SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1424 (Archuleta) - Sales and use taxes: zero-emission vehicle fueling

Version: April 23, 2026
Urgency: No
Hearing Date: May 11, 2026

Policy Vote: E.Q. 6 - 0, REV. & TAX. 5 - 0
Mandate: Yes
Consultant: Robert Ingenito

Bill Summary: SB 1424 would expand 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.

Fiscal Impact:

- The California Department of Tax and Fee Administration (CDTFA) estimates that this bill would result in General Fund revenue losses of $843,000 in 2026-27, $1.7 million in 2027-28, and $1.3 million in 2028-29. CDTFA's administrative costs would be minor and absorbable.

- Administrative costs to the California Air Resources Board (CARB) and the California Energy Commission (CEC) have yet to be identified.

Background: Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed $94 billion annually.

Except where a specific exemption or exclusion is provided, current law imposes SUT on all retailers for the privilege of selling tangible personal property (TPP) at retail in California, or on the storage, use, or other consumption in this state of TPP purchased from a retailer. Unless purchasers pay the sales tax to the retailer, they are liable for the use tax, which the law imposes on any person consuming tangible personal property in the state. The use tax is the same rate as the sales tax.

After CDTFA collects SUT revenue ($79 billion in 2023-24), it allocates the money to various state and local funds. Roughly half—collected from an approximately 3.9 percent rate—goes to the General Fund and can be spent on any state program, such as education, health care, and criminal justice. Another 1.25 percent, known as the Bradley-Burns rate, goes to cities and counties for general purposes. Three sales tax funds have uniform state rates and support specified programs—a 1.0625 percent rate for 2011 realignment (county-administered criminal justice, mental health, and social service programs); a 0.5 percent rate for 1991 realignment (county-administered health and social services programs); and a 0.5 percent rate for city and county public safety programs pursuant to Proposition 172 (1993). Additionally, some local governments levy optional local rates—known as Transactions and Use Taxes (TUTs)—and a small portion of these funds are used for general purposes. As of December 31, 2025, the average statewide SUT rate was 8.84 percent.

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 percent, 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.

In 2013, the Legislature substantially restructured California's economic development framework through the enactment of AB 93 and SB 90, which eliminated the State's longstanding enterprise zone and geographically targeted incentive programs. In their place, the Legislature established a new suite of statewide economic incentives intended to promote employment growth, business investment, and industrial competitiveness. These incentives included the New Employment Credit, the California Competes Tax Credit, and a partial SUT exemption for manufacturing and research and development equipment (commonly referred to as the Manufacturing Exemption).

The Manufacturing Exemption provides a partial exemption from the General Fund portion of the SUT for qualified purchases of manufacturing and research and development equipment. Initially enacted for taxpayers primarily engaged in specified manufacturing and research activities identified under the North American Industry Classification System (NAICS), the exemption became operative on July 1, 2014, and was originally scheduled to sunset on July 1, 2022. The program limited qualifying purchases to $200 million annually per taxpayer.

In 2017, as part of the broader legislative agreement extending California's greenhouse gas reduction and cap-and-trade framework under AB 398, the Legislature expanded eligibility for the exemption to include specified electric power generation, transmission, and distribution industries. The same legislation also extended the exemption through January 1, 2030, thereby aligning the incentive with the state's longer-term climate, energy reliability, and industrial policy objectives.

Under current law, the exemption applies to qualified tangible personal property used in manufacturing, processing, refining, fabricating, recycling, research and development, equipment maintenance and testing, and the generation, production, storage, and distribution of electric power. The exemption also applies in certain circumstances to equipment acquired for use by contractors performing qualifying activities. To claim the exemption, purchasers must provide retailers with an exemption certificate at the time of sale. The exemption is subject to recapture if the property is converted to a nonqualifying use or removed from California within one year of purchase.

The Legislature also addressed the fiscal implications of the expanded exemption as part of the 2017 climate policy package. AB 398 required the Department of Finance to offset General Fund revenue losses attributable to the expanded electric utility exemption using revenues from the Greenhouse Gas Reduction Fund (GGRF). Subsequent legislation, AB 1817, clarified that mandatory backfill obligations applied only to revenue losses associated with the expansion enacted under AB 398, while reimbursement for other revenue losses attributable to the Manufacturing Exemption would remain discretionary.

Over time, the Manufacturing Exemption has largely supplanted earlier incentive programs that provided similar tax benefits to industrial and energy-sector taxpayers, including programs administered by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA). Because the exemption applies broadly and is administered directly through CDTFA, eligible taxpayers generally claim the benefit through a streamlined exemption certificate process at the point of sale, rather than through a separate application and approval structure.

Proposed Law: This bill, among other things, would do the following:

- Provide a General Fund SUT exemption for qualified TPP purchased for use by a qualified person to be used exclusively in the processing, altering, or other preparation required for converting or conditioning hydrogen or electricity for the fueling of a zero-emission vehicle.

- Provide a General Fund SUT exemption for qualified TPP purchased by a contractor for use in the performance of a construction contract for a qualified person who will use that property as an integral part of an activity listed above.

- Require CARB 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.

- Require CEC 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.

Related Legislation:

- AB 32 (Nunez, Chapter 488, Statutes of 2006) authorizes the California Air Resources Board (CARB) to use market-based compliance methods, such as Cap-and-Invest to achieve the state's climate goals.

- AB 118 (Nunez, Chapter 750, Statutes of 2007) provides at least $15 million annually for hydrogen fueling stations through 2030 and requires an annual evaluation on the deployment of passenger fuel cell electric vehicles and needs for hydrogen station network expansion.

Staff Comments: For calendar year 2025, claims filed with CDTFA for the current SUT exemption reduced General Fund revenues by $500 million. Additionally, the bill would specify that its expanded exemption would not be backfilled from GGRF.

Any local government costs resulting from the mandate in this measure are not state-reimbursable because the mandate only involves the definition of a crime or the penalty for conviction of a crime.

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