
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

Bill No:	AB 2641	Hearing Date:	6/10/26
Author:	Michelle Rodriguez	Tax Levy:	Yes
Version:	4/21/26 Amended	Fiscal:	Yes
Consultant:	Summers		

SALES AND USE TAXES: EXCLUSION: PAWNBROKERS: TRANSFER OF VESTED PROPERTY

Extends the sunset on the sales and use tax exemption for customers who repurchase their property from a pawnbroker until January 1, 2032.

Background

Tax expenditures. California law allows various tax incentives, such as credits, deductions, exemptions, and exclusions. When a tax law is determined to have a cost in the form of foregone revenues, such as a sales and use tax exemption, state law refers to them as “tax expenditures.” The Legislature enacts such tax incentives to compensate taxpayers for incurring certain expenses, such as costs related to child adoption, or to influence certain behaviors, such as participating in charitable giving. The Legislature uses tax incentives to encourage taxpayers to do something they would not otherwise do but for the tax incentive. The Department of Finance must publish an annual list of tax expenditures, currently totaling around \$94.2 billion in forgone general fund revenue.

Sales and use tax (SUT). State law imposes the sales tax on every retailer selling tangible personal property in this state. Retailers must register with the California Department of Tax and Fee Administration (CDTFA) and remit sales tax amounts collected at sale to CDTFA. If the purchaser does not pay the sales tax to the retailer, the purchaser is liable for paying use tax to the CDTFA. The use tax is imposed on any person consuming tangible personal property in the state. The use tax must be remitted on or before the last day of the month following the quarterly period in which the person made the purchase. The use tax rate is the same as the sales tax rate. The table below shows that the current statewide SUT rate is 7.25%. Additionally, cities and counties may increase the sales and use tax rate up to 2% with voter approval for specific or general purposes pursuant to the California Constitution’s vote requirements.

Rate	Jurisdiction	Purpose/Authority
3.9375%	State (General Fund)	State general purposes
1.0625%	Local Revenue Fund (2011 Realignment)	Local governments to fund local public safety services
0.50%	State (1991 Realignment)	Local governments to fund health and welfare programs
0.50%	State (Proposition 172 - 1993)	Local governments to fund public safety services

Rate	Jurisdiction	Purpose/Authority
1.25%	Local (City/County)	City and county general operations.
	1.00% City and County 0.25% Local transportation	Dedicated to county transportation purposes
7.25%	Total Statewide Rate	

Tax exemptions. Many items, such as prescription drugs, food, and poultry litter, are fully exempt from the SUT in California. Other items are exempted only from the state sales tax of 3.9375%, but not the local share, such as farm equipment and machinery, diesel fuel used for farming and food processing, teleproduction and postproduction equipment, timber harvesting equipment and machinery, and racehorse breeding stock.

Pawnbrokers. The Financial Code governs pawnbrokers and grants them the authority to offer collateral-based loans that include related interest charges and fees in exchange for holding onto a customer’s property. Existing law requires pawnbrokers to provide a written contract for every loan, which must set forth the loan period and the date on which the loan will become due and payable, and that period must be at least four months. Pawnbrokers must retain possession of every article pledged to them for the duration of the loan period, which existing law describes as “pledged property.” During that period, the pledgor may redeem the articles upon payment of the loan amount and the applicable charges. If a pledgor does not redeem any pledged property during the loan period, and the customer and pawnbroker do not mutually agree in writing to extend the loan period, the pawnbroker must notify the customer within one month after the loan period expires. This notice provides a pledgor with an extended right of redemption for a period of 10 days from the date of mailing or electronic transmission of that notice. If a pledgor does not redeem pledged property within the 10-day notice period, existing law requires the title to the pledged property to become automatically vested with the pawnbroker, which existing law describes as “vested property.” After the title has vested with the pawnbroker, the customer no longer has any legal right to the property, and the pawnbroker may then sell or dispose of the vested property as they please. Accordingly, when a customer subsequently seeks to purchase the collateral, the transaction constitutes a separate taxable retail sale for purposes of the Sales and Use Tax Law because title of the property has transferred back from the pawnbroker to the pledgor.

Sales and use tax exemption for pawnbrokers. Pawnbrokers are retailers under the Sales and Use Tax Law, as they are in the business of making retail sales of tangible personal property. As a general rule, sales tax applies when a customer purchases vested property, regardless of whether that property was previously their own pledged property that they offered as collateral to the pawnbroker for a loan.

