



STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	05/23/01	Bill No:	AB 52XX
Tax:	Sales and Use	Author:	Reyes
Board Position:		Related Bills:	AB 695 (Pescetti) AB 1319 (Cox) AB 62XX (Cox)

BILL SUMMARY

This bill would provide a sales and use tax exemption for sales and purchases of energy efficient appliances and lightbulbs, as defined.

ANALYSIS

Current Law

Under existing law, the sales or use tax applies to the sale or use of tangible personal property in this state, unless otherwise exempted or excluded by statute. Under current law, the sales and use tax applies to sales and purchases of appliances and lightbulbs to the same extent as it applies to any other sale of tangible personal property that is not otherwise exempted or excluded from tax by statute.

Proposed Law

This bill would add Section 6356.4 to the Sales and Use Tax Law to provide a sales and use tax exemption for sales and purchases of energy efficient appliances and fluorescent lightbulbs, defined as equipment that meet or exceed the applicable ENERGY STAR efficiency requirements developed by the United States Environmental Protection Agency and the United States Department of Energy.

The bill would become effective immediately.

COMMENTS

- 1. Sponsor and purpose.** This bill is sponsored by the author and is intended to provide an incentive to purchase energy efficient appliances and lightbulbs in light of the state's current energy crisis.
- 2. What are energy efficient residential and commercial appliances?** Under the United States Environmental Protection Agency's (EPA) Energy Star website (<http://www.energystar.gov>), there are a variety of "Energy Star" products that do not fit within the category of "appliances." The EPA only lists clothes washers, refrigerators, room air conditioners, and dishwashers under the category of appliances. Other products used for heating and cooling, for example, such as hot water heaters, clothes dryers, furnaces, central heat and air units, oven, and ranges

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are categorized separately and would not appear to meet the criteria of the proposed exemption.

3. **Effective date poses concern.** The proposed exemption would become effective immediately upon the date of the bill's enactment. This would be problematic, since retailers would not have the knowledge, or in some cases, the mechanism to delete the tax on the items proposed to be exempted. This would result in excess tax collections, subsequent claims for refund, or adjustments on returns. The Board would need time to properly notify retailers, and retailers' cash registers and scanners would require reprogramming. It is recommended that the bill be amended to contain a delayed operative date, such as the first day of the calendar quarter commencing more than 90 days after the bill is enacted.
4. **Related legislation.** Several sales and use tax measures have been introduced this session to respond to California's energy crisis. AB 695 (Pescetti), would provide a sales and use tax exemption for sales and purchases of energy efficient residential and commercial refrigerators, room air-conditioners, clothes washers, and dishwashers, as specified. AB 1319 (Cox) and AB 62XX (Cox, et al.) would both provide a state tax exemption for any solar energy system designed to provide thermal energy for the purpose of heating water or providing electrical power, as specified. The Board supports all three measures.

COST ESTIMATE

Administrative costs would be incurred in immediately identifying and notifying affected retailers and contractors, processing claims for refund, verifying claimed exemptions, and amending the Board's regulation. An estimate of these costs is pending.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Residential & Commercial Appliances

Energy Star was introduced by the US Environmental Protection Agency (US EPA) in 1992 as a voluntary labeling program designed to identify and promote energy-efficient products, in order to reduce carbon dioxide emissions. The four major appliances that are part of this program include clothes washers, refrigerators, dishwashers and room air conditioners. Statistics used for the analysis were provided by D & R International and the Association of Home Appliance Manufacturers (AHAM). D & R is a strategic planning and marketing firm that produces market based solutions to energy problems. AHAM is a non-profit trade association of home appliance manufacturing companies.

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Refrigerators

Total California Energy Star refrigerator sales (units) in 2001 are estimated to be 97,485. The average price per refrigerator is \$1,024. Total estimated sales in 2001 are estimated to be \$99.8 million ($\$1,024 \times 97,485 \text{ units} = \99.8 million).

Clothes Washers

Total California Energy Star clothes washer sales (units) in 2001 are estimated to be 112,885. The average price per clothes washer is \$600. Total estimated sales in 2001 are estimated to be \$67.7 million ($\$600 \times 112,885 \text{ units} = \67.7 million).

Dishwasher

Total California Energy Star dishwasher sales (units) in 2001 are estimated to be 77,746. The average price per dishwasher is \$467. Total estimated sales in 2001 are estimated to be \$36.3 million ($\$467 \times 77,746 \text{ units} = \36.3 million).

Room Air Conditioners

There were no estimates provided for California Energy Star air conditioner sales (units) for 2001. In 1996, California had a 5% market share of US air conditioner sales. In 2001, the overall sales of air conditioners in US were 5.2 million units.

Based on the 1996 statistic (5%), it is estimated that air conditioner sales in California (units) in 2001 would number 260,000 units ($5\% \times 5.2 \text{ million units} = 260,000 \text{ units}$). In a report compiled by D & R in 1999, it was revealed that although promotions have been conducted in California in recent times, the market share for Energy Star air conditioners did not exceed 8%.

Total California Energy Star air conditioner sales (units) in 2001 are estimated to be 20,800 ($8\% \times 260,000 = 20,800 \text{ units}$). The average price per air conditioner is \$279. Total estimated sales in 2001 are estimated to be \$5.8 million ($\$279 \times 20,800 \text{ units} = \5.8 million).

Fluorescent Lightbulbs

According to the US EPA, there are at least 25 manufacturers involved in producing Compact Fluorescent Lightbulbs (CFLs). Energy Star labeled CFLs typically last ten times longer than incandescent lightbulbs.

Based on details provided by the National Electrical Manufacturers Association (NEMA), an estimated 8 million CFL units were shipped within the US in 2000. Ninety percent of the CFL units, i.e. 7.2 million units, were Energy Star compliant ($90\% \times 8 \text{ million units} = 7.2 \text{ million units}$). Using the California/US population ratio of 12%, it is estimated that 864,000 units were shipped to California in 2000 ($12\% \times 7.2 \text{ million units} = 864,000$).

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units). Due to the energy crisis, a few manufacturers interviewed estimate that sales of CFL units in 2001 would be 5 times more than sales in 2000. This amounts to 4.3 million units (5 864,000 million units = 4.3 million units).

Using \$15 as the average price of a Energy Star compliant CFL, it is estimated that CFL sales in California in 2001 would amount to \$64.5 million (\$15 x 4.3 million units = \$64.5 million).

Total Expenditures

Total estimated expenditures are as follows:

Type	Expenditures (in millions)
Appliances	\$ 209.6
Fluorescent Lightbulbs	<u>64.5</u>
Total	<u>\$ 274.1</u>

Revenue Summary

The annual revenue loss from exempting energy efficient appliances and fluorescent lightbulbs from the sales and use tax would be as follows:

	Revenue Effect (in millions) 2001
State loss * (4.75%)	\$ 13.0
Local loss (2.25%)	6.2
Special District loss (0.67%)	<u>1.8</u>
Total loss	<u>\$ 21.0</u>

* The state sales and use tax rate will be 4.75% for calendar year 2001 and is scheduled to be 5% in calendar year 2002.

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