Date of Hearing: August 5, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 1406 (McNerney) – As Amended April 23, 2026

Policy Committee: Revenue and Taxation Vote: 5 - 2

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

SUMMARY:

This bill deems certain “shell companies” to be residents of the state and holds member individuals personally liable for unpaid use tax due on a vehicle, vessel, or aircraft.

Specifically, this bill:

1) Provides that a partnership, limited partnership (LP), or limited liability partnership (LLP) is a resident of the state if 50% of the entity’s interests are held by partners that are residents of the state.

2) Provides that a “shell company” is a resident of the state if a shareholder, partner, member, or beneficial owner is a resident of the state; requires such an individual be personally liable for unpaid taxes, interest, and penalties due on a vehicle, vessel, or aircraft, the nonpayment of which may constitute a crime; and provides how the Department of Tax and Fee Administration (CDTFA) may establish and collect on the liability.

3) Defines a “shell company” as a closely held corporation, partnership, LP, LLP, or limited liability corporation (LLC) used to evade the payment of use tax and provides the evidentiary factors used to make such a determination, such as the entity’s lack of a specific business activity or purpose.

FISCAL EFFECT:

1) Annual General Fund (GF) and vehicle registration fee revenue gain of an unknown, but likely significant amount, in excess of $150,000, by creating a means to collect use tax and fees legally owed, but unremitted.

2) Absorbable costs to CDTFA for enhanced enforcement and collection activities.

3) By making additional individuals liable for use tax payments under the Sales and Use Tax (SUT) Law, the nonpayment of which may be a misdemeanor or felony depending on the nature of the violation, ongoing cost pressures of an unknown amount to the courts to adjudicate a criminal charge (GF or Trial Court Trust Fund (TCTF)) and costs to the Department of Corrections and Rehabilitation or cost pressures to the counties of an unknown amount to incarcerate a convicted individual (GF).

COMMENTS:

1) **Purpose.** According to the author:

> The Montana Loophole costs California up to $20 million a year in lost revenue and the loophole is widening, with increasing numbers of tax evaders creating phony shell companies so they can avoid paying sales taxes on Ferraris, Porsches and pricey RVs.
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> SB 1406 would strengthen California law by making it easier to collect taxes from tax evaders that create shell companies to buy exotic luxury cars or expensive [RVs] in Montana or other states.

2) **Montana Tax Evasion Scheme.** When a vehicle is bought from a person who is not a California dealer required to remit sales tax, including a private party selling a used vehicle, the purchaser is required to pay use tax for the privilege of using the property in California. Under the SUT Law, the use tax is applied at the same rate as the sales tax. Existing law provides a rebuttable presumption that a vehicle, vessel, or aircraft purchased outside California, first functionally used outside of California, and brought into the state within 12 months of purchase is being used in California, and thus subject use tax if certain conditions apply, including that the item was purchased by a "California resident." For purposes of the presumption, an LLC is considered a California resident if 50% or more of the shares of membership interests are held by shareholders or members who are state residents.

   According to CDTFA, California loses approximately $20 million in use tax revenues each year from the purchases of vehicles, vessels, and aircraft outside California due to a well-known tax loophole involving LLCs domiciled in Montana. To avoid tax on purchases, a Californian may form a "shell company" domiciled in Montana (Montana LLC), buy a vehicle in the Montana LLC's name, take delivery of the vehicle outside the state, and register the vehicle in Montana where no sales or use tax for the individual applies, before returning the vehicle to California for use. If a tax evader is identified, CDTFA is unable to hold the individual personally liable for the use tax owed by the LLC. And, since the Montana LLC generally has no assets other than the vehicle for which there is no record of registration in California, recovering the tax from the Montana LLC is extremely difficult.

   In March 2026, Attorney General Rob Bonta, in conjunction with CDTFA and the Department of Motor Vehicles, recovered $4 million in unpaid taxes and fees from thousands of car owners and dealers and brought criminal charges against 14 people as part of a crackdown on luxury vehicles plated in Montana to evade state taxes and registration fees. While such enforcement highlighted the state's ability to uncover tax evasion, the effort also revealed the limits of the existing presumption. This bill broadens the types of entities that may be considered a "California resident" to include partnerships, LPs, and LLPs, as well as a new "shell company" entity deemed a California resident if a shareholder, partner, member, or beneficial owner is a resident of the state. This bill also provides that such individuals related to a shell company are personally liable for unpaid taxes, interest, and penalties.

3) **Support and Opposition.** This bill is supported by labor organizations, with SEIU California arguing, "Tax loopholes like these reduce the amount of revenue the state collects and hurts working people and their families…It is fundamentally unfair for California residents to pay taxes when others use shell companies to avoid them."

This bill is opposed by the Capitol Business Alliance, unless amended and "narrowed so it catches intentional tax evasion without chilling the ordinary use of LLCs, partnerships, and other lawful entities by small businesses, entrepreneurs, and family businesses."

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