

California Governor Signs a Handful of Tax-Related Bills into Law

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This fall, California Governor Gavin Newsom signed several tax-related bills into law on a diverse array of topics ranging from the use tax to the gun tax.

Use tax: On October 7, 2023, Governor Newsom signed a bill into law changing the threshold for a California business to register to pay use tax. Prior to enactment of the new law, a qualified purchaser that had more than \$100,000 in annual gross receipts was required to register with the California Department of Tax and Fee Administration (“CDTFA”) to pay use tax on purchases from out-of-state sellers. Under the new law, a qualified purchaser must make more than \$10,000 in purchases per year from an out-of-state seller on which use tax has not been paid and remitted by the remote seller in order to be required to register with CDTFA. The bill’s sponsor described the purpose of the bill as to update the “outdated and burdensome” old system which was in effect before the Supreme Court decision in *South Dakota v. Wayfair, Inc.* generally allowed states to collect use tax from out-of-state sellers. As California adopted a law post-*Wayfair* that requires out-of-state sellers that sell more than \$500,000 in property in California to register to collect and remit use tax, the legislature determined that the old use tax registration requirements should be updated and streamlined.

Gun tax: While the change to the use tax registration did not garner much attention from the press, one bill that did was one signed by Governor Newsom on September 26, 2023, that doubled the taxes on sales of guns and ammunition in California. While federal law already taxes gun and ammunition sales at either 10 or 11 percent depending on the type of gun, the new law adds an additional 11 percent California tax on top of that, making California the only state to impose its own tax on guns and ammunition. The Governor’s office described the legislation as a “first-in-the-nation effort to generate \$160 million annually on the sale of bullets to improve school safety and fund a gun violence intervention program.”

Settlement authority of the CDTFA: On October 8, 2023, Governor Newsom signed into law a bill that makes changes to certain tax administration provisions, including a provision giving the CDTFA sole authority to approve settlement agreements reducing a taxpayer’s liability for tax or penalties by up to \$11,500, with periodic adjustments to be made to that threshold for inflation. Prior to the enactment of the new law, settlements involving a reduction of tax or penalties of up to \$5,000 required joint approval from the executive director of CDTFA and the chief counsel’s office.

Extension of disaster relief deduction: On September 30, 2023, Governor Newsom signed a bill extending the State’s disaster relief loss deduction through December 31, 2028, for both individual and corporate taxpayers. The disaster relief loss deduction allows a taxpayer to declare a loss related to a California disaster declared by the President of the United States or the Governor of California. Prior to the enactment of the new law, the disaster relief loss deduction was scheduled to sunset on December 31, 2023.

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