

[Assembly Bill 724](#) (Dodd)

Program: Sales and Use Tax

Sponsor: Jimmy Doolittle Air and Space

Museum Education Foundation

Revenue and Taxation Code Section 6366.4

Effective: Upon enactment

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Summary: Exempts from sales and use tax the Jimmy Doolittle Air and Space Museum Education Foundation's ("Foundation") purchases of museum display pieces.

Purpose: According to the author, the Foundation has an opportunity to add to its historic display the fully restored 1932 "Shell Lockheed Vega" flown by General Doolittle. The Foundation has a donation of 50% of the aircraft, and would purchase the remaining 50%. The author notes that it will be challenging to raise sufficient funding for the remaining 50%. Exempting the Foundation's historic aircraft purchase will assist in consummating the acquisition.

Fiscal Impact Summary: A one-time state and local revenue loss of \$39,000.

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.

Existing law provides several sales and use tax exemptions related to museums, as follows:

- Original works of art² are exempt from sales and use tax when they are, among other things, purchased by a California state or local entity, or by certain nonprofit organizations under contract with governmental entities, by certain nonprofit organizations for public exhibit, or by persons for donation directly to any governmental or nonprofit organization.
- Museum pieces³ purchased to replace destroyed property used exclusively for display purposes are exempt from sales and use tax when purchased within three years from the date the property was destroyed by (1) the state or a local government entity as part of a public art collection, (2) a nonprofit museum regularly open to the public and operated by a local or state government entity, or (3) operated by certain nonprofit organizations.
- San Diego Aerospace Museum's and the California Science Center's⁴ purchases of museum display items and sprung instant structures used as temporary exhibit housing are exempt from sales and use tax.
- Under certain circumstances, nonprofit associations and organizations that perform auxiliary services⁵ to any city or county museum in this state are consumers of property which they sell at an annual rummage sale provided the profits are used for purposes of the organization. As consumers, these entities must only pay tax on their cost of any items they purchased for the rummage sale.

Proposed Law: This bill exempts from the sales and use tax museum pieces purchased by the Jimmy Doolittle Air and Space Museum Education Foundation.

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

² RTC Section 6365.

³ RTC Section 6366.3.

⁴ RTC Section 6366.4.

⁵ RTC Section 6370.5.

Background: In 1986, the exemption for the San Diego Aero-Space Museum’s purchases of museum display items was enacted.⁶ In 1988, the exemption was extended to the California Science Center’s purchases.⁷ A 1992 measure⁸ expanded the exemption to include sprung instant structures purchased by these entities for use as temporary exhibit housing.

Other measures considered in the past to further expand this exemption include purchases by the Museum of Flying,⁹ the March Field Museum Foundation,¹⁰ and the Air Force Flight Test Center Museum.¹¹ None were enacted.

Commentary:

1. **Effect of the bill.** Enables the Jimmy Doolittle Air and Space Museum Education Foundation (“Foundation”) to purchase museum pieces for display purposes without payment of sales tax reimbursement or use tax.
2. **Proposed exemption would apply prospectively only.** The bill would take effect immediately upon enactment. Any museum display items the Foundation has purchased or purchases prior to the bill’s effective date remain subject to tax. Once enacted, the Foundation’s future museum display item purchases (such as the historic aircraft) will receive the exemption’s benefit.
3. **This bill does not materially impact the BOE’s tax audit or administrative functions.** Since the bill only affects one museum, its enactment would have an insignificant impact to the BOE.

Costs: The BOE will incur insignificant absorbable administrative costs.

Revenue Impact:

Background, Methodology, and Assumptions. Based on staff conversations with the Foundation, in 2016 the Foundation plans to purchase an aircraft (artifact) with an estimated \$1 million value. The Foundation indicated that fifty percent of the plane is being donated directly to the Foundation and the Foundation will raise the other fifty percent to make the purchase. Accordingly, this bill would exempt an estimated \$500,000 purchase.

At the time of preparing this estimate, staff is only aware of the museum’s planned aircraft purchase that would qualify for this proposed exemption. Staff has no additional information about other purchases that would be used exclusively for display purposes within the Foundation that this bill would also exempt. The Foundation is based in Vacaville, California. In determining the bill’s revenue impact, staff used the 7.875% Vacaville sales and use tax rate.

Revenue Summary. The proposed sales and use tax exemption on purchases of tangible personal property by the Jimmy Doolittle Air and Space Museum Education Foundation would result in an estimated sale and use tax loss of \$39,000 in 2016 (7.875% tax rate × \$500,000 purchase price).

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

⁶ Ch. 1270, Stats. 1986.

⁷ Ch. 904, Stats. 1988.

⁸ Ch. 875, Stats. 1988.

⁹ AB 1233 (1991-92) was vetoed by Governor Pete Wilson.

¹⁰ AB 2475 (1990-00) was vetoed by Governor Gray Davis.

¹¹ SB 1004 (2001-02) died in the Senate Revenue and Taxation Committee.

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.