

- 6) Authorizes the California Department of Tax and Fee Administration (CDTFA), in consultation with the Department of Motor Vehicles (DMV), to exempt any dealer from requirements to remit collected funds first to DMV, as specified, if the dealer sold 1,000 or more vehicles at retail in the current or preceding calendar year and the dealer's account is in good standing with CDTFA.

This bill:

- 1) Exempts from certain state sales and use taxes, the gross receipts from the sale of, and the storage, use, or other consumption of a new or used motor vehicle sold by certain dealers or their affiliates, as specified, on or after July 1, 2027, and before July 1, 2032.
- 2) Provides that the exemption created by the bill does not apply to local sales and use taxes or transaction and use taxes.
- 3) Provides that the exemption created by the bill does not apply to those state sales and use tax rates imposed or dedicated for local government funding, including those rates for which revenues are deposited into the Local Revenue Fund 2011.
- 4) Imposes an additional VLF upon the first sale of a new motor vehicle or a used motor vehicle sold by certain dealers or their affiliates, as specified, on or after July 1, 2027, and before July 1, 2032.
- 5) Requires the additional VLF to be equal to 3.9375% of the gross receipts from the sale.
- 6) Requires the dealer to collect VLF as a separate line item, and remit the funds in the same manner as the existing VLF.
- 7) Requires DMV to report the amounts collected to CDTFA, as specified.
- 8) Requires all revenues, including penalties, less refunds, derived from the fees collected be deposited in the General Fund.
- 9) Declares that provisions of the bill will not be construed to alter the rates of other VLFs imposed.
- 10) Repeals the provisions on January 1, 2033.

COMMENTS:

- 1) *Purpose of the bill.* According to the author, “California has long been a ‘donor’ state – that is, California taxpayers pay billions of dollars a year more to the federal government than the state receives in return. SB 1275 is a creative approach to help address that problem, and it will save California taxpayers money. Under SB 1275, Californians who buy a car or truck would get a federal tax break that they don’t currently receive. The legislation, as a result, would reduce Californians’ federal tax burden and could boost vehicle sales in the state, and it won’t cost consumers, the state, or car dealers a penny.”

- 2) *Sales and use tax.* State law imposes the sales tax on every retailer selling tangible personal property in this state. Retailers must register with 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 CDTFA. The use tax is imposed on any person consuming tangible personal property in the state and 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 the incremental structure of the sales and use tax at its current statewide rate of 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
1.25%	Local (City/County) 1.00% City and County 0.25% County	City and county general operations. Dedicated to county transportation purposes (TDA)
7.25%	Total Statewide Rate	

CDTFA collects sales taxes from retailers, deposits the state share in the General Fund, and then allocates the local share of the Bradley-Burns sales tax and any district tax to the appropriate jurisdiction.

- 3) *Vehicle License Fees.* The Legislature established VLF in 1935 in lieu of a personal property tax on vehicles. Distinct from vehicle registration fees, the 0.65% VLF is an *ad valorem* state tax levied on the purchase price of a vehicle and subsequently assessed annually against the vehicle's value, adjusted by a statutory depreciation schedule. Typically, vehicle owners pay the VLF to DMV. Proposition 1A (2004) guarantees that revenue derived from the 0.65% VLF rate flows to cities and counties.

Motor vehicle purchasers pay the first year of VLF at the time of purchase as part of the original registration and titling process, along with other fees and charges. According to DMV Fee Calculator, purchasing a new 2026 gasoline-powered vehicle on April 1, 2026, in the City of Sacramento for \$34,000 results in the following:

- Sales tax: \$2,975
- Current Registration: \$73
- California Highway Patrol: \$34
- Vehicle License Fee: \$222
- Other Fees: \$166

- 4) *State and local tax deductions.* Federal law generally allows individuals to deduct specified state and local taxes (SALT) from taxable income as an itemized deduction in lieu of the standard deduction. Beginning in 2018, the Tax Cuts and Jobs Act (TCJA) changed several itemized deductions, including limiting the total deduction for SALT to \$10,000 (\$5,000 if married filing separately) for personal income taxpayers. Last year, Congress revised limits for forthcoming taxable years:

- \$40,000 for 2025.
- \$40,400 for 2026.
- For taxable years 2027 through taxable year 2029, the limit is increased by 1% each taxable year, with taxable year 2026 as the base year.
- For taxable year 2030 and after, \$10,000.

Congress also created a phasedown adjustment based on modified adjusted gross income (MAGI), which reduces the limit by 30% of the excess of the taxpayer's MAGI over the threshold amount (half the threshold amount in the

case of a married couple filing separately). The threshold amount is \$500,000 for 2025 and 2026, and increases 1% annually until 2030.

Subject to the above limits, taxpayers can deduct state income taxes, as well as local real and personal property taxes, from federal taxable income. Taxpayers *can* deduct sales taxes; however, they can only do so when electing not to deduct income taxes, so few Californians deduct sales taxes because of the state's relatively high-income tax rates.

As noted above, purchasers pay several fees and taxes when purchasing a new motor vehicle. While VLF is deductible as a personal property tax, California taxpayers generally do not deduct sales taxes.

