



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

DRAFT

Date:	02/21/14	Bill No:	<u>Senate Bill 1367</u>
Tax Program:	Sales and Use Tax	Author:	Anderson
Sponsor:	Alpine Fire Protection District	Code Sections:	RTC 6363.4
Related Bills:		Effective Date:	Operative on the first day of a calendar quarter commencing more than 90 days after enactment

BILL SUMMARY

This bill exempts from the state and local sales and use tax any public safety first responder vehicle and any equipment required on those vehicles purchased by a local public agency, as defined.

ANALYSIS

CURRENT 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.

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. California imposes a statewide 7.5% sales and use tax on tangible personal property sales and purchases. The following table shows California’s various sales and use tax rate components (the table excludes voter-approved city and county district taxes):

Rate	Jurisdiction	Purpose/Authority
3.9375%	State (General Fund)	State general purposes (Revenue and Taxation Code (RTC) Sections 6051, 6051.3, 6201, and 6201.3)
1.0625%	Local Revenue Fund 2011	Realignment of local public safety services (RTC Sections 6051.15 and 6201.15)
0.25%	State (Fiscal Recovery Fund)	Repayment of the Economic Recovery Bonds (RTC Sections 6051.5 and 6201.5)

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

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Rate	Jurisdiction	Purpose/Authority
0.25%	State (Education Protection Account)	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)
0.50%	State (Local Public Safety Fund)	Local governments to fund public safety services (Section 35, Article XIII, State Constitution)
1.00%	Local (City/County) 0.75% City and County 0.25% County	City and county general operations (RTC Section 7203.1, operative 7/1/04); Dedicated to county transportation purposes
7.50%	Total Statewide Rate	

PROPOSED LAW

This bill exempts from state and local sales and use tax local public agencies' purchases of first responder vehicles and required equipment.

The bill defines "local public agency" as any city, county, municipal corporation, district, or public authority located within this state which provides or may provide first responder emergency services.

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

COMMENTS

- Sponsor and Purpose.** The Alpine Fire Protection District is sponsoring this bill. According to the author's office, SB 1367 allows fire departments and other public agencies to allocate more tax dollars to improve public safety instead of paying sales tax with taxpayer funds on their equipment. The author's office notes, "Our local government first responders are on the front lines of ensuring public safety in our communities. Their efforts are funded with the tax dollars of hard-working families. Taxpayers expect that the taxes they pay to fund first responder services go directly into ensuring their public safety. Unfortunately, a significant portion of tax funds allocated to them are often tied up paying state sales taxes on the emergency response vehicles they are required to purchase. For example, the Alpine Fire Protection District is required to replace their fire engines every ten years which can cost in excess of \$160,000. Taxes add costs of over \$50,000 per vehicle purchased, all of which is paid for with taxpayer funds meant for ensuring public safety."
- Proposed exemption would have different effects on local agencies.** The proposed exemption's net effect on local government revenues has differing results. The jurisdictions that would financially benefit from the proposed exemption are not identical to those that receive sales and use tax revenues or those that would lose revenues caused by the exemption. For example, fire protection districts generally receive funding through property tax revenues and not sales and use tax revenues. Yet, they would be a substantial beneficiary of the exemption for their qualifying purchases. On the other hand, a local government that would normally benefit from the revenue received on a sale of a fire truck and related equipment within its jurisdiction would lose more sales and use tax revenues than they saved in transactions where the sale was made to another jurisdiction that benefitted from the

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exemption. Therefore, this measure would have the effect of shifting costs and revenues between local governments and fire districts.

- 3. The bill should define “first responder.”** The author’s office indicates that the bill only intends to exempt fire and ambulance-related vehicles and equipment. However, absent a definition, the term “first responder” could include local agencies’ purchases of police vehicles, tow trucks, electrical utility trucks, dispatch equipment, and more. Therefore, to reflect the author’s intent, minimize the associated revenue loss, and avoid ambiguity, it is recommended that the bill clearly define “first responder.” Also, while fire services are generally operated by local agencies, critical ambulance services are often operated by private industry. The proposed exemption would not apply to purchases of any privately operated vehicles and equipment.

COST ESTIMATE

A cost estimate is pending to determine costs to notify retailers, audit claimed exemptions, and answer inquiries from taxpayers and the general public.

REVENUE ESTIMATE

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 agency 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, we estimate that in fiscal year 2011-12, cities, counties and fire districts spent \$7 billion on fire protection. We have not found any specific data that discloses the annual first responder vehicles and equipment expenditures.

We reviewed San Francisco and Los Angeles cities’ budgets that showed the fire vehicle and equipment expenditures ratio to the overall fire protection expenditures equates to about 1 percent. Assuming this ratio is reflective of all cities, counties and fire districts in the state, we estimate annual statewide first responder vehicle and equipment expenditures to be \$70 million (\$7 billion x 1% =\$70 million).

REVENUE SUMMARY

The annual revenue loss from exempting first responder vehicles and equipment purchases from the state and local sales and use tax is estimated to be \$6 million (\$70 million \times 8.42% statewide rate = \$6 million).

Revenue Source	Rates	millions
State General Fund	3.94%	2.8
State Education Protection	0.25%	0.2
Fiscal Recovery Fund	0.25%	0.2
Local Revenue Fund	0.50%	0.35
Public Safety Fund	0.50%	0.35
Local Revenue Fund 2011	1.06%	0.7
Bradley Burns (Local Tax)	1.00%	0.7
Special District Tax	0.92%	0.7
Total State and Local Revenue Loss	8.42%	\$6.0

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

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