



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

Date Amended:	04/18/01	Bill No:	AB 180
Tax:	Sales and Use	Author:	Cedillo
Board Position:		Related Bills:	AB 1667 (2000)

BILL SUMMARY

This bill would 1) extend indefinitely the sales and use tax exemption for sales of used clothing, household items, or other retail items by thrift stores operated for purposes of raising funds to provide specified services to AIDS patients, and 2) broaden the exemption to sales by thrift stores operated for purposes of raising funds to provide specified services to cancer patients and terminally ill patients.

ANALYSIS

Current Law

Under existing law, the sales tax or the use tax applies to the sale or use of tangible personal property (including second hand property) in this state, unless specifically exempted by law. Under existing law, Section 6363.3 of the Revenue and Taxation Code, as added by AB 3187 (Stats. 1996, Ch. 781), provides a sales and use tax exemption until January 1, 2002 for sales of used clothing, household items, and other retail items sold by thrift stores operated by a nonprofit organization. To qualify, the purpose of the thrift store must be to obtain revenue for the funding of medical and social services to individuals with AIDS, and at least 75 percent of those revenues must actually be expended for that purpose.

Current law also provides an exemption for sales by other charitable organizations. Under Section 6375 of the Revenue and Taxation Code, sales (including thrift store sales) by charitable organizations are exempt from sales and use tax under the following conditions:

1. The organization must be formed and operated for charitable purposes and must qualify for the "welfare exemption" from property taxation provided by Section 214 of the Revenue and Taxation Code.
2. The organization must be engaged in the relief of poverty and distress.
3. The organization's sales must be made principally as a matter of assistance to purchasers in distressed financial condition.
4. The property sold must have been made, prepared, and assembled or manufactured by the organization.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Merchandise sold through thrift stores operated by Goodwill Industries, the Salvation Army, and St. Vincent de Paul, for example, qualify for the exemption under Section 6375.

Background

A bill to eliminate the sunset date in existing law for merchandise sold through thrift stores operated for purposes of funding services to individuals with AIDS, was considered during the 2000 Legislative Session (AB 1667, Knox). The bill failed passage in the Senate Revenue and Taxation Committee.

COMMENTS

1. **Sponsor and purpose.** With the exception of the proposed amendments, this bill is sponsored by the Board of Equalization and is intended to make permanent the existing exemption for sales by thrift stores operated for purposes of funding medical and social services to individuals with AIDS, and to additionally include within the exemption sales of similar merchandise through thrift stores operated for purposes of raising funds for cancer patients.

The proposed amendments are sponsored by the California Hospice and Palliative Care Association, which operates approximately 35 nonprofit thrift stores in California. According to the sponsor, these thrift stores are operated for the purpose of raising revenues to provide hospice care to individuals with a terminal illness, and providing similar tax treatment for these thrift stores would be both logical and equitable.

2. **Provisions would not be problematic to administer.** Enactment of this measure would not materially affect the Board's administration of the sales and use tax law.

COST ESTIMATE

Some minimal costs to notify affected retailers and revise the Board's applicable regulation would be incurred. These costs are expected to be absorbable.

REVENUE ESTIMATE

We are aware of three organizations that operate thrift stores that would be affected by this measure: the American Cancer Society, the AIDS Healthcare Foundation, and the California Hospice and Palliative Care Association. Based on information from these organizations, the estimated combined total sales of these organizations that would be exempt under the provisions of this bill would amount to \$17.8 million annually.

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Revenue Summary

Exempting sales of \$17.8 million from the sales and use tax would result in the following annual revenue loss:

State loss (5.00%)**	\$ 875,000
Local loss (2.25%)	400,000
Special District loss (0.67%)	<u>119,000</u>
Total	<u>\$1,394,000</u>

** While the state tax rate is 4.75 percent for calendar year 2001, it is assumed the tax rate will return to 5.0 percent in 2002.

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