

[Assembly Bill 1858](#) (Santiago)

Date: Introduced

Program: Business Taxes

Sponsor: State of California Auto Dismantler Association  
BOE Member Horton

Code: Vehicle Code 11545

Effective: January 1, 2017

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***This analysis is limited to the bill's effect on the BOE-related tax programs***

**Summary:** Creates a multiagency task force consisting of the Board of Equalization (BOE), Department of Motor Vehicles (DMV), and the California Environmental Protection Agency (CalEPA) to investigate the occurrences of underground, unlicensed vehicle dismantling.

**Purpose:** To investigate environmental damage, tax evasion, and public harm that is occurring as a result of unlicensed automobile dismantling.

**Fiscal Impact Summary:** No state or local revenue impact.

**Existing Law:** Current Vehicle Code Section 11500 requires automobile dismantlers to be licensed with the DMV and have an established place of business. To obtain an automobile dismantlers license with the DMV, the applicant must provide proof of the following: a BOE seller's permit number, a CalEPA identification number, and a Franchise Tax Board identification number. The applicant must also provide a statement that he or she has either filed an application for stormwater permit or that it is not required and a similar statement that he or she has filed a hazardous materials plan or that it is not required.<sup>1</sup>

Since 2013, the Sales and Use Tax Law<sup>2</sup> stipulates that a licensed dismantler or any person selling a vehicle at auction is presumed to be making a retail sale. The seller may rebut this presumption by accepting a resale certificate only from a licensed dealer, dismantler, automotive repair dealer, or scrap metal processor. The intent of this provision was to reduce the tax gap related to the auto auction and dismantling industry. This gap resulted from unlicensed sellers, repair shops and dismantlers who avoided paying sales or use tax by issuing a resale certificate at the time of purchase at a salvage auto auction.

Part 12.2 (commencing with Section 15910) of Division 3 of Title 2 of the Government Code establishes the Revenue Recovery and Collaborate Enforcement (RRACE) Team as a pilot program. The Team includes the BOE, Franchise Tax Board, Employment Development Department, and Department of Justice who work cooperatively to pursue criminal tax evasion resulting from underground economic activities that evade state taxation. This law authorizes members of the RRACE Team and other participating agencies to exchange information to investigate underground operations that result in state tax evasion. The RRACE Team investigates organized criminal entities and/or serial offenders for violation of tax laws.

**Proposed Law:** This bill adds Vehicle Code Section 11545 to require DMV to establish the Unlicensed Automobile Dismantling Task Force (Task Force), which includes representatives from BOE and CalEPA. Until January 1, 2019, the Task Force is required to do the following:

- Collaborate to investigate underground, unlicensed automobile dismantling that violates automobile dismantling laws, resulting in tax evasion and environmental damage; and

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<sup>1</sup> Vehicle Code Section 11504(a).

<sup>2</sup> Revenue and Taxation Code Section 6092.5, as added by AB 2618 (Ma, Ch. 756, Stats. 2012)

- Submit a report to the Legislature on or before March 1, 2018, that includes the following information:
  - The number of leads or complaints received by the task force;
  - The number of complaints investigated and those that resulted in a civil action or criminal prosecution;
  - Recommendations for modifying, eliminating, or continuing the task force's activities; and
  - Recommendations for statutory or regulatory changes, or both, needed to better allow for enforcement against unlicensed automobile dismantlers

This bill also contains legislative findings and declarations.

**Background:** According to the author's office, out of the 28 million registered vehicles in California, about 1.2 million are disposed of annually. Of these, approximately 360,000, or 30%, of the end-of-life vehicles are being processed through unlicensed and unregulated automobile dismantlers. Unlicensed automobile dismantlers do not follow DMV licensing requirements, comply with tax laws or environmental regulations.

**In General:** The BOE is currently involved with various joint agency enforcement programs established to combat the underground economy. These include the RRACE Team, also known as Tax Recovery and Criminal Enforcement (TRaCE) Task Force, Joint Enforcement Strike Force (JESF), and the Labor Enforcement Task Force (LETf). Additional agency efforts include the BOE's Statewide Compliance and Outreach Program and the Contractor State License Board's Statewide Investigative Fraud Team.

### **Commentary:**

1. **Effect of the bill.** This measure creates a joint agency task force, led by DMV, to investigate unregulated automobile dismantlers and reduce the underground automobile dismantler economy.
2. **Collaborative efforts could yield positive results.** Through combined efforts with DMV and CalEPA, and those agencies' unique perspectives on unlicensed dismantlers, BOE could develop new methods to investigate and reduce tax evasion by this specific segment of the underground economy.
3. **Current efforts focus on unrelated issues.** The RRACE Team focuses on underground economy and criminal prosecution. JESF and LETf focus primarily on labor issues. The BOE is an active member of each partnership and has benefited from each.

**Administrative Costs:** The costs to work with DMV and CalEPA to implement the task force are absorbable.

**Revenue Impact:** This bill has no direct revenue impact. However, combining efforts with other state agencies to address tax evasion may have a positive effect on state and local revenues.