



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

Date Introduced:	02/22/01	Bill No:	SB 546
Tax:	Sales and Use	Author:	McClintock
Board Position:		Related Bills:	AB 2165 (2000)

BILL SUMMARY

This bill would provide a sales and use tax exemption for the sale of any textbook purchased by a K-12 public school or school district, any textbook purchased by an accredited private school, any textbook sold by an accredited private school to a student of the accredited private school, or any textbook purchased by a student at an institution of higher education.

ANALYSIS

Current Law

Under existing law, the sale of books is 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 6361.3 to the Sales and Use Tax Law to provide an exemption for the sale in this state of, and the storage, use or other consumption in this state of, any of the following:

- Any textbook purchased by a K-12 public school or school district.
- Any textbook purchased by an accredited private school.
- Any textbook sold by an accredited private school to a student of the accredited private school.
- Any textbook purchased by a student at an institution of higher education for use as a learning resource in any course of study at that institution.

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.

This bill would also define the term “textbook” to mean either of the following:

- Any published material that is principally designed for use by a student at a K-12 public school or an accredited private school as a source of instructional material and includes, but is not limited to, any book or edition of a book, as so described, that is part of the teaching curriculum as determined by a K-12 public school teacher, public school district, accredited private school teacher, or accredited private school, and is used by a student or a teacher at a K-12 public school or accredited private school.
- Any published material that is principally designed for use by a student at any 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 is directed or recommended by an instructor at an institution of higher education to a student to purchase for use as a basis for a course of study at that institution.

This bill also provides that the term “textbook” does not include books on audio tape, computer disc, cd-rom, or similar storage media, other than traditional printed textbooks.

This bill also defines an “institution of higher education” to mean any public or private college or university that is nationally or regionally accredited or a postsecondary educational institution as defined in Section 66261.5 of the Education Code.

This bill would also provide that local agencies shall be reimbursed in the annual Budget Act for any sales and use tax revenues lost by them under this act.

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

Several 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.

Last year's Assembly Bill 2165 (McClintock) contained provisions identical to this bill. The sales and use tax provisions were amended from the bill prior to passing out of the Assembly Revenue and Taxation Committee. The Board voted to support Assembly Bill 2165.

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Assembly Bill 2345 (Ducheny, 2000) contained language providing a partial sales and use tax exemption (5 percent) for purchases of textbooks by public schools and purchases of any book by a K-12 public school student provided the book is sold by a school sanctioned book fair, book club, or reading program. The bill failed passage in the Assembly Appropriations Committee. The Board voted to support Assembly Bill 2345.

Assembly Bill 2348 (Ducheny, 2000) contained language providing a partial sales and use tax exemption (5 percent) for purchases of books by students at an education of higher learning for use as a learning resource in any course of study at that institution. The bill failed passage in the Assembly Appropriations Committee. The Board voted to support Assembly Bill 2348.

Senate Bill 1701 (Johnson, 2000) contained language providing a partial sales and use tax exemption (5 percent) for purchases of textbooks by public schools and purchases of any book by a K-12 public school student provided the book is offered for sale by a school sanctioned book fair, book club, or reading program. The bill failed passage from the Senate Revenue and Taxation Committee. The Board voted to support Senate Bill 1701.

COMMENTS

- 1. Sponsor and Purpose.** The purpose of this bill is to help make textbooks more affordable for public schools, private schools, and college students. The author is the sponsor of the bill.
- 2. Section 66261.5 of the Education Code.** This bill would provide an exemption from the sales and use tax for sales of any textbook by a postsecondary educational institution, as defined by Section 66261.5 of the Education Code. Section 66261.5 of the Education Code defines "postsecondary educational institution" to mean a public or private institution of vocational, professional, or postsecondary education; the governing board of a community college district; the Regents of the University of California; or the Trustees of the California State University.
- 3. Local agencies would be reimbursed.** The proposed exemption would apply to the state and local tax rate (currently 7 percent) in addition to any transactions and use taxes that would normally apply. However, this bill does contain language providing that local agencies shall be reimbursed through the annual Budget Act for any revenues lost by them pursuant to the proposed exemption.

