

Date of Hearing: April 6, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 2192 (Jeff Gonzalez) – As Amended March 18, 2026

2/3 vote. Tax levy. Fiscal committee.

SUBJECT: Sales and use taxes: farm equipment and machinery

SUMMARY: Indefinitely expands the partial sales and use tax (SUT) exemption for "farm equipment and machinery" to include any tax levied by a county, city, or district pursuant to or in accordance with either the Bradley-Burns Uniform Local SUT Law or the Transactions and Use Tax (TUT) Law. Specifically, **this bill:**

- 1) Expands the existing partial SUT exemption for "farm equipment and machinery" to include any tax levied by a county, city, or district pursuant to or in accordance with either the Bradley-Burns Uniform Local SUT Law or the TUT Law.
- 2) Appropriates the sum of \$200 million from the General Fund (GF) to the State Controller to make the payments to counties and cities required by Revenue and Taxation Code (R&TC) Section 2230 to reimburse them for revenue losses caused by this exemption in the initial fiscal year (FY) in which this bill is effective.
- 3) Provides that the appropriation made by this bill shall be allocated in the manner specified in R&TC Section 2230.
- 4) Takes immediate effect as a tax levy.

EXISTING LAW:

- 1) Imposes a sales tax on retailers for the privilege of selling tangible personal property (TPP), absent a specific exemption. The tax is based upon the retailer's gross receipts from TPP sales in this state. (R&TC Section 6001 *et seq.*)
- 2) Imposes a complimentary use tax on the storage, use, or other consumption of TPP generally purchased out-of-state and brought into California. The use tax is imposed on the purchaser; and unless the purchaser pays the use tax to an entity registered to collect California's use tax, the purchaser remains liable for the tax. The use tax is set at the same rate as the state's sales tax and must generally be remitted to the California Department of Tax and Fee Administration (CDTFA). (R&TC Section 6001 *et seq.*)
- 3) Authorizes, under the Bradley-Burns Uniform Local SUT Law, counties and cities to impose local SUTs in conformity with the SUT Law. (R&TC Section 7200 *et seq.*)
- 4) Authorizes districts, as specified, to impose TUTs in accordance with the TUT Law, which generally conforms to the SUT Law. (R&TC Section 7251)

- 5) Provides a partial SUT exemption for "farm equipment and machinery", and the parts thereof, purchased for use by a qualified person, as defined, to be used primarily in producing and harvesting agricultural products. (R&TC Section 6356.5)
- 6) Defines "farm equipment and machinery" to mean "implements of husbandry" as defined in R&TC Section 411. (R&TC Section 6356.5)
- 7) Defines an "implement of husbandry" to include, without limitation, any tool, machine, equipment, appliance, device or apparatus used in the conduct of agricultural operations, except where such implements are intended for sale in the ordinary course of business. "Implement of husbandry" also includes those implements of husbandry as defined in the Vehicle Code. (R&TC Section 411)
- 8) Requires the state to annually reimburse cities and counties for the net loss of revenue from each statute enacted after January 1, 1973, which provides for a SUT exemption. The reimbursement shall be made, when funds have been appropriated by the Legislature, as follows:
 - a) Twenty percent of the local net loss shall be distributed to the counties in the same ratio as the total amount of SUTs collected in each county is to the whole. This amount of money shall be deposited by the board of supervisors in the local transportation fund established pursuant to Government Code Section 29530. These moneys shall become part of the local transportation fund and shall be appropriated in the same manner and for the same purposes specified in Government Code Section 29531; and,
 - b) Eighty percent of the local net loss shall be distributed to cities and counties in the same ratio as provided in R&TC Section 30462 for the distribution of moneys from the Cigarette Tax Fund. (R&TC Section 2230)
- 9) Requires the Director of Finance to estimate the annual net loss of revenue to local agencies. In the case of bills providing a SUT exemption, the Director of Finance shall prepare an estimate of the annual net loss of revenue to local agencies during the initial FY in which the bill becomes effective. An appropriation consistent with such estimate shall be included in the bill. In subsequent FYs, an appropriation to reimburse local agencies shall be included in the State Budget, as specified. (R&TC Section 2230)
- 10) Requires any bill introduced on or after January 1, 2020, which authorizes a SUT exemption, to contain all of the following:
 - a) Specific goals, purposes, and objectives that the tax expenditure will achieve;
 - b) Detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets the goals, purposes, and objectives stated in the bill; and,
 - c) Specified data collection requirements to enable the Legislature to determine whether the tax expenditure is meeting, failing to meet, or exceeding those specific goals, purposes, and objectives. (R&TC Section 41(a).)

