

Date of Hearing: June 29, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Mike Gipson, Chair

SB 1424 (Archuleta) – As Amended June 17, 2026

Majority vote. Tax levy. Fiscal committee.

SENATE VOTE: 33-0

SUBJECT: Sales and use taxes: zero-emission vehicle fueling or charging

SUMMARY: Expands the partial sales and use tax (SUT) exemption for manufacturing and research and development (MR&D) to include the "processing" of hydrogen or electricity that is sold by a "qualified person" for the purposes of fueling or charging, respectively, a vehicle. Specifically, **this bill:**

- 1) Expands, on and after July 1, 2027, and before July 1, 2030, the partial SUT exemption for MR&D to include "qualified tangible personal property (TPP)" used in the "processing" of hydrogen or electricity sold by a "qualified person" for the purposes of fueling or charging a vehicle.
- 2) Expands, beginning July 1, 2027, the definition of "processing" to include the altering, converting, conditioning, or other preparation of hydrogen or electricity for the purposes of selling the hydrogen for fueling, or the electricity for charging, a vehicle.
- 3) Expands the definition of a "qualified person," on and after July 1, 2027, and before July 1, 2030, to include a person that is primarily engaged in those lines of business described in Codes 457110 and 457120 of the North American Industry Classification System (NAICS) published by the United States Office of Management and Budget (OMB), 2022 edition.
- 4) Expands the definition of "qualified TPP" to include:
 - a) Hydrogen fueling station equipment and component parts used as an integral part of processing hydrogen, as proposed by this bill, including, but not limited to, onsite storage tanks, cryogenic pumps, vaporizers, compressors, chillers, piping, valves, dispensers, meters, controls, safety systems, and associated operating structures; and,
 - b) Charging station equipment and component parts used as an integral part of processing electricity, as proposed by this bill, 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
- 5) Excludes from the definition of "qualified TPP" TPP used by a "qualified person," as that term is expanded by this bill, as an integral part of the manufacturing of hydrogen fuel derived from natural gas and fossil fuel feedstocks.

- 6) Provides that this bill's expansion is not backfilled by transfers from the Greenhouse Gas Reduction Fund to the General Fund.
- 7) Finds and declares, for the purposes of complying with Revenue and Taxation Code (R&TC) Section 41, that this bill's specific goals are to:
 - a) Encourage investments in the fueling infrastructure necessary to support zero-emission vehicles (ZEVs);
 - b) Support the hydrogen fueling and charging station targets called for in Executive Orders B-48-18, N-27-25, and N-79-20; and,
 - c) Reduce the sales tax burden on the purchase of component parts necessary for processing hydrogen and electricity into their completed form for use by a ZEV.
- 8) Provides that the Legislature may use the following performance indicators to determine whether this bill meets its stated goals:
 - a) The number of hydrogen fueling and charging stations built in the state;
 - b) The number of commercially available ZEVs and the number sold in the state on an annual basis; and,
 - c) The total amount of SUT exempted for "qualified TPP" purchased for use by a "qualified person" to be used primarily in the fueling of a ZEV.
- 9) Requires the State Air Resource Board (CARB) to review, beginning January 1, 2028, the effectiveness of this bill's tax exemption by providing updates on this bill's stipulated performance metrics in CARB's annual Hydrogen Assessment for the purpose of enabling the Legislature to determine whether this bill's exemption meets its stated goals. The CARB must post the updates required by this bill on its internet website on or before December 31, annually.
- 10) Requires the California Energy Commission (CEC) to review, beginning January 1, 2028, the effectiveness of this bill's tax exemption by providing updates on this bill's stipulated performance metrics in the CEC's annual Electric Vehicle Charging Assessment for the purposes of enabling the Legislature to determine whether this bill's exemption accomplishes its stated goals. The CEC must post the updates required by this bill on its internet website on or before December 31, annually.
- 11) Prohibits reimbursement of a local agency or school district because the only costs arising from this bill result from the creation of a new crime or infraction, elimination of a crime or infraction, a change in the penalty for a crime or infraction, or a change in the definition of a crime.
- 12) Takes immediate effect as a tax levy.