COST ESTIMATE

Some costs would be incurred in notifying affected retailers, answering inquiries, amending appropriate regulations, and revising returns. These costs are expected to be absorbable.

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REVENUE ESTIMATE

According to the California Department of Education, total expenditures on textbooks for K-12 public schools amounted to \$343 million in 1999.

Of the schools and/or districts named above, only two sell or charge a use fee for textbooks: accredited private schools and postsecondary educational institutions. It is estimated that 98% of all private schools are accredited in California. According to the California Department of Education, for the school year 1998-99, the total number of students attending private school grades K-8 was 491,667; the total number of students attending private school grades 9-12 was 137,079. Costs for textbooks differ for K-8 and grades 9-12. According to the California Catholic Conference, an organization representing private Catholic Schools, the average annual cost of textbooks per student for grades K-8 is approximately \$71; the average annual cost of textbooks per student for grades 9-12 is approximately \$400. According to the Association of Christian Schools International, an organization representing 292 private schools in California, the costs mentioned above are fairly representative of the costs incurred at the schools it represents.

Not all private schools sell textbooks nor charge a use fee. In some private schools, students pay a single tuition fee, which includes textbook usage. It is estimated that approximately 75% of the total private school student population purchase or pay a use fee for textbooks. Therefore, the total expenditures that qualify under this proposal for K-8 are \$26.2 million (491,667 students x 75% x \$71). The total expenditures that qualify under this proposal for grades 9-12 are \$41.1 million (137,079 x 75% x \$400). Therefore, the total expenditures for accredited private school textbook sales that qualify under this proposal are \$67.3 million (\$26.2 million + \$41.1 million).

The remaining 25 percent of accredited private school students receive textbooks from the accredited private school that they attend. It is estimated that the cost to private schools is the same as the cost for textbooks paid by students at the schools that sell or charge a use fee for textbooks. The total expenditures that qualify under this proposal for grades K-8 are \$8.7 million (491,667 x 25% x \$71). The total expenditures that qualify under this proposal for grades 9-12 are \$13.7 million (137,079 x 25% x \$400). Therefore, the total expenditures that qualify under this proposal are \$22.4 million (\$8.7 million + \$13.7 million).

An institution of higher learning means any public or private college or university that is regionally accredited or a postsecondary educational institution as defined in Section 66261.5 of the Education Code.

According to *Book Industry Trends*, 1999 U.S. sales of college textbooks by publishers to postsecondary institutions is estimated to be \$2.4 billion. An analysis of sales at college bookstores and sales by publishers indicates that textbooks have a 70% mark-up. Estimated 1999 U.S. retail sales of these textbooks would amount to \$4.1 billion (\$2.4 billion X 1.7). Assuming that California accounts for 12% of those sales (the percentage of population California represents of total U.S. population), the estimated 1999 California retail sales would amount to \$492 million (\$4.1 billion X .12).

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The total sales of textbooks that qualify under this proposal are \$924.7 million (\$343.0 million + \$67.3 million + \$22.4 million + \$492.0 million).

Revenue Summary

The revenue impact from exempting \$924.7 million in sales of any textbook purchased by a K-12 public school or school district, any textbook purchased by an accredited private school, any textbook sold by an accredited private school to a student of the accredited private school, and any textbook purchased by a student at an institution of higher education from the state and local sales and use tax would be as follows:

	Revenue Loss
State Loss (5.00%)**	\$46.2 million
Local Loss (2.25%)	\$20.8 million
Transit Loss (0.67%)	<u>\$ 6.2 million</u>
Total	<u>\$73.2 million</u>

The state would be required to reimburse local agencies for lost revenue identified above of \$27 million.

**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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