FISCAL EFFECT: The CDTFA estimates that this bill would reduce GF revenues by \$125.4 million annually.

COMMENTS:

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

California's farmers are facing rising costs for equipment, fuel, labor, and regulatory compliance while operating on increasingly thin margins. Current law exempts farm equipment and machinery from the state portion of the sales and use tax, but local taxes still apply, leaving in place additional costs for the very tools farmers rely on to produce and harvest our food. AB 2192 extends the existing exemption to local sales and use taxes, helping reduce the cost of essential agricultural equipment and supporting the long-term viability of California's farming community. The bill also appropriates funding to reimburse cities and counties for their initial revenue losses, ensuring local governments remain whole while farmers receive meaningful relief. By lowering equipment costs, AB 2192 helps keep farms in business, strengthens our agricultural economy, and protects the stability of our food supply.

- 2) This bill is supported by the Greater Coachella Valley Chamber of Commerce, which notes:

Agriculture is a cornerstone of the Coachella Valley economy. From date farming and citrus groves to vegetable production and vineyards, the region's farms contribute billions of dollars to the state and local economy while supporting tens of thousands of jobs. However, California's tax burden on agricultural inputs, including equipment and machinery, places local farmers at a competitive disadvantage relative to producers in neighboring states that offer more favorable tax treatment.

AB 2192 would remove a significant cost barrier for farmers looking to invest in modern, efficient, and often more sustainable equipment. Tax incentives that reduce the cost of capital investment in agriculture help maintain and create high-value jobs, encourage domestic food production, and strengthen food security. This exemption is a sensible and targeted way to support one of the state's most vital industries.

- 3) This bill is opposed by both the League of California Cities and the California State Association of Counties, which note:

Under current law, the tax exemption for farm equipment and machinery is excluded from local sales and use taxes, thereby protecting local revenue streams. AB 2192 would remove this safeguard, reducing local revenues that communities rely on for essential services.

Existing law requires the state to reimburse local agencies for revenue losses resulting from sales and use tax exemptions when the funds have been appropriated by the Legislature. While we appreciate that AB 2192 includes a \$200 million General Fund appropriation to reimburse counties and cities, the bill only provides an explicit appropriation for the initial fiscal year. This creates significant uncertainty as to whether future reimbursements will be fully funded and sustained over time. Local governments rely on stable and predictable revenue streams to fund essential services, and any disruption or inconsistency in backfill funding can have real impacts on public safety, infrastructure maintenance, and community programs.

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 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.

- b) *An overview of the SUT Law:* The SUT represents the state's third largest source of GF revenues. Nevertheless, the past several decades have seen a dramatic reduction in the state's reliance on the SUT and a corresponding increase in its reliance on personal income tax revenues. In FY 2026-27, SUT revenues are estimated to comprise only 15.2% of the state's GF revenues, down from nearly 60% in FY 1950-51.
- c) *What accounts for the state's reduced reliance on SUT revenues?* The SUT Law was enacted in a very different era. In the 1930s, California's economy was largely dominated by manufacturing, and residents mostly bought and sold tangible goods. Thus, in establishing the base for a new consumption tax, it made sense to impose the tax on sales of TPP, defined as personal property that may be "seen, weighed, measured, felt, or touched." Over the past 90 years, however, California's economy has seen dramatic growth in the service and information sectors, resulting in a significant erosion of the SUT base. For example, the Commission on the 21st Century Economy noted that spending on taxable goods represented 34.6% of personal income in 2008, down from 55.4% in 1980. As a result, tax experts and economists from across the political spectrum argue that California should expand its SUT base.

It could be argued that, while well-intentioned, additional or expanded SUT exemptions further erode an already shrinking SUT base. This, in turn, increases fiscal pressures to maintain or even increase California's relatively high SUT rate. High rates arguably promote non-compliance and encourage out-of-state purchases, placing California retailers at a competitive disadvantage. High rates also risk impacting consumer decision-making, which runs counter to widely accepted principles of sound tax policy.

- d) *The existing exemption for farm equipment and machinery:* Current law authorizes a partial SUT exemption for farm equipment and machinery, which is broadly defined by statutory cross-reference to include any tool, machine, equipment, appliance, device, or apparatus used in the conduct of agricultural operations. To qualify for the partial exemption, the TPP must be purchased for use by a qualified person, defined by reference to the 1987 edition of the Standard Industrial Classification Manual. Specifically,

California's exemption applies to purchasers engaged in a wide array of agricultural pursuits, ranging from wheat to livestock farming. In addition, for the exemption to apply, the qualifying TPP must be used primarily in the production or harvesting of agricultural products. The partial exemption applies only to the state GF portion of the SUT (i.e., 5%). Thus, to calculate the tax rate for qualifying transactions, one must subtract 5.00% from the SUT rate that normally applies at the location where the purchase is made. Finally, when a retailer makes a sale qualifying for the partial exemption, the retailer must obtain a valid exemption certificate from the buyer.

