
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
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Author:	Archuleta	Tax Levy:	Yes
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Consultant:	Summers		

SALES AND USE TAXES: ZERO-EMISSION VEHICLE FUELING

Expands the partial sales and use tax exemption for manufacturing equipment to include purchases of qualified tangible personal property for hydrogen fueling stations and electric vehicle charging stations.

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.

State Sales and Use Tax Exemption for Manufacturing Equipment and Development Equipment. In 2013, the Legislature enacted AB 93 (Committee on Budget) and SB 90 (Committee on Budget and Fiscal Review), which reformed California's economic development policies by eliminating enterprise zones and other geographically targeted tax programs, replacing them with three new tax benefits: the New Employment Credit, the California Competes Tax Credit, and the Manufacturing Exemption.

The Manufacturing Exemption authorized a state-only (3.9375%) sales and use tax exemption on purchases of manufacturing equipment used by taxpayers primarily engaged in a line of business described in North American Industry Classification System (NAICS) codes 3111 to 3399 for manufacturers, or 541711 or 541712 for research and development. The credit was capped at \$200 million annually per taxpayer, effective July 1, 2014, and ending July 1, 2022. In 2017, as part of an agreement to extend the Global Warming Solutions Act (AB 398, E. Garcia), the Legislature expanded the exemptions for NAICS codes 22111 to 221118 and 221122, which pertain to electric power generators or distributors, and extended the exemption until January 1, 2030.

The exemption applies to property a taxpayer uses:

- In any stage of the manufacturing, processing, refining, fabricating, or recycling of tangible personal property;
- In research and development;
- To maintain, repair, measure, or test any qualified property subject to the exemption; and,
- To generate, produce, or store and distribute electric power.

The exemption also applies in a more limited fashion when purchasing equipment for use by a contractor. Purchasers must provide an exemption certificate at purchase for the exemption to apply. The exemption does not apply if the purchaser converts the equipment from an exempt use or removes it from the state within one year from the date of purchase.

While state law exempts many forms of property from both the state and local shares of the sales and use tax, the current sales and use tax exemption for equipment used in manufacturing and research and development only applies to the State General Fund shares. Partial exemptions also do not reduce sales and use tax revenues that flow to local agencies from the other increments. For calendar year 2025, actual amounts claimed on returns filed with CDFTA resulted in lost

sales and use tax revenue of \$499.8 million. Based on reporting by equipment sellers, manufacturers claimed 71.69% of the total; electric utilities 26.8%; and agricultural businesses 1.51%.

AB 398 also required the Department of Finance to backfill the General Fund for the revenue loss incurred as a result of this exemption from the Greenhouse Gas Reduction Fund (GGRF). AB 1817 (E. Garcia, 2017) modified the backfill requirement to specify that only revenue loss caused by the expanded exemption was subject to mandatory backfill and that all other losses to the General Fund attributable to this exemption were discretionary.

The manufacturing sales and use tax exemption largely superseded existing programs, such as the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), as it applied to almost the same taxpayers. Thus, instead of applying for the CAEATFA sales and use tax exclusion, taxpayers simply print a resale certificate from the CDTFA website and present it to the retailer to reduce the sales tax rate for the purchase.

Seeking to encourage investments in zero-emission vehicle (ZEV) infrastructure, the author wants to expand the existing manufacturer's exemption to purchases made by specified NAICS for the construction of hydrogen fueling and charging stations that convert or condition hydrogen or electricity for ZEVs.

Proposed Law

Senate Bill 1424 expands the partial sales and use tax exemption for manufacturing equipment, beginning in 2027, to include purchases of qualified tangible personal property for use by a business with NAICS codes 447110 and 447190, pertaining to gas stations, or a construction contractor, if they are for the taxpayer's qualified use, which the bill expands to include purchases used exclusively in the processing, altering, or other preparation required for converting or conditioning hydrogen or electricity for the fueling of a ZEV. The bill excludes purchases exclusively for the production of hydrogen fuel from raw materials. The bill expands the definition of "qualified tangible personal property" to include:

- Hydrogen fueling station equipment and component parts, including, but not limited to, onsite storage tanks, cryogenic pumps, vaporizers, compressors, chillers, piping, valves, dispensers, meters, controls, safety systems, and associated operating structures.
- Charging station equipment and component parts, including, but not limited to, chargers or dispensers, power cabinets, underground conduits, transformers, switchgear or switchboards, energy storage systems, meters, cables and connectors, safety systems, and associated operating structures.
- Special-purpose buildings and foundations, other than those used solely for warehousing purposes, used as an integral part of the manufacturing, processing, refining, fabricating, or recycling process or constitutes a research or storage facility used during those processes; or generation, production, or storage and distribution of electric power or hydrogen for sale at retail for use as a motor vehicle fuel at a hydrogen refueling station.

