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SB-359 Use Fuel Tax Law: Diesel Fuel Tax Law: exempt bus operation. (2025-2026)

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Senate Bill No. 359

CHAPTER 217

An act to amend Sections 8655 and 60039 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

[Approved by Governor October 01, 2025. Filed with Secretary of State October 01, 2025.]

LEGISLATIVE COUNSEL'S DIGEST

SB 359, Niello. Use Fuel Tax Law: Diesel Fuel Tax Law: exempt bus operation.

The Use Fuel Tax Law imposes a state excise tax at specified rates, generally \$0.18 per gallon, on the use of fuel, as defined, and establishes various exemptions from those taxes, including an exemption for any transit district, transit authority, or city owning and operating a local transit system, as provided.

This bill would additionally apply this exemption to a county that owns and operates a local transit system, as provided.

The California Constitution provides for the establishment of the State Board of Equalization, which, before July 1, 2017, had primary responsibility for most of the state's duties, powers, and responsibilities regarding the administration of taxes and fees. Existing law, on July 1, 2017, transferred to the California Department of Tax and Fee Administration various duties, powers, and responsibilities of the State Board of Equalization, including administration of the Use Fuel Tax Law, as specified.

This bill would change references in the Use Fuel Tax Law provisions described above from the "State Board of Equalization" to the "California Department of Tax and Fee Administration" to reflect the transfer of the board's duties, powers, and responsibilities to the department.

The Diesel Fuel Tax Law imposes taxes at a specified rate with respect to the distribution or delivery of each gallon of diesel fuel, and establishes various exemptions from those taxes, including an exemption for an exempt bus operation that consists of, among other things, a transit district, transit authority, or city owning and operating a local transit system, as provided.

This bill would additionally apply this exemption to a county that owns and operates a local transit system, as provided.

This bill would take effect immediately as a tax levy, but its operative date would depend on its effective date.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 8655 of the Revenue and Taxation Code is amended to read:

8655. (a) This section shall be known and may be cited as the Mills-Hayes Act.

(b) No tax shall be imposed upon fuel used by:

(1) Any transit district, transit authority, city, or county owning and operating a local transit system itself or through a wholly owned nonprofit corporation.

(2) Any private entity providing transportation services for the transportation of people under contract or agreement, except general franchise agreements, with a public agency authorized to provide public transportation services, only for fuels consumed while providing services under such contracts or agreements entered into subsequent to the effective date of this act.

(3) Any passenger stage corporation subject to the jurisdiction of the Public Utilities Commission when the motor vehicles of such passenger stage corporation are exclusively operated in urban or suburban areas or between cities in close proximity for the transportation of persons for hire, compensation, or profit, provided, however, that the exemption is not extended to any line or lines operated by such passenger stage corporation which shall exceed 50 miles of one-way route mileage.

(4) Any common carrier of passengers operating exclusively on any line or lines within the limits of a single city between fixed termini or over a regular route, 98 percent of whose operations, as measured by total route mileage operated, are exclusively within the limits of a single city, and who by reason thereof is not a passenger stage corporation subject to the jurisdiction of the Public Utilities Commission.

(5) Any school district, community college district, or county superintendent of schools owning, leasing, or operating buses for the purpose of transporting pupils to and from school and for other school or college activities involving pupils, including, but not limited to, field trips and athletic contests.

(6) Any private entity providing transportation services for the purposes specified in paragraph (5) under contract or agreement with a school district, community college district, or county superintendent of schools, only for fuels consumed while providing services under those contracts or agreements entered into subsequent to the effective date of the act adding this paragraph.

(c) Notwithstanding the exemption provided for by subdivision (b), any system, corporation, or carrier using fuel exempt under the provisions of subdivision (b) shall, for the privilege of operating vehicles on state highways and freeways, make a payment equal to one cent (\$.01) for each gallon of such exempt fuel used. The payments required by this subdivision shall be paid to the California Department of Tax and Fee Administration in the manner prescribed by the department, and such payments shall be treated as a tax for all purposes of this part.

(d) The exemption provided for in subdivision (b) and the payments provided for in subdivision (c) shall not be applicable to fuel used by a charter-party carrier of passengers. The term "charter-party carrier of passengers" has the same meaning as that specified in Section 5360 of the Public Utilities Code and shall further include those transportation services described in subdivisions (a) and (e) of Section 5353 of the Public Utilities Code, if such transportation service is rendered as contract carriage and not as common carriage of passengers.

(e) There are in the State of California many local bus transit operators in need of financial assistance from sources other than the local property tax. These operators are performing essential public transit service as a vital counterpart of the streets and highways. It is the purpose of this section to provide relief from the payment of use fuel tax for local transit operators and it is the intent of the Legislature that the funds accruing to such operators shall be used for the improvement of their transit operations and to aid in providing better transit service to and from places of employment.

There are also in the State of California many private entities providing public transportation services for the transportation of people in vehicles other than buses under contract or agreement with local government, transit districts or local bus transit operators. It is the purpose of this section to provide relief from the payment of use fuel taxes for diesel fuel for those private entities only for fuel consumed while providing these services.

SEC. 2. Section 60039 of the Revenue and Taxation Code is amended to read:

60039. (a) "Exempt bus operation" consists of the following:

(1) Any transit district, transit authority, city, or county owning and operating a local transit system itself or through a wholly owned nonprofit corporation.

(2) Any private entity providing transportation services for the transportation of people under contract or agreement, except general franchise agreements, with a public agency authorized to provide public transportation services, only for diesel fuel consumed while providing services under those contracts or agreements entered into subsequent to January 1, 1979.

(3) Any passenger stage corporation subject to the jurisdiction of the Public Utilities Commission when the motor vehicles of the passenger stage corporation are exclusively operated in urban or suburban areas or between cities in close proximity for the

transportation of persons for hire, compensation, or profit. However, the exemption is not extended to any line or lines operated by the passenger stage corporation that exceed 50 miles of one-way route mileage.

(4) Any common carrier of passengers operating exclusively on any line or lines within the limits of a single city between fixed termini or over a regular route, 98 percent of whose operations, as measured by total route mileage operated, are exclusively within the limits of a single city, and who by reason thereof is not a passenger stage corporation subject to the jurisdiction of the Public Utilities Commission.

(5) Any school district, community college district, or county superintendent of schools owning, leasing, or operating buses for the purpose of transporting pupils to and from school and for other school or college activities involving pupils, including, but not limited to, field trips and athletic contests.

(6) Any private entity providing transportation services for the purposes specified in paragraph (5) under contract or agreement with a school district, community college district, or county superintendent of schools, only for diesel fuel consumed while providing services under those contracts or agreements entered into subsequent to September 30, 1984.

(b) "Exempt bus operation" as defined in subdivision (a), shall not be applicable to a charter-party carrier of passengers. The term "charter-party carrier of passengers" has the same meaning as that specified in Section 5360 of the Public Utilities Code and shall further include those transportation services described in subdivisions (a) and (e) of Section 5353 of the Public Utilities Code, if that transportation service is rendered as contract carriage and not as common carriage of passengers.

SEC. 3. This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect. However, the provisions of this act shall become operative on the first day of the first calendar quarter commencing more than 90 days after the effective date of this act.