EXISTING LAW:

- 1) Imposes, under the SUT Law, a tax on retailers measured by the gross receipts from the "retail sale" of TPP in this state or on the storage, use, or other consumption in this state of

TPP purchased from a retailer for storage, use, or other consumption in this state. (R&TC Sections 6051 and 6202.)

- 2) Defines a "retail sale" as a sale for a purpose other than resale in the regular course of business in the form of TPP. (R&TC 6007.) It is presumed that all gross receipts are subject to the SUT, unless otherwise established. The burden of proving that a sale of TPP is not a sale at retail falls upon the person making the sale, unless the purchaser supplies a certificate confirming that the property is purchased for retail. (R&TC Section 6091.)
- 3) Authorizes, until July 1, 2030, a partial SUT exemption for MR&D on purchases by a "qualified person" of "qualified TPP" to be used primarily:
 - a) In any stage of the manufacturing, "processing," refining, fabricating, or recycling of TPP;
 - b) In research and development;
 - c) To maintain, repair, measure, or test any qualified TPP described above; or,
 - d) In the generation or production, or storage and distribution, of electric power.

A "qualified person" is, on and after January 1, 2018, and before July 1, 2030, a person that is primarily engaged in those lines of business described in Codes 3111 through 3399, 221111 through 221118, 221122, 541711, or 541712 of the NAICS published by the OMB, 2012 edition.

The term "qualified TPP" includes, but is not limited to:

- a) Machinery and equipment, including component parts and contrivances such as belts, shafts, moving parts, and operating structures;
- b) Equipment or devices used or required to operate, control, regulate, or maintain the machinery, including, but not limited, to certain specified equipment;
- c) TPP used in pollution control that meets standards established by this state or any local or regional governmental agency within the state; and,
- d) Special purpose buildings and foundations used, on or after January 1, 2018, and before July 1, 2030, as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, or that constitutes a research or storage facility used during those processes, or the generation, production, or storage and distribution of electric power. Buildings used solely for warehousing purposes after completion of these processes are not included in this definition.

The partial exemption also applies to qualified TPP purchased for use by a contractor to perform a construction contract for a qualified person that will use that property as an integral part of the following:

- a) The manufacturing, processing, refining, fabricating, or recycling process;
- b) The generation or production, or storage and distribution, of electric power; or,
- c) As a research or storage facility for use in connection with those processes.

"Processing" is defined as the physical application of the materials and labor necessary to modify or change the characteristics of TPP. This exemption is commonly referred to as the partial SUT exemption for MR&D. (R&TC Section 6377.1.)

FISCAL EFFECT: The California Department of Tax and Fee Administration (CDTFA) estimates that this bill would result in a revenue loss of \$1.69 million in the 2027-28 fiscal year (FY) and \$1.35 million in FY 2028-29.

COMMENTS:

- 1) The author has submitted the following statement in support of this bill:

Senate Bill 1424 builds on California's commitment to clean energy by extending the state's existing partial [SUT] exemption to [ZEV] 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) A coalition of hydrogen, electric vehicle, and environmental advocates, automakers, and transit agencies, writing in support of this bill, state, in part:

California's transportation sector accounts for about 50% of the state's greenhouse gas emissions, nearly 80% of nitrogen oxide pollution, and 90% of diesel particulate matter pollution. Transitioning the transportation sector to zero and near-zero emission technologies is critical to achieving our climate change goals and clean air standards.

Consequently, California has adopted ambitious [ZEV] deployment goals through legislation and executive order. Success largely depends on the availability of fueling infrastructure which SB 1424 is designed to support. By taking advantage of existing advanced manufacturing tax credits to draw down infrastructure equipment costs, this bill will help offset the devastating loss of federal support for clean transportation. The Trump Administration's hostile actions toward initiatives like the National Electric

Vehicle Infrastructure program and California's Hydrogen Hub have irrevocably harmed California's progress in meeting its transportation decarbonization goals.

3) The California Teachers Association (CTA), writing in opposition to this bill, states, in part:

In fiscal year 2025-26, the Department of Finance estimated a \$94 billion dollar loss in general fund revenue due to existing tax expenditures. This is revenue that would have otherwise gone to the General Fund, of which approximately 40% would have gone toward the Proposition 98 minimum guarantee. Once tax credits are passed with a simple majority, it takes a two-thirds vote of the Legislature to repeal them.