The measure also specifies that the expanded exemption authorized by this measure shall not be backfilled from GGRF and makes legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

Pending.

Comments

1. Purpose of the bill. According to the author, “Senate Bill 1424 builds on California’s commitment to clean energy by extending the state’s existing partial sales and use tax exemption to zero-emission vehicle fueling infrastructure. With transportation responsible for roughly half of California’s greenhouse gas emissions, accelerating the deployment of charging and hydrogen fueling stations is essential to meeting our climate and air quality goals. SB 1424 leverages an already successful, CDTFA-administered program to lower upfront costs for critical infrastructure, ensuring that private investment can scale more quickly and efficiently. At a time when federal commitment to clean transportation programs has diminished, California must act decisively to maintain momentum and protect its climate leadership. This bill provides a practical, near-term solution to help offset those losses and keep infrastructure deployment on track. By supporting both electric and hydrogen fueling technologies, SB 1424 takes a forward-looking, technology-neutral approach that maximizes innovation and market flexibility. Ultimately, SB 1424 strengthens California’s clean transportation future while reinforcing our commitment to economic competitiveness and environmental stewardship.”

2. “Windfall” or “but for” tax benefit? Tax expenditures produce two different outcomes. The first outcome is a “windfall,” where the tax expenditure rewards behavior that would have occurred without the tax benefit. The second outcome is a “but for tax benefit,” where a particular activity would not have occurred without the incentive created by the tax expenditure. Here, the SUT exemption likely serves as a “windfall” to retailers who entered the industry knowing they would have a SUT liability and were prepared to pass that cost on to their customers. However, this bill may also be considered a “but for” incentive if reducing SUT liability for hydrogen fuel and electric charging stations enables them to build more fueling stations and lowers the ultimate consumer fuel and charging costs. In which case, this tax incentive may also encourage the sale of ZEVs if more stations provide fuel and charging, and lower prices, but for this exemption. However, this result is speculative and hard to measure. The committee may wish to consider whether existing state programs that provide financial assistance for ZEV infrastructure would provide a more targeted and measurable benefit for consumers.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing a SUT exemption for hydrogen fueling and charging stations, SB 1424 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 loss results in approximately 40 cents less of funding for K-14 education.

4. Precedent. Tangible personal property is generally taxable, regardless of the purpose for purchase. If the Legislature allows a SUT exemption for hydrogen fuel and electric charging stations, why should it not extend the same treatment for the construction of home charging stations or charging stations built at other retail locations other than gas stations? This may lead to a slippery slope in which other alternative fuels and charging equipment are more broadly exempt from SUT, thereby eroding the tax base.

5. State, not local. In recent years, most new sales and use tax exemptions have been limited to the state share of the sales tax, such as equipment used in research and manufacturing, and equipment and fuel used in agriculture. SB 1424 continues this trend by extending an existing exemption that applies only to the State General Fund portion of the Sales and Use Tax. As a result, the bill should not negatively affect local revenues.

6. Partial exemptions. While state law exempts many forms of property from both the state and local shares of the sales and use tax, the current sales and use tax exemption for manufacturing equipment only applies to the State General Fund increment. Partial exemptions also do not reduce sales and use tax revenues that flow to local agencies. Taxpayers and retailers generally prefer full exemptions, not only to pay less tax but also because local rates vary in California, making calculating the amount of tax more cumbersome. In addition to manufacturing equipment, state law also contains exemptions for:

- Teleproduction Equipment
- Farm Equipment and Machinery
- Diesel Fuel Used in Farming Activities or Food Processing
- Timber Harvesting Equipment and Machinery
- Racehorse Breeding Stock
- Zero-emission Transit Buses
- Zero or near-zero emission motor vehicles

7. Right way? Under the existing Manufacturing Exemption, EV charging operators under NAICS code 221122, which pertains to electric power distribution, may qualify for the exemption if they are building and installing EV chargers. However, EV charging stations built by taxpayers with other NAICS would not qualify under the existing law. Thus, proponents of this measure argue that SB 1424 would create parity for the construction of EV charging stations by other NAICS codes and extend that treatment to hydrogen fueling stations. Although it is unclear to what extent, if any, taxpayers with NAICS code 221122 are utilizing this exemption for building EV chargers. However, the bill also expands the definition of qualified tangible property, which means other NAICS, as manufacturers, who build hydrogen or electric charging stations on their own properties, would benefit from this expanded exemption. The Committee may wish to consider whether a standalone exemption for the construction of hydrogen fueling stations and EV charging stations would produce a more targeted tax benefit.

8. Existing incentives. Under the existing Manufacturing Exemption, manufacturers of EV chargers and hydrogen fueling equipment would likely qualify under the following NAICS codes: 335999 (for making EV charger/station hardware), 333914 (for making hydrogen dispenser/station hardware), and 325120 (for making hydrogen gas), among others. Further, EV charging and hydrogen fueling stations are eligible to apply for other state credits.