- e) *What would this bill do?* As noted above, this bill would expand the existing partial SUT exemption for farm equipment and machinery to include any tax levied by a county, city, or district pursuant to or in accordance with either the Bradley-Burns Uniform Local SUT Law or the TUT Law. To this end, the author's office notes:

Farmers in California face high and rising costs not only for land, labor, fuel, and inputs but also for complying with a growing list of state regulatory requirements, which directly limit already thin margins. Regulatory compliance costs for some Central Coast vegetable growers have increased more than 1,300% since 2006, reaching about \$1,600/per acre and consuming roughly 12-13% of total production costs. This is a massive increase, as in 2006 these regulatory costs accounted for just 1.24% of production costs. These regulatory expenses span water and air quality rules, food safety audits, labor and workplace mandates, and equipment and emissions standards, adding significant costs that farmers must recover through the prices they charge.

- f) *The Bradley-Burns Uniform Local SUT Law:* In 1955, the Legislature enacted the Bradley-Burns Uniform Local SUT Law, which authorized counties and cities to impose a local SUT, but required them to contract with the State Board of Equalization (BOE) to perform all administrative functions, including tax collection and revenue allocation to the appropriate local governments. Bradley-Burns was enacted to provide an additional source of revenue for local governments, to promote a uniform and integrated SUT regime throughout the state, and to avoid retailers having to pay different taxes to different governmental entities by having the integrated SUT program administered and the taxes collected by the state.¹

Responsibility for administering Bradley-Burns taxes was shifted from the BOE to the CDTFA as part of the Taxpayer Transparency and Fairness Act of 2017. The tax rate is fixed at 1.25% of the sales price of TPP sold at retail in the county or purchased outside the county for use within the county. Current law authorizes cities to impose a local Bradley-Burns SUT rate of up to 1%. The city SUT rate is "credited" against the county rate so that the combined rate does not exceed 1.25%.

Of the 1.25%, cities and counties use 1% to support general operations. The remaining 0.25% is designated by statute for county transportation purposes and restricted to road maintenance or the operation of transit systems. Counties receive the 0.25% for transportation purposes regardless of whether the sale occurs in a city or in the unincorporated area of the county. In California, all counties impose Bradley-Burns local

¹ *City of San Joaquin v. State Bd. of Equalization*, 9 Cal.App.3d 365 (1970).

taxes at a total uniform rate of 1.25%, and most cities impose Bradley-Burns local taxes at a rate of 1.00%.

- g) *The TUT Law*: The TUT Law authorizes cities and counties (and special purpose entities) to impose district taxes under specified conditions. Counties may impose a district tax for general or specific purposes at a rate of 0.125%, or multiples thereof, if the required percentage of county voters approves the ordinance imposing the tax. Cities, in turn, may also impose a district tax for general or specific purposes at a rate of 0.125% or multiples thereof, if the required percentage of city voters approves the ordinance imposing the tax.
- h) *Backfilling local losses*: Current law requires the state to reimburse cities and counties each year for the net revenue they lose resulting from any SUT exemption enacted after January 1, 1973, based on a specified formula. The Director of Finance must estimate the annual net loss of revenue to local agencies for this purpose. For each new SUT exemption, the Director of Finance prepares this estimate for the initial FY in which the exemption becomes effective, and the bill creating the exemption must include an appropriation consistent with the estimate. In subsequent FYs, an appropriation to reimburse local agencies must be included in the State Budget, and the amount appropriated must be adjusted annually, as specified.
- i) *Additional lead time required*: This bill's immediate operative date would leave the CDTFA with insufficient time to update tax returns, revise computer systems, or issue taxpayer guidance to retailers. Because the CDTFA is currently undertaking a major update to its computer systems, return modifications would require several months to complete.
- j) *Policy on tax expenditures*: Both R&TC Section 41 and Committee policy require any tax expenditure bill to 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. A tax expenditure bill will not be eligible for a Committee vote unless it has complied with these requirements. This bill, in its current form, does not comply with R&TC Section 41.

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 vote. According to this policy, an "appropriate sunset provision" means five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" means 10 years. This bill's expanded exemption does not include a sunset date and is therefore not in compliance with this Committee's policy. Accordingly, this bill is not currently eligible for a vote.

REGISTERED SUPPORT / OPPOSITION:

Support

California Farm Bureau
Greater Coachella Valley Chamber of Commerce

Opposition

California State Association of Counties
League of California Cities

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