



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	03/10/03	Bill No:	AB 272
Tax:	Sales and Use	Author:	Dutton, et al
Board Position:		Related Bills:	

BILL SUMMARY

This bill would provide a 5 percent state sales and use tax exemption for the sale and purchase of qualified items with a single unit cost greater than \$10,000 purchased by a local emergency service provider.

ANALYSIS

Current Law

Under current law, the sales and use tax is imposed on the sale or use of tangible personal property in this state, including emergency equipment. Also, sales or use tax is imposed on purchases by state and local governments.

Under existing law, a base state and local sales and use tax rate of 7 ¼ percent is imposed as follows:

- 5 percent state tax allocated to the state’s General Fund (Section 6051, 6051.3, 6201 and 6201.3).
- ½ percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (Section 6051.2 and 6201.2).
- ½ percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Sec. 35 of Article XIII of the California Constitution).
- 1 ¼ percent Bradley-Burns Uniform Local Sales and Use Tax which is allocated to cities and counties (Part 1.5, commencing with Section 7200).

In addition, the law authorizes a 1/8 to 1 1/4 percent Transactions and Use Tax which is allocated to special taxing jurisdictions in various counties and cities within the state (Part 1.6, commencing with Section 7252).

Proposed Law

This bill would add Section 6382 to the Revenue and Taxation Code to create a partial sales and use tax exemption (5 percent) for the sale of, or storage, use or other consumption of qualified items purchased by a local emergency service provider.

This bill defines the term “qualified items” to mean any item with a single unit cost to a local emergency service provider that exceeds \$10,000 and the item is part of equipment and supplies purchased by a local emergency service provider for exclusive

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use by the local emergency service provider in response to emergency conditions and for the protection of public health, safety, and welfare.

This bill defines the term "local emergency service provider" to mean:

- A fire department that is under the jurisdiction of the state, a city, a county, a city and county, a township, special district, or other local governmental agency,
- a fire company in an unincorporated town organized pursuant to Section 14825 of the Health and Safety Code,
- a fire protection district formed pursuant to the Fire Protection District Law of 1987, as specified in Part 3 of Division 12 of the Health and Safety Code,
- a police department or sheriff's department that is under the jurisdiction of a city, county, or city and county,
- a police protection district formed pursuant to Part 1 of Division 14 of the Health and Safety Code.

The provisions of the bill would become effective immediately, but become operative on the first day of the first calendar quarter commencing more than 90 days after the bill is enacted.

Background

Assembly Bill 2758 (Statham), introduced in the 1994 Legislative Session, contained provisions that would have provided a sales and use tax exemption for the sale and purchase of any authorized emergency vehicle purchased by city, county, city and county, or fire protection district. AB 2758 failed passage in the Assembly Revenue and Taxation Committee.

AB 1884 (Lowenthal), introduced in the 2000 Legislative Session, contained provisions that would have provided a 5 percent state sales and use tax exemption for the sale and purchase of any public safety vehicle purchased by a city, county, city and county, or district responsible for public safety. AB 1884 failed passage in the Assembly Appropriations Committee.

Senate Bill 1826 (Morrow), introduced in the 2002 Legislative Session, contained provisions that would have provided a sales and use tax exemption for the sale and purchase of emergency equipment purchased by a local emergency service provider. SB 1826 failed passage in the Senate Revenue and Taxation Committee.

COMMENTS

- 1. Sponsor and Purpose.** This bill is sponsored by the author in an effort to reduce the operating costs related to emergency equipment acquisition. Due to the aftermath of September 11, emergency service providers are facing an increase in demand, and in return, an increase in operating costs.
- 2. Summary of amendments.** March 10 amendments made corrections to the reference of "a city, county, or city and county." Additional amendments also modified the definition of a qualified item to include equipment and supplies purchased by a local emergency service provider for exclusive use by the local

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emergency service provider in response to emergency conditions and for the protection of public health, safety, and welfare.

3. **Definition of qualified items.** This bill defines the term “qualified items” to mean any item with a single unit cost to a local emergency service provider that exceeds \$10,000 and the item is part of equipment and supplies purchased by a local emergency service provider for exclusive use by the local emergency service provider in response to emergency conditions and for the protection of public health, safety, and welfare. The type of items that could qualify for the proposed exemption would include vehicles such as fire trucks and police cars, specialized equipment used in providing emergency services such as pumping equipment on fire trucks and medical equipment in paramedic trucks, as well as administrative tools, such as computer systems and dispatching equipment, provided the single item cost exceeds \$10,000.
4. **DMV may also be affected by this bill.** The sale of emergency vehicles, such as fire trucks and police cars, could qualify for the proposed exemption. Sales and purchases of vehicles are generally subject to either the sales tax or the use tax. Generally, the sales tax applies when the vehicle is purchased from a dealer located in this state. The use tax generally applies whenever the sales tax does not apply, such as when a used vehicle is purchased from a private party.

When the sales tax applies, it is collected by the dealer and remitted to the Board of Equalization. When the use tax applies, the purchaser pays the tax to the Department of Motor Vehicles (DMV) when registering the vehicle. The DMV acts as an agent for the Board of Equalization in these situations.

The exemption proposed by this bill could require dealers selling vehicles subject to the exemption to maintain documentation to support the exemption and also require separate accounting and reporting for sales subject to the exemption. Additionally, the DMV would also be affected in situations where the tax exemption would apply, but the tax is being paid directly to the DMV rather than the selling dealer.

COST ESTIMATE

Some costs would be incurred in revising returns, regulations and publications. A detailed estimate of the workload impact is pending.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Under current law, the purchase of tangible personal property by local emergency service providers is taxable. This bill would exempt from the sales and use tax qualified items purchased by a local emergency service provider. This bill defines the term “qualified item” to include tangible personal property whose unit price is greater than \$10,000 and any item is part of equipment and supplies purchased by a local emergency service provider for exclusive use by the local emergency service provider in response to emergency conditions and for the protection of public health, safety, and

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welfare. This bill defines “local emergency service provider” as a local fire or police department.

Emergency Vehicles

According to the State Controller’s 1998-99 Annual Report for Cities, Counties, and Special Districts, statewide local police and fire protection expenditures amounted to \$10.2 billion. Using a 2% annual growth rate, total local fire and police expenditures for 2002-03 are estimated to be \$11.1 billion.

Based upon an analysis of police and fire protection expenditures in the cities of Long Beach, and Sacramento, and the counties of Los Angeles and San Francisco, 2002-03 state-wide expenditures for local police and fire vehicles are estimated to be \$256.4 million.

Equipment and Supplies

Based on analysis of police and fire expenditures for equipment and supplies in the cities of Long Beach, Los Angeles, and San Jose, and the County of San Francisco, and based upon the State Controller’s Annual Report for Cities, Counties, and Special Districts, statewide expenditures for equipment and supplies by local emergency service providers amounted to \$466.3 million in 1998-99. Using a 2% annual growth rate, total local fire and police expenditures for equipment and supplies for 2002-03 are estimated to be \$504.7 million. The total percentage of equipment and supplies with a unit cost greater than \$10,000 is estimated to be 2 percent. Therefore, the total expenditures on equipment and supplies that would qualify under this bill is estimated to be \$10.1 million (\$504.7 million X 0.02).

Revenue Summary

The revenue impact from exempting \$266.5 million (\$256.4 million + \$10.1 million) for qualified items purchased by local emergency service providers is estimated to be:

	Revenue Effect
State loss (5.00%)	<u>\$13.3 million</u>

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