- CAEATFA has awarded a sales tax exemption to 10 hydrogen projects: one is inactive, four are completed, and five are in progress. The completed projects had an estimated total exclusion amount of \$1.5 million. The five active projects have a total estimated exclusion amount of \$16 million. Of those active projects, \$10 million of the exclusion is attributable to Element Lancaster 1 LLC for a renewable hydrogen project in Los Angeles. Additionally, CAEATFA has awarded an exclusion to 19 electric vehicle projects, only one of which – ChargePoint, Inc. – is for the production of electric vehicle

charging stations. This project was completed, with an estimated exclusion of approximately \$140,000.

- Additionally, the California Competes Tax Credit Committee has awarded approximately \$23,350,000 of income tax credits to four electric vehicle manufacturing projects and \$2,025,000 to two hydrogen fuel projects. This is in addition to any federal income tax credits the taxpayer might qualify for, such as the federal tax credit for businesses and individuals that install qualified alternative fuel refueling property, including hydrogen refueling stations or electric vehicle charging equipment. For business property, the credit generally equals 6% of the cost of the equipment, up to \$100,000 per item.
- Further, the Fast Charge California Project, administered by the California Energy Commission (CEC), provides incentives for the purchase and installation of eligible direct current fast chargers. Incentives may cover up to 100% of approved project costs, up to \$100,000 per charging port. Eligible sites must be publicly accessible, and applications benefiting disadvantaged, low-income, and tribal communities receive priority consideration. The application period closed on January 29, 2026.

The committee may wish to consider whether expanding other existing tax and grant programs would provide a more targeted incentive, guarantee economic net benefits, ensure job creation within the state, and help communities with the greatest need for ZEV infrastructure.

9. AB 118. Another active state incentive is the Clean Transportation Program (CTP), administered by the CEC, which was established by AB 118 (Nunez, 2007) to accelerate the development and deployment of clean, efficient, low-carbon alternative fuels and technologies. AB 118 was re-authorized by AB 8 (Perea, 2013), which preempted California Air Resources Board (CARB) authority to require publicly available hydrogen-fueling stations through regulation, and instead required CEC to fund the development of up to 100 such hydrogen stations from vehicle registration fee revenues in the amount of up to \$220 million over the next 11-plus years. AB 118 also required CEC and CARB to jointly report annually on progress toward establishing a hydrogen fueling network, beginning on December 31, 2015. The CTP was re-authorized again by AB 126 (Reyes, 2023). AB 126 required CEC to annually fund at least \$15 million in hydrogen fueling stations through 2030 and continue AB 118's annual reporting mandate. According to the most recent published joint report by CEC and CARB, as of August 29, 2025, California has 61 hydrogen fueling stations, with Chevron developing two new stations. This figure is down from previous years, in which CARB reported having 62 hydrogen fueling stations as of July 15, 2024, and 66 the year before that. Additionally, as of April 2025, there were 14,128 registered fuel cell electric vehicles (HFCVs) in California, down from 2024, when CARB reported 14,429 HFCVs with active registrations. CARB also notes that there are plans for 112 hydrogen stations, though expansion is hampered by high prices and low demand.

10. 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, SB 1424 states that its specific goals, purposes, and objectives are:

- To encourage investments in the fueling infrastructure necessary to support ZEVs.
- To support the hydrogen fueling and charging station targets called for in Executive Orders B-48-18, N-27-25, and N-79-20.
- To reduce the sales tax burden on the purchase of component parts necessary for processing hydrogen and electricity into their completed form for use by ZEV.

The detailed performance indicators include the number of hydrogen fueling and charging stations built in the state, the number of commercially available ZEVs and the number sold in the state on an annual basis, and the total amount of sales and use tax exempted for qualified tangible personal property purchased for use by a qualified person used primarily in the fueling of a ZEV.

To aid the Legislature in determining whether this act meets the goals, purposes, and objectives, SB 1424, beginning January 1, 2028, and annually thereafter, directs:

- The State Air Resources Board to review the effectiveness of the tax exemption by providing updates on the performance indicators in its annual Hydrogen Assessment and to post the updates on its website by December 31 of each year.
- The Energy Commission to review the effectiveness of the tax exemption by providing updates on the performance indicators in its annual Electric Vehicle Charging Assessment and to post the updates on its website by December 31 of each year.

11. Double-referred. The Senate Rules Committee ordered a double referral for SB 1424: first to the Committee on Environmental Quality, which approved it by a vote of 6-0, and second to the Committee on Revenue and Taxation.

Support and Opposition (5/1/26)

Support: California Electric Transportation Coalition (Sponsor)
California Hydrogen Coalition (Sponsor)

Opposition: None received.

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