In 2017, the Legislature enacted AB 119 (Committee on Budget) to address concerns raised by both pawnbrokers and customers, who were often surprised that sales of vested property back to the pledgor were subject to sales tax, which sometimes impeded the pledgor from regaining ownership. AB 119 eliminated this problem by authorizing a sales and use tax exemption for these purchases, provided the customer reacquires the item within six months after title is transferred to the pawnbroker and the person pays the pawnbroker the remaining unpaid balance of the loan, including accrued charges and interest, together with one of the following:

- For an original loan amount not exceeding \$2,499.99, charges and interest from the date the pawnbroker is vested with title to the property to the date of the purchase.
- For an original loan amount of \$2,500 or more, charges and interest due in accordance with the last monthly contractual interest rate, from the date the pawnbroker is vested with title to the property until the date of purchase.

AB 119 provided that the sales and use tax exemption be in effect until January 1, 2022. AB 296 (Gipson, 2021) extended the sunset date until January 1, 2027.

The California Pawnbrokers Association wants to extend the sunset for the sales and use tax exemption provided to customers purchasing vested property from pawnbrokers an additional five years, until January 1, 2032

Proposed Law

Assembly Bill 2641 extends the sunset for the sales and use tax exemption for a transfer of title of vested property by a pawnbroker to a person who originally pledged the property to the pawnbroker as collateral for a loan until January 1, 2032. The measure also makes legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

According to CDTFB, AB 2641 will result in an estimated revenue loss of \$10,984 in the second half of fiscal year (FY) 2026-27 and \$22,177 in FY 2027-28.

Comments

1. Purpose of the bill. According to the author, “AB 2641 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. In order to be eligible for the sales tax exemption, the following conditions must be met: 1) transactions where the original owner redeems the item within six months; 2) the payment reflects only the unpaid loan balance plus allowable charges and interest, and; 3) the individual can demonstrate that sales tax was previously paid on the item.”

2. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing an extension on the sunset date of a SUT exemption, AB 2641 will result in the General Fund receiving less revenue. As a result, the state will have to either reduce spending or increase taxes to offset the loss. Additionally, because Proposition 98 establishes a minimum funding guarantee for K-14 education in California, which generally represents roughly 40% of the state’s General Fund revenues, every dollar of General

Fund (GF) loss results in approximately 40 cents less of funding for K-14 education. Further, the exemption extended by AB 2641 applies to both the GF and local portions of the sales and use tax, and the state shall not reimburse any local agency for any sales and use tax revenues lost as a result of this extension. As a result, local governments will have to reduce spending or utilize other funding mechanisms to offset the losses.

3. Temporary fix for a permanent issue. Retail sales of tangible personal property are generally taxable. When a customer repurchases their property from a pawnbroker, double taxation can occur; a customer pays sales tax when originally purchasing the item and is taxed a second time when repurchasing the vested property from the pawnbroker. Because the title vests in the pawnbroker upon default, when a customer subsequently seeks to repurchase the collateral and reobtain title, the transaction constitutes a separate taxable retail sale. This bill eliminates the double-tax burden borne by customers in these circumstances by authorizing a sales-and-use tax exemption for the repurchase of collateral property retained by pawnbrokers, but only until January 1, 2032. While it is the frequent practice of the Legislature to establish sunset dates for new tax expenditures, the committee may wish to consider whether repealing the sunset date for this exemption would provide a permanent fix for the double-taxation issue addressed by this bill.

4. Section 41. Section 41 of the Revenue and Taxation Code requires any bill enacting a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve and detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). A bill that would authorize a new gross income exclusion is exempt from the requirement that the bill contain detailed performance indicators and data collection reporting if the Legislature determines there is no available data to collect and report (AB 3289, Committee on Revenue and Taxation, 2024). To satisfy these requirements, AB 2641 declares that the purpose of this tax expenditure is to prevent a customer from paying double sales tax when redeeming the customer's property from a pawnbroker. The bill also requires CDTFA to submit an estimate of the utilization of the exemption to assess if the tax exclusion is meeting, failing to meet, or exceeding its specified goals, purposes, and objectives.

Assembly Actions

Assembly Revenue & Taxation Committee:	6-0
Assembly Appropriations Committee:	15-0
Assembly Floor:	72-0

Support and Opposition (6/3/26)

Support: California Pawnbrokers Association (Sponsor)

Opposition: None received.

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