While we understand that this is well intended, CTA does not support this approach, as it would reduce overall funding for education. CTA believes Proposition 98 should be protected from reductions through the creation of new or expanding existing tax expenditures.

4) Committee Staff Comments:

- a) *What is a "tax expenditure"?* Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).

As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote. This bill would expand an existing SUT exemption, thereby constituting a tax expenditure.

- b) *Hydrogen production:* The predominant form of hydrogen production is natural gas reformation. According to the U.S. Department of Energy, 95% of the hydrogen produced in the U.S. is made by natural gas reforming in large plants. There are two main chemical processes that create hydrogen: steam-methane reforming and partial oxidation. In steam-methane reforming, high-temperature steam is used to produce hydrogen from a methane source. The methane reacts with the steam in the presence of a catalyst, resulting in hydrogen, carbon monoxide, and small amounts of carbon dioxide. The carbon monoxide may then be further reacted with steam and a catalyst to produce carbon dioxide and more hydrogen.

The other method of hydrogen production is partial oxidation. Methane and other hydrocarbons react with a limited amount of oxygen which causes the hydrocarbons to not fully oxidize. Without this full oxidization, the reaction products contain primarily hydrogen and carbon monoxide. These reaction products can be subjected to a water-gas

shift reaction, causing the carbon monoxide to react with the water resulting in carbon dioxide and additional hydrogen¹.

Before disbursement to a customer, hydrogen fuel may need additional treatment, like cooling, pressurizing, and purifying. The molecule itself, however, largely remains unaltered.

- c) *Electrical generation*: There are two primary ways to generate electricity. The first is the spinning of a magnet around a coil of wire, or vice versa, which creates an electrical current. Systems that use this method are commonly referred to as generators. The second utilizes the photovoltaic effect, which is the transformation of light into electrical energy. Generators are found in many common forms of electrical generation. The use of generators in electrical generation can range from combustion plants that combust a material to heat water, creating steam that spins a turbine-generator producing electricity; to plants that combust materials to spin the turbine itself; to windmills that spin a generator; to hydroelectric dams that use the force of water to power a generator; to nuclear plants that use the radiated heat to make steam and spin a turbine-generator. Generally, the electrons that comprise electricity are "manufactured," or generated, through either generators or the photovoltaic effect. As electricity is transmitted and distributed to the end-consumer, it may undergo voltage changes, but the electrons themselves are not created or destroyed in that process.
- d) *The end of Enterprise Zones (EZs)*: Prior to 2013, California allowed a series of geographically based incentives designed to encourage business investment and promote the creation of new jobs in economically distressed areas. These incentives were collectively called the EZ Program. The EZ Program authorized the designation of up to 42 EZs, and businesses within these EZs were eligible for a tax credit based on SUT paid and a tax credit based on a certain percentage of wages paid to certain individuals with barriers to employment. Additionally, banks lending to businesses in an EZ received a net interest deduction to encourage investment in designated areas.

In 2013, the Legislature enacted AB 93 (Committee on Budget), Chapter 69, Statutes of 2013, which repealed EZs and replaced them with a series of alternative tax incentives, among other provisions. To promote continued economic development, AB 93 included three new tax incentives as replacements to EZ incentives. These incentives were the California Competes Tax Credit, the New Hiring Tax Credit, and the partial SUT exemption for MR&D.

- e) *An electric expansion*: In 2017, the Legislature enacted AB 398 (E. Garcia) Chapter 135, Statutes of 2017, which expanded the partial SUT exemption for MR&D among other provisions. Specifically, AB 398 included in the exemption TPP purchased by certain electrical generation facilities, operators of electric power distribution systems, or electric power brokers if used primarily in the production or generation of electric power or the storage and distribution of electric power. Importantly, the NAICS publication describes electric power distribution systems as consisting of lines, poles, meters, and wiring, and

¹ U.S. Department of Energy, *Hydrogen Production: Natural Gas Reforming*, <https://www.energy.gov/cmei/fuels/hydrogen-production-natural-gas-reforming>, accessed June 2026.

electric power brokers as entities that arrange the sale of electricity via power distribution systems operated by others.

