

Date of Hearing: April 13, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 2641 (Michelle Rodriguez) – As Amended March 16, 2026

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Sales and use taxes: exclusion: pawnbrokers: transfer of vested property

SUMMARY: Indefinitely extends the exclusion for the transfer of vested property by a pawnbroker to the person who pledged it under the Sales and Use Tax (SUT) Law. Specifically, **this bill:**

- 1) Deletes the exclusion's current inoperative date of January 1, 2027.
- 2) Provides that, for purposes of complying with Revenue and Taxation Code (R&TC) Section 41, the Legislature finds and declares the following:
 - a) The specific goals, purposes, and objectives of this bill are to prevent a customer from paying double sales tax when redeeming the customer's property from a pawnbroker; and,
 - b) The performance indicators and data collection requirements to enable the Legislature to determine if the tax exclusion is meeting, failing to meet, or exceeding its specified goals, purposes, and the objectives are the California Department of Tax and Fee Administration's (CDTFA's) estimate of utilization.
- 3) Provides that, notwithstanding existing law, the state shall not reimburse any local agencies for SUT revenues lost as a result of this exclusion.
- 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 CDTFA. (R&TC Section 6001 *et seq.*)
- 3) Defines a "sale" and "purchase" for purposes of the SUT Law and provides certain exclusions from those definitions. (R&TC Section 6001 *et seq.*)

- 4) Regulates pawnbrokers by, among other things, requiring every pawnbroker loan for which goods are received in pledge as security to be evidenced by a written contract, a copy of which must be provided to the customer. (Financial Code Section 21201.)
- 5) Requires the loan period of a loan contract to be no less than four months, and requires the loan contract to set forth the loan period along with the date on which the loan is due and payable, and to inform the customer of their right to redeem the pledge during the loan period. (Financial Code Section 21201.)
- 6) Provides procedures by which a pawnbroker may become vested with title to pledged property. (Financial Code Section 21201.)
- 7) Excludes the transfer of vested property by a pawnbroker to a person who pledged the property to the pawnbroker as security for a loan, if specified requirements are met, from the definition of "sale" and "purchase," thus excluding that transfer from imposition of SUT. This exclusion is currently set to sunset on January 1, 2027. (R&TC Section 6010.15.)

FISCAL EFFECT: The CDTFA estimates lost revenues of \$10,984.34 in the second half of fiscal year (FY) 2026-27 and \$22,177.39 in FY 2027-28.

COMMENTS:

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

This bill addresses an unfair and unintended consequence in California's tax code that can result in consumers paying sales tax twice on the same item. Individuals who purchase goods have already paid the appropriate sales tax at the point of sale; however, if they later use that item as collateral for a loan and seek to reclaim it from a pawnbroker, current law can treat that transaction as a new taxable sale. While existing law provides a temporary exclusion to prevent this outcome, that protection is set to expire, creating uncertainty and the risk of reinstating double taxation. This measure simply extends that common sense protection, ensuring that Californians are not penalized for accessing short term financial services. By preventing duplicative taxation and promoting fairness in the tax system, this bill provides a modest but meaningful safeguard for consumers, particularly those who rely on pawnbrokers during times of financial need.

In order to be eligible for the sales tax exemption, the following conditions must be met:

- 1) transactions where the original owner redeems the item within six months; 2) the payment reflects only the unpaid loan balance plus allowable charges and interest, and; 3) the individual can demonstrate that sales tax was previously paid on the item.

- 2) Committee Staff Comments:

- a) *Overview of existing law governing pawnbrokers:* California's Department of Justice regulates pawnbrokers and enforces California's Financial Code provisions governing the industry. Every pawnbroker loan for which goods are received as security must be evidenced by a written contract, with a copy provided to the customer. By law, the loan contract must provide a loan period of at least four months. In addition, the contract must set forth the loan period and the date on which the loan will become due and payable. The contract must also clearly inform the customer of their right to redeem the pledge

during the loan period by paying the loan amount and any applicable charges that have accrued through the date of redemption. Pawnbrokers are required by law to retain every article pledged for the duration of the applicable loan period.

If any pledged article is not redeemed during the loan period and the customer and pawnbroker do not mutually agree in writing to extend the loan period, the pawnbroker must notify the customer within one month after the loan period expires. This notice works to extend the right of redemption for a period of 10 days from the date of mailing or electronic transmission of that notice.

If any pledged article is not redeemed within the 10-day notice period, the pawnbroker becomes automatically vested with title to the pledged article. The pawnbroker may then sell or dispose of the property as they wish.

- b) *How does the SUT Law apply to pawnbrokers?* Pawnbrokers are considered retailers under the SUT Law as they are in the business of making retail sales of TPP. As such, tax generally applies to pawnbroker sales to the same extent as sales by any other retailer of TPP in California. As noted above, if a customer defaults on a pawnbroker loan, the collateral becomes the pawnbroker's "vested property." After title has vested with the pawnbroker, the customer no longer has any legal right to the property. Before the enactment of AB 119 (Committee on Budget), Chapter 21, Statutes of 2017, when a customer subsequently sought to purchase their former collateral, the transaction constituted a taxable retail sale under the SUT Law.
- c) *How we got the current exclusion:* In 2016, the State Board of Equalization, which was then charged with administering the SUT Law, sponsored legislation to address this issue. Specifically, AB 2365 (Gipson), of the 2015-16 Legislative Session, was introduced to exclude from the computation of SUT a pawnbroker's receipts derived from a transaction where a customer buys back their property after defaulting on a loan. AB 2365 passed this Committee on a vote of 9-to-0, with an amendment to add a five-year sunset to the exclusion. Governor Brown, however, vetoed AB 2365. In his veto message, Governor Brown noted that "[n]ew sales tax exemptions, like new spending on programs, need to be considered comprehensively as part of the budget deliberations."

On June 27, 2017, Governor Brown signed AB 119 (Committee on Budget), Chapter 21, Statutes of 2017, as part of that year's budget. In addition to its many other provisions, AB 119 added R&TC Section 6010.15 to address the issue of pawnbroker sales of vested property. Specifically, R&TC Section 6010.15 excludes from the definition of a "sale" and "purchase" the transfer of title to vested property by a pawnbroker to a person who pledged the property as collateral, provided certain conditions are satisfied. As with the prior legislative effort, the budget trailer bill included a sunset date of January 1, 2022. This sunset date was subsequently extended to January 1, 2027 by AB 296 (Gipson), Chapter 164, Statutes of 2021.

- d) *What would this bill do?* This bill would delete the sunset for the existing SUT provisions for pawnbrokers thereby extending the exclusion indefinitely.
- e) *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 includes a statement of findings and declarations to 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. This bill does not currently contain a sunset date, but the author has agreed to accept amendments taking a five-year sunset date in compliance with this Committee's policy.

REGISTERED SUPPORT / OPPOSITION:**Support**

None on file

Opposition

None on file

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