



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	02/21/08	Bill No:	SB 1450
Tax:	Sales and Use	Author:	Dutton & Kehoe
Related Bills:	AB 1919 (Silva)	Position:	Support as Sponsor

BILL SUMMARY

This Board-sponsored bill would provide an exemption from the sales and use tax for sales of tangible personal property by thrift stores operated by specified nonprofit organizations that provide, in partnership with the Navy and Marine Corps, financial, educational, and other assistance to members of the Naval Service of the United States, eligible family members, and survivors when in need.

ANALYSIS

CURRENT LAW

Under existing law, the sales tax applies to the sale of tangible personal property in this state, unless specifically exempted. The Sales and Use Tax Law provides no general statutory exemption from the sales or use tax merely because the seller or the purchaser is engaged in charitable activities, is a nonprofit organization, or enjoys certain privileges under property tax statutes or income tax statutes. However, current law is sprinkled with several separate provisions designed to assist various kinds of nonprofit groups engaged in charitable activities. For example, currently under Section 6363.3 of the Revenue and Taxation Code, a sales and use tax exemption applies to sales and purchases of used pieces of clothing, household items, or other retail items sold by thrift stores operated by a nonprofit organization if the purpose of that thrift store is to obtain revenue for the funding of medical, hospice, or social services to chronically ill individuals and the other requirements of the exemption are met.

Current law also provides under Section 6375 an exemption for sales by charitable organizations qualifying for the property tax “welfare exemption” under Section 214 of the Revenue and Taxation Code, provided the organization is engaged in the relief of poverty and distress, and the sales are made principally as a matter of assistance to purchasers in distressed financial condition. Also, the property sold must have been made, prepared, and assembled or manufactured by the organization. Sales at thrift stores operated by Goodwill and Salvation Army, for example, are exempt from sales and use tax under the provisions of Section 6375, as the premises of these organizations’ thrift stores qualify for the “welfare exemption” under Section 214 (because of the fact these organizations rehabilitate persons on the premises of their thrift stores) and they meet the other requirements of Section 6375.

PROPOSED LAW

This bill would add Section 6363.4 to the Sales and Use Tax Law to provide an exemption from the sales and use tax for sales of tangible personal property by a nonprofit organization that operates thrift stores on military installations, provided the organization is exempt from taxation under Section 23701d, and its purpose is to provide financial, educational, and other assistance to members of the Naval Service of the United States, eligible family members, and survivors when in need.

The bill would take effect immediately as a tax levy.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the Board of Equalization to provide a small but important exemption in the law for items purchased by service members and their families in their time of need.
2. **What nonprofit organization would benefit?** This bill would essentially only apply to the sales from the thrift stores operated by the Navy-Marine Corps Relief Society. The issue had come to the Board's attention when the Society contacted the Board expressing its belief that the sales made at its thrift stores were not subject to sales or use tax. This society is a nonprofit, charitable organization that provides financial, educational, and other assistance to members of the Naval Services of the United States, and their eligible family members and survivors, when in need. The Society, operating in partnership with the Navy and Marine Corps, also operates 28 thrift stores, seven of which are located within California at various naval or marine bases in San Diego, Barstow, Ridgecrest, Port Hueneme, Coronado and Lemoore. The Society's thrift stores sell used clothing, uniforms, and household items to service members and their families at a nominal cost. The sales income realized from the thrift stores is returned to the Navy-Marine Corps community in the form of relief services. The Board believes that the price of the goods sold by the Society's thrift stores should not be increased by the addition of sales tax, and thus, unanimously voted to support legislation to provide an exemption.
3. **Why just this relief society?** Although the other branches of the military have similar relief societies, it is our understanding that those relief organizations do not operate thrift stores, or make other sales of tangible personal property.
4. **Related legislation.** AB 1919 (Silva) is identical to this bill.

COST ESTIMATE

Enactment of this bill would not materially impact the Board's administrative costs.

REVENUE ESTIMATE

According to the 2006 Annual Report of the Navy Marine Corps Relief Society, miscellaneous receipts, principally from thrift shop operations, amounted to an additional \$1.1 million. Assuming 80 percent of those miscellaneous receipts are from actual thrift store sales, total sales of all 28 thrift stores would amount to \$880,000. Since only seven of the 28 thrift stores (or ¼) are located in California, we assume total sales that would be exempted by this measure would amount to \$220,000 (1/4 of \$880,000).

Applying the total California sales of \$220,000 by the average sales and use tax rate of 7.54% (4 thrift stores are located in 7.75% tax rate areas, and 3 are located in 7.25% areas), total state and local sales and use tax revenues would amount to approximately \$16,000 annually, as follows:

State General Fund (5%)	\$11,000
State Fiscal Recovery Fund (1/4%)	550
Local Revenue Fund (1/2%)	1,100
Local Public Safety Fund (1/2%)	1,100
Local and County (1%)	2,200
Special districts	50
Total	<u>\$16,000</u>

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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.