



CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

OFFICE OF THE DIRECTOR

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GovernorNICOLAS MADUROS
Secretary, Government Operations AgencyTRISTA GONZALEZ
Director

April 30, 2025

Honorable Scott Wiener, Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814
Attention: Mr. Hans Hemann

Dear Chairman Wiener:

Pursuant to Revenue and Taxation Code (RTC) section 6377.1 subdivision (g), this report summarizes the amount claimed by taxpayers subject to the partial sales and use tax exemption for manufacturing and research and development equipment in calendar year 2024. Additionally, this report summarizes the estimated amounts claimed due to the expansion of the exemption by Assembly Bill (AB) 398 for the purposes of transferring funds from the Greenhouse Gas Reduction Fund to the General Fund.

For calendar year 2024, actual amounts claimed on returns filed with the California Department of Tax and Fee Administration (CDTFA) resulted in lost sales and use tax revenue of \$465.2 million.

For the purposes of a transfer of funds from the Greenhouse Gas Reduction Fund and the General Fund, RTC section 6377.1 (g)(2)(B) requires the CDTFA to report on the total value of the exemption allowed for a qualified person that is either of the following:

- Primarily engaged in those lines of business described in Codes 221111 to 221118, inclusive, and 221122 of the North American Industry Classification System (Electric Utilities), or
- Primarily engaged in those lines of business described in Codes 3111 to 3399, inclusive, 541711 and 541712 of the North American Industry Classification System and is also a person that is an apportioning trade or business as described in paragraph (1) of subdivision (c) of RTC section 25128, that is required to apportion its business income pursuant to subdivision (b) of section 25128, or a trade or business as described in paragraph (1) of subdivision (c) of section 25128, conducted wholly within this state that would be required to apportion its business income pursuant to subdivision (b) of section 25128 if it was subject to apportionment pursuant to section 25101 (Agricultural Business Activities).

For calendar year 2024, \$152.7 million is the estimated amount claimed that is covered by these provisions. Please see the attached revenue estimate for the detailed methodology and calculation of this amount.

I hope the above information is helpful. If you have any questions regarding the revenue amounts claimed, please contact me at (916) 309-8300.

Sincerely,

Trista Gonzalez
Director

TG:ck

Attachment: Revenue Estimate, AB 398 Annual Report

cc: Joint Legislative Budget Committee (Hans.Hemann@sen.ca.gov)
Legislative Analyst's Office (LAO.Secretary@lao.ca.gov)
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Ms. Michele Linton (MIC 105)
Mr. Jason Mallet (MIC 25)
Mr. Gentian Droboniku (MIC 67)
Mr. Tom Trach (MIC 67)
Mr. Aron Womack (MIC 67)
Ms. Sheryl Thomas (MIC 25)
Ms. Erin Lauchli (MIC 25)
Mr. Bradley Miller (MIC 75)
Mr. Thomas Thai (MIC 75)
Ms. Courtney Kassis (MIC 75)

REVENUE ESTIMATE

(REV. 4/21)

STATE OF CALIFORNIA

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

California Department of Tax and Fee Administration

REVENUE ESTIMATEAB 398 Annual Report

REPORTING REQUIREMENT

Assembly Bill (AB) 398 (Chapter 135, Statutes of 2017) added a reporting requirement for the California Department of Tax and Fee Administration (CDTFA). Under Revenue and Taxation Code 6377.1(g) (2) (B) CDTFA is required to report on the total value of the manufacturing sales tax exemption attributed only to the expansion under AB 398 to electric utilities and agriculture business activities, as defined.

EXEMPTION SUMMARY BY CATEGORY AND METHODOLOGY

This reporting requirement results in partial exemptions claimed for three separate categories: electrical utilities, agricultural businesses, and other manufacturers or research and development businesses (manufacturing). Tax return data is the primary source for determining the distribution of the three components of the total tax exemption. The registration data fields contain the North American Industry Classification System (NAICS) codes and descriptions and the names of the entities claiming the exemptions. NAICS codes are often associated with the retailer reporting the sale subject to the partial exemption rather than the consumer. To address this issue, we analyzed the return data in more detail, including manually reviewing and researching company profiles and business activities on the internet.

In calendar year 2024, CDTFA internal data shows that manufacturing, electric utilities, and agriculture business activities exemptions totaled \$465.2 million. Summarized below is the estimated breakout for each component based on our best assessment of the available data.

<u>Category</u>	<u>Calendar Year 2024</u>	<u>Percent of Total¹</u>
Manufacturing	\$312,462,297	67.17%
Electric Utilities	\$144,350,838	31.03%
Agricultural Business Activities	\$8,339,328	1.79%
Total Exemptions	\$465,152,463	100.00%

QUALIFYING REMARKS

As noted above, generally the exemption is reported by the seller of the item and not the end user and many of the NAICS codes and descriptions in CDTFA data belong to the seller. This may impact the accuracy of the estimated breakdown for the three components but does not impact the total exemption amount.

PREPARATION

Prepared by Aron Womack, Research and Statistics, Aron.Womack@cdtfa.ca.gov.
Current as of April 1, 2025.

¹ Percentages may not total 100 due to rounding