- f) *This bill*: As currently drafted, this bill would expand the partial SUT exemption for MR&D by including new NAICS codes in the definition of "qualified persons," modifying the definition of "processing," and adding to the definition of "qualified TPP." Specifically, this bill would add certain retail fueling stations to the definition of "qualified persons" and would provide that "processing" includes the altering, converting, conditioning, or other preparation of hydrogen or electricity for the purposes of selling the hydrogen for fueling, or the electricity for charging, a vehicle. Additionally, this bill would expand the definition of "qualified TPP" to include hydrogen fueling and charging station equipment.
- g) *Diverging from intent*: The partial SUT exemption for MR&D was established as a replacement to the rescinded income tax credit on amounts of SUT paid for manufacturing equipment. The purpose of this exemption is to acknowledge pyramiding, or the stacking of SUT liability on component parts of a supply chain that, together, create TPP that will be sold at retail. Indeed, existing law further acknowledges pyramiding by exempting from SUT qualifying TPP that is used in the manufacturing of TPP that will be sold at retail and subject to a SUT. As an example, a rocking horse manufacturer would be entitled to a SUT exemption on the lumber the manufacturer uses to make the rocking horse. Moreover, existing provisions under the SUT Law provide a "sale for resale" exemption. In other words, if a person buys TPP that they intend to resell in their normal course of business, then the purchase of that TPP by that person is generally exempt from SUT.

It is unclear that any substantive manufacturing or production occurs at the retail level of a transaction. Generally, electricity is created at a generation facility and hydrogen at a plant. These processes occur much earlier in the supply chain than where retail sales of electricity or hydrogen occur. One might reasonably question whether expanding the SUT exemption to the retail level of transactions creates a questionable precedent.

- h) *Pressing the precedent*: An astute observer might note that the expansion of the partial SUT exemption for MR&D under AB 398 incorporated "storage and distribution" as a qualifying activity. One might reasonably claim that those activities are an expansion beyond manufacturing or, in the case of manufacturing electricity, generation. Committee staff would note, however, that certain forms of renewable energy generation, like wind and solar, do not align their peak output with peak electricity demand. In order to prevent the generated electrons from being wasted, storage is necessary to align the demand for that electricity with generation sources that are not "on-demand." Thus, storage and distribution form an integral part of productively generating electricity from certain sources.
- i) *Committee's tax expenditure policy*: SB 1335 (Leno), Chapter 845, Statutes of 2014, added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending programs to tax credits introduced on or after January 1, 2015. AB 263 (Burke), Chapter 743, Statutes of 2019, extended the requirements in R&TC Section 41 to all tax expenditure measures under the PIT Law, the Corporation Tax Law, and the SUT Law introduced on or after January 1, 2020.

A tax expenditure proposal must outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote². Sunsets are required because eliminating a tax expenditure generally requires a 2/3rd vote. These requirements must be satisfied before a bill can receive a vote in this Committee. This bill contains an appropriate sunset and complies with the requirements of R&TC Section 41.

j) *Prior legislation:*

- i) AB 1951 (Grayson), of the 2021-22 Legislative Session, would have made the partial SUT exemption for MR&D a full exemption for certain purchases. AB 1951 was vetoed by the Governor.
- ii) AB 398 (E. Garcia), Chapter 135, Statutes of 2017, expanded the partial SUT exemption for MR&D to include electrical production or generation, or electrical storage and distribution, and expanded the definition of "qualified persons."
- iii) AB 93 (Committee on Budget), Chapter 69, Statutes of 2013, repealed the EZ Program and corresponding incentives, and enacted the partial SUT exemption for MR&D, the New Hiring Tax Credit, and the California Competes Tax Credit, among other provisions.

REGISTERED SUPPORT / OPPOSITION:

Support

Air Water America, Inc.
California Electric Transportation Coalition
California Hydrogen Business Council
California Hydrogen Coalition
Center for Sustainable Energy
Energy Independence Now
EV Realty
Forum Mobility
Hydrogen-XT, Inc.
Iwatani Corporation of America
Nel Hydrogen
Plug-in America
Ric Energy
Sacramento Municipal Utility District
Toyota Motor Company
Valley Clean Air Now

² An "appropriate sunset provision" shall mean five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" shall mean 10 years.

Opposition

California Teachers Association

Analysis Prepared by: Harrison Bowlby / REV. & TAX. / (916) 319-2098