40% of the revenue loss (the exact amount depends on the operative test of the annual Proposition 98 guarantee).

However, one component of California's 7.25% sales tax rate is the 1.0625% rate supporting the 2011 Local Revenue Fund, which provides local governments with public safety realignment money. Proposition 30 (2012) protected the fund by ensuring, in the event the 1.0625% component is reduced or eliminated, local governments continue to receive a commensurate level of state funding. Thus, additional GF cost pressures of approximately \$1,300 in FY 2026-27 and \$2,700 in FY 2027-28.

- 2) Absorbable costs to the CDTFA to continue administering the exclusion, with costs to notify affected pawnbrokers, audit claimed exclusions, amend related regulations, and answer public inquiries.

## VOTES

### **ASM REVENUE AND TAXATION: 6-0-1**

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

**ABS, ABST OR NV:** DeMaio

### **ASM APPROPRIATIONS: 15-0-0**

**YES:** Wicks, Hoover, Bauer-Kahan, Calderon, Caloza, Ellis, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

## UPDATED

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