



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

Date Introduced:	<b>02/23/01</b>	Bill No:	<b>AB 1246</b>
Tax:	<b>Sales and Use</b>	Author:	<b>Leonard</b>
Board Position:	<b>Support</b>	Related Bills:	<b>AB 1077 (Mountjoy) SB 546 (McClintock) SB 1064 (Polanco)</b>

**BILL SUMMARY**

This bill would provide a partial sales and use tax exemption for sales and purchases of college textbooks by students, as specified.

**ANALYSIS**

**Current Law**

Under existing law, the sale of books are subject to the sales or use tax to the same extent as the sale of any other tangible personal property not specifically exempted by law. With the exception of high school yearbooks and catalogs, tax applies to the sale of any book to elementary and high school students, as well as college students. Tax also applies to the sale of any book to a library, to the state, and to any political subdivision of the state.

**Proposed Law**

This bill would add Section 6361.7 to the Sales and Use Tax Law to provide a state tax exemption for the sale and purchase of any textbook that is purchased by a student at an institution of higher education or from an entity whose primary purpose is to provide textbooks to students attending institutions of higher education, for use as a learning resource in any course of study at that institution.

This bill would define “textbook” to mean any published material that is principally designed for use by a student at an institution of higher education as a source of instructional material and includes, but is not limited to, any book or edition of a book, as so described, that a student is directed or recommended by an instructor at an institution of higher education to purchase for use as a basis for a course of study at that institution.

This bill would define an “institution of higher education” to mean any public or private college or university that is nationally or regionally accredited.

This bill would require students to present a valid student identification card, issued by an institution of higher education, in order to receive the benefit of the textbook sales tax exemption.

*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.*

The proposed exemption would not apply to the Bradley-Burns Uniform Local Sales and Use Tax Law, the Transactions and Use Tax Law, or the taxes imposed under Section 6051.2 or 6201.2, or under Section 35 of Article XIII of the California Constitution.

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

### **Background**

Other measures with similar provisions have been previously introduced. Assembly Bill 2051 (Firestone), introduced in the 1998 Legislative Session, contained language that would have provided a partial sales and use tax exemption (6 percent) for sales of college textbooks to students. The bill failed passage in the Assembly Revenue and Taxation Committee. The Board was neutral on Assembly Bill 2051. Assembly Bill 490 (Ducheny), as amended January 3, 2000, also contained language providing a partial sales and use tax exemption (6 percent) for sales of college textbooks to students. The bill failed passage from its house of origin before it was presented to the Board for a position. Assembly Bill 2348 (Ducheny), introduced in the 2000 Legislative Session, contained the same language as this bill. AB 2348 was held in the Assembly Appropriations Committee. The Board voted to support AB 2348.

### **COMMENTS**

- 1. Sponsor and Purpose.** According to the office of the author, this bill is sponsored by the California State Student Association. The purpose of this bill is to help make college textbooks more affordable for college students.
- 2. Proposed exemption would place an added record-keeping burden on book store retailers.** The law provides that for the purpose of the proper administration of the sales and use tax and to prevent evasion of the sales tax, it shall be presumed that all gross receipts are subject to the tax until the contrary is established. In order for book store retailers to rebut this presumption, they would be required to establish to the satisfaction of the Board that the books they sell under the provisions of this measure are not subject to the sales or use tax. Consequently, the book store operator would be required to obtain and retain documentation that 1) the book is actually sold to a student of an institution of higher education (e.g. a student's ID card), and 2) the book is being purchased by the student upon direction of an instructor as a basis for a course of study at that institution (e.g. a letter from the instructor). Although this would place an added record-keeping burden on these retailers (as well as students and their instructors), without such documentation, virtually every book sold could escape taxation, resulting in a higher revenue loss than anticipated.

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- 3. Partial tax exemptions are difficult to administer.** The proposed exemption would apply only to the state portion of the tax rate (currently 4.75 percent). The proposed exemption would not apply to the Bradley-Burns Uniform Local Sales and Use Tax Law or the Transactions and Use Tax Law. Partial exemptions result in taxpayer return preparation errors. Also, returns claiming partial exemptions must be manually processed.
- 4. Related measures.** Three other measures that would provide an exemption for school-related purchases have been introduced this session. These are:
- AB 1077 (Mountjoy), which would provide a 5% state sales and use tax exemption for the purchase of any tangible personal property by a K-12 public school or school district.
  - SB 546 (McClintock), which would exempt from sales and use tax the sale and purchase of any textbook, as defined, purchased by a K-12 public school or school district, or an accredited private school, or sold to a student of an accredited private school or institution of higher education.
  - SB 1064 (Polanco), which would provide a sales and use tax exemption for any tangible personal property that is purchased by a school for educational purposes.

## **COST ESTIMATE**

Some costs would be incurred in notifying affected retailers, answering inquiries, amending appropriate regulations, and revising returns. A detailed cost estimate of the workload impacting data entry, verification, return processing and local revenue allocation is pending.

## **REVENUE ESTIMATE**

### **Background, Methodology and Assumptions**

For the purpose of this bill, college textbook is defined as any book that is principally designed for use by a student at an institution of higher education as a source of instructional material and includes, but is not limited to, any book or edition of a book that a student is directed or recommended by an instructor at an institution of higher education to purchase for use as a basis for a course of study at that institution.

For the year 2000, U.S. sales of college textbooks are estimated to be \$3.4 billion, according to *Book Industry Trends, 2000*. An analysis of sales at college bookstores and sales by publishers indicates that textbooks have a 70% mark-up. Projected 2000 U.S. retail sales of textbooks would amount to \$5.8 billion ( $\$3.4 \text{ billion} \times 1.7 = \$5.8 \text{ billion}$ ). Assuming that California accounts for 12% of those sales (the percentage of population California represents of total U.S. population), the estimated 2000 California retail sales would amount to \$696 million ( $\$5.8 \text{ billion} \times .12 = \$696 \text{ million}$ ).

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**Revenue Summary**

The revenue impact from exempting the \$696 million in sales of college textbooks from the state sales and use tax would be as follows:

	Revenue Loss
State (5.00%)**	<u>\$ 34.8 million</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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