

[Senate Bill 120](#) (Anderson)

Date: 05/06/15

Program: Sales and Use Tax

Sponsor: Alpine Fire Protection District

Revenue and Taxation Code Section 6012.4

Effective: Upon enactment, but operative 1st day of 1st quarter 90 days after enactment

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Summary: Excludes from sales and use tax that portion of any public safety first responder vehicle and any required equipment that exceeds \$300,000 when purchased by a local public agency.

Summary of Amendments: Since the previous analysis, the bill was amended to clarify that (1) a local public agency means a fire protection district or fire department, and (2) the \$300,000 threshold applies to individual purchases.

Purpose: To allow fire departments to allocate more tax dollars to improve public safety instead of paying sales tax with taxpayer funds on their equipment.

Fiscal Impact Summary: Annual state and local revenue loss of \$3 million.

Existing Law: Except where the law provides a specific exemption or exclusion, California's Sales and Use Tax Law¹ imposes the sales tax on all retailers for the privilege of selling tangible personal property at retail in this state or the use tax on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer.

The law² defines the terms "gross receipts" and "sales price" as the total amount of the sale or lease or rental price without any deduction for the material cost, labor or service costs, interest charged, losses, or any other expenses related to the property's sale. Normally, the law regards a service sold in connection with a taxable good as part of the sale. Accordingly, the tax is based on the total receipts derived from that sale.

Under current law, purchases of tangible personal property by local governments, including school districts and other special districts, are generally subject to the sales or use tax. The law does not provide beneficial tax treatment merely because the purchaser is a local government entity. Therefore, local governments' purchases, such as emergency or general-use vehicles, supplies, fuel, and repair parts are generally subject to the sales or use tax.

California's sales and use tax rates. Since January 1, 2013, a statewide 7.5% sales and use tax rate applies to tangible personal property sales and purchases. The table shows California's various sales and use tax rate components, including the 1% Bradley-Burns Local Tax (the table excludes voter-approved city and county district taxes, which range from 0.1% to 2.5%):

Rate	Jurisdiction	Purpose/Authority
3.9375%	State (General Fund)	State general purposes (RTC Sections 6051, 6051.3, 6201, 6201.3)
0.25%	State (Fiscal Recovery Fund)	Repayment of the Economic Recovery Bonds (RTC Sections 6051.5 and 6201.5, operative 7/1/04)
0.50%	State (Local Public Safety Fund)	Local governments to fund public safety services (Section 35, Article XIII, State Constitution)

¹ Part 1 of Division 2 of the Revenue and Taxation Code (RTC) (commencing with Section 6001).

² RTC Sections 6011 and 6012, respectively.

Rate	Jurisdiction	Purpose/Authority
0.25%	State (Education Protection Account)	Until 01/01/17, schools and community college funding (Section 36, Article XIII, State Constitution)
0.50%	State (Local Revenue Fund)	Local governments to fund health and welfare programs (RTC Sections 6051.2 and 6201.2)
1.0625%	Local Revenue Fund 2011	Realignment of local public safety services (RTC Sections 6051.15 and 6201.15)
1.00%	Local (City/County) 0.75% City and County 0.25% County	(RTC Section 7203.1, operative 7/1/04) General city and county operations County transportation purposes
7.50%	Total Statewide Rate	

Proposed Law: This bill adds RTC Section 6012.4 to exclude from “gross receipts” and “sales price” amounts of an individual item in excess of \$300,000 from the sale and use of any public safety first responder vehicle, and the equipment required on a public safety first responder vehicle, that are purchased by a local public agency, as defined.

“Local public agency” means a fire protection district or a fire department of a city, county, municipal corporation, district, or public authority located within this state.

As a tax levy, the bill takes effect immediately, but becomes operative on the first day of the first calendar quarter commencing more than 90 days after enactment.

Legislative History: Last year’s SB 1367 (Anderson) contained provisions similar to this bill without the \$300,000 threshold. It failed passage in the Senate Governance and Finance Committee.

Commentary:

- 1. The May 6, 2015 amendments** clarify that (1) a local public agency means a fire protection district or a fire department of a city, county, municipal corporation, district, or public authority located within this state, and (2) the \$300,000 threshold applies to the purchase of an individual item.
- 2. Proposed exemption applies to purchase amounts over \$300,000.** If a public safety first responder vehicle costs \$500,000, only the first \$300,000 is fully taxable, exempting the remaining \$200,000. The exemption applies to individual purchases; transactions cannot be combined to reach the \$300,000 threshold.
- 3. Proposed exemption would affect local agencies differently.** The jurisdictions that would financially benefit from the proposed exemption would not be those that receive sales and use tax revenues or those that would lose revenues by the exemption. Fire protection districts generally receive funding through property tax revenues, not sales and use tax, and would substantially benefit from the exemption. Conversely, a local government that receives sales tax revenues generated by fire truck and related equipment sales within its jurisdiction would lose those tax revenues. This measure would have the effect of shifting costs and revenues between local governments and fire districts.

Administrative Costs: BOE would incur absorbable costs to notify retailers, audit claimed exclusions, and answer inquiries from taxpayers and the general public.

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 BOE’s formal position.

Revenue Impact:

Background, Methodology, and Assumptions. Consistent with the intent of this bill, this estimate provides the revenue loss associated with a sales and use tax exemption to city, county and fire district agencies on their purchases of first responder vehicles (fire and ambulance) and any equipment required on those vehicles. Based on data from the State Controller's Annual Reports for local governments, cities, counties and fire districts spent an estimated \$7 billion annually on fire protection. Staff did not find any data determining what cities, counties, and fire districts specifically spent annually on first responder vehicles and any required equipment.

The ratio of fire vehicle and equipment expenditures to the overall fire protection expenditures is about 1 percent. Assuming that this is reflective of all cities, counties and fire districts in the state, annual statewide first responder vehicle and equipment expenditures would be \$70 million ($1\% \times \$7 \text{ billion} = \70 million). Also assuming the average price of a vehicle with auxiliary equipment is \$600,000, the average exemption would be \$300,000 ($\$600,000 - \$300,000$). As an order of magnitude, purchases of \$300,000 and above are estimated to represent half the total expenditures. Hence, estimated purchases exempted under this bill total \$35 million.

Revenue Summary. The annual revenue loss from exempting that portion of a first responder vehicles and any required equipment exceeding \$300,000 from the state and local sales and use tax is estimated at \$3 million ($\$35 \text{ million} \times 8.42\% \text{ statewide rate} = \3 million).³

This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.

³ The state 0.25% Education Protection Account rate will cease to be operative on January 1, 2017. Accordingly, the annual revenue loss will be slightly less due to the 0.25% rate reduction.

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