- 5) *SB 1275 swaps the state portion of the sales tax with an equivalent new VLF.* SB 1275 enacts a State General Fund-only sales tax exemption for the purchase of a new motor vehicle, and in lieu, imposes a new VLF in an amount equal to the exempted sales tax. The bill calls for the exemption and equivalent new VLF to apply beginning on July 1, 2027, and end July 1, 2032.

Additionally, SB 1275 requires car dealers to collect the new VLF as a separate line item and remit the funds in the same manner as the current VLF. Finally, the bill requires DMV to report amounts collected under the bill to CDTFA and deposit them in the General Fund.

- 6) *Who would benefit?* According to the author, SB 1275 enacts a mechanism to reduce federal taxes paid by Californians, while also providing an incentive to purchase a new vehicle. However, its beneficiaries may be limited to relatively higher-income taxpayers. Around 15% of California taxpayers itemize their federal taxes, with the rest claiming the standard deduction, which in 2025 is worth \$31,500 for married filing jointly filers, or \$15,750 for single or married filing separately. However, the share of new car buyers who itemize is likely higher.

Additionally, those who pay more than \$40,000 in combined state and local taxes likely won't benefit from SB 1275's additional deductible VLF. However, for those who qualify, the benefits can be considerable. According to the California New Car Dealers Association, car sales totaled roughly \$96 billion in 2025, for a total of 3.3 million new and used vehicles sold. For example, there were 1.8 million new cars purchased in California last year with an average sales price of \$50,000. On a \$50,000 car purchase, the buyer currently pays \$2,000 in non-deductible State General Fund sales tax, which would be deductible from their federal income taxes under SB 1275. For a

married filing jointly taxpayer who itemizes their federal taxes, this change would reduce their federal taxes by about \$500 that year. SB 1275 also includes used cars as sold by specified dealers, as determined by CDTFA, and that sell more than 1,000 used vehicles annually. This would include mainly new car dealers that also sell used cars and newer online car merchants, such as Carvana.

- 7) *Implementation challenges.* Car dealers must complete at least two procedures when selling a new motor vehicle. First, they must provide DMV with registration information for the purchaser, accompanied by payment of registration fees and the VLF, among other charges. Second, they must remit appropriate sales tax to CDTFA. SB 1275 would require car dealers to change their accounting and payment systems, which could be costly and cumbersome. Specifically, car dealers would have to maintain two separate reporting systems, track which portion of the transaction goes to which agency, and ensure proper reconciliation across two tax collections systems. Additionally, dealers would still remit local shares of the sales tax to CDTFA, because SB 1275 does not apply to those incremental rates.

There could also be complications with vehicle returns. Last year the Legislature passed, and Governor Newsom signed into law, the California Combating Auto Retail Scams (CARS) Act (SB 766, Chapter 354, Statutes of 2025), to improve transparency, prohibit deceptive practices, and enhance consumer protections in the sale and lease of motor vehicles. One of the provisions of the bill requires car dealers, as of October 1, 2026, to provide a 3-day right to return a vehicle. SB 1275 could lead to operational challenges for processing returns. Under current law, unwinding a transaction is straightforward as the sales tax is refunded and adjusted through the normal tax reporting process. As mentioned above, SB 1275 requires dealers to maintain two separate reporting systems, with part of the transaction being a partial sales tax and the other being a VLF. If a vehicle is returned, the dealer would need to unwind payments across two agencies with multiple VLF amounts.

Finally, CDTFA and DMV exchange information to ensure compliance with both the sales tax and the Vehicle Code. SB 1275 requires further reconciliation between the two agencies to ensure effective implementation, which could result in additional costs. Additionally, DMV is currently implementing the Digital eXperience Platform (DXP) project to update and replace software, hardware, and programming languages for its legacy systems. The Legislature appropriated \$193.5 million over a three-year period to implement several components of the project in the 2021 Budget, which was followed by \$60.3 million in the 2024 Budget Act. While the project is likely to be finished soon,

any additional implementation changes could cause additional cost pressure on DMV, potentially affecting its ability to deliver services. For example, to report a separate line item for the newly created VLF, DMV would have to change its internal fee codes in its system to remit funds to CDTFA and account for how much is remitted.

- 8) *Motor vehicle account is nearly insolvent.* According to the Legislative Analyst's Office (LAO), the Motor Vehicle Account (MVA), which is the primary funding source for DMV, has been experiencing a structural imbalance for many years, with expenditures consistently outpacing revenues. The state has been able to delay the account's insolvency through various budget adjustments, policy changes, and temporary transfers from other special funds. LAO argues that every new expenditure from the account—especially those that are comparatively large—should be well justified and clear a high bar for approval. In the Governor's 2026-27 Proposed Budget, the Governor warned that "the Budget currently projects that the MVA will be insolvent as soon as 2028-29. Given the ongoing fiscal constraints in the MVA, the Administration will continue to limit new workload or initiatives, including those with delayed implementation dates that would create additional cost pressures over time."
- 9) *Double referral.* This bill was double referred to the Senate Revenue and Taxation Committee where it passed out on a 4-0 vote on April 8, 2026.

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

POSITIONS: (Communicated to the committee before noon on Wednesday, April, 15, 2026.)

SUPPORT:

None received

OPPOSITION:

None received

-- END --