



This Week in State Tax (TWIST)

September 9, 2024



California: Legislature Sends Bills to Reduce Taxation of Machinery and Equipment and Require Disclosure of Local Tax Agreements to Governor

Last week, the California Legislature approved and sent to Governor Newsom two bills involving the state's Bradley-Burns Uniform Local Sales and Use Tax Law, which allows counties, cities, and districts to impose local sales and use tax in their respective jurisdictions.

[Assembly Bill 52](#), creates an income tax credit for taxpayers that paid local sales or use tax on property qualifying for the manufacturing or research and development exemptions. The current exemption for such equipment extends only to the 3.9375 percent state tax that is allocated wholly to the state. The current exemption (and credit if approved) applies to qualified tangible personal property purchased by a qualified person for use primarily in manufacturing, processing, refining, fabricating, or recycling of tangible personal property, or for use primarily in research and development.

Under AB 52, if approved, a taxpayer is allowed a credit against its net income tax in an amount equal to the total of local sales and use tax paid during the taxable year on tangible personal property that qualifies for the state-level exemption. The authorized credits would only take effect for taxable years for which the Legislature appropriates funding specifically to administer the credits. They would be available beginning January 1, 2025, and before January 1, 2030. If a credit exceeds the net tax due, it may be carried over to the following taxable year, and the succeeding eight years or until the credit is exhausted.

The Legislature also passed [Assembly Bill 2854](#) concerning agreements between certain local jurisdictions and retailers for rebates of a portion of the local sales and use tax. In the past, local jurisdictions have used such agreements to incentivize retailers to locate within that jurisdiction by sharing with the retailer a portion of the local sales and use tax emanating from its sales, a feature attributable largely to the origin-based sourcing rules applied by California.

Under AB 2854, if approved, local jurisdictions will be required to report to the Department of Tax and Fee Administration by April 30 of each year certain information about agreements involving the rebate of sales and use tax revenues. The required information includes the names of parties, the amount of rebated revenues received by each party for the current and preceding fiscal year, the date the agreement was executed, and the percentage of a retailer's sales and use taxes used to determine the rebated revenues received. The same information must be posted on the local government's website on or before April 30 of each year. The bill authorizes the imposition of daily monetary penalties for failure to provide or publish the information. On or before June 1, 2025, the Department of Tax and Fee Administration shall also publish on its website the information submitted by local jurisdictions. Governor Newsom has until September 30 to sign or veto these bills. For questions about the legislation, please contact [Jim Kuhl](#).

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