



STATE BOARD OF EQUALIZATION

STAFF LEGISLATIVE BILL ANALYSIS

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| Date Introduced: | 02/20/04 | Bill No: | AB 2585 |
| Tax: | Sales and Use Taxes | Author: | Parra |
| Board Position: | | Related Bills: | |

BILL SUMMARY

This bill would, among other things, require the Legislative Analyst (LAO), in conjunction with the Board of Equalization (BOE) and the Franchise Tax Board (FTB), by December 31, 2004, to calculate the state tax revenues attributable to Kings County for the fiscal year 2003-04. This bill would also require the LAO, in conjunction with the BOE and the FTB, by December 31, 2007, and December 31 for each following year, to calculate the state tax revenues attributable to Kings County for the preceding fiscal year.

ANALYSIS

Current Law

The Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code), provides that a sales tax is imposed on retailers for the privilege of selling tangible personal property at retail. The use tax is imposed upon the storage, use, or other consumption of tangible personal property purchased from a retailer. Either the sales tax or the use tax applies with respect to all sales or purchases of tangible personal property, unless specifically exempted or excluded from the tax.

Currently, the state portion of the sales and use tax rate is 6 percent. However, beginning July 1, 2004, the state sales and use tax rate will increase by 0.25 percent, from 6 to 6.25 percent. The revenues from the 0.25 percent state sales and use tax rate increase are to be deposited into the Fiscal Recovery Fund and dedicated to the repayment of the budget deficit bonds.

The components of the state sales and use tax rate of 6 percent are as follows:

- 4.75 percent state sales and use tax is allocated to the state's General Fund which is dedicated for state general purposes (Sections 6051 and 6201 of the Revenue and Taxation Code);
- 0.25 percent is an additional state sales and use tax allocated to the state's General Fund which is dedicated for state general purposes (Sections 6051.3 And 6201.3 of the Revenue and Taxation Code);
- 0.50 percent state tax is allocated to the Local Revenue Fund which is dedicated to local governments to fund health and welfare programs (Sections 6051.2 and 6201.2 of the Revenue and Taxation Code);
- 0.50 percent state tax is allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Section 35 of Article XIII of the California Constitution).

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.

Proposed Law

This bill would add Section 40608 to the Health and Safety Code to require the LAO, in conjunction with the BOE and the FTB, by December 31, 2004, to calculate the state tax revenues attributable to the Joint Strike Fighter Impact Zone for the base fiscal year. This bill would also require the LAO, in conjunction with the BOE and the FTB, by December 31, 2007, and December 31 of each following year, to calculate the state tax revenues attributable to the Joint Strike Fighter Impact Zone for the preceding fiscal year.

This bill provides the following definitions:

- “Joint Strike Fighter Impact Zone” means Kings County;
- “Base fiscal year” means the 2003-04 fiscal year;
- “State tax revenues” includes revenues derived from the imposition of taxes under the Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code), the Personal Income Tax Law (Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code), and the Corporation Tax Law (Part 11 (commencing with Section 23001) of Division 2 of the Revenue and Taxation Code).

This bill would also state the Legislature’s intent to encourage the United States Navy to select Lemoore Naval Air Station (located in Kings County) as the Navy’s West Coast Operations Center to house the F-35 Joint Strike Fighter. It is estimated that as many as 10,000 new jobs will be generated in and around the site selected to house the F-35 Joint Strike Fighter, as well as increase economic activity by an estimated \$1 billion.

This bill would also do the following:

- Require the San Joaquin Valley Air Pollution Control District (district) to develop and adopt by regulation, no later than January 1, 2008, a program to offset or mitigate the increased emissions of air contaminants as a result of the housing of the F-35 Joint Strike Fighter at Lemoore Naval Air Station;
- Create the Joint Strike Fighter Impact Zone Account in the Air Pollution Control Fund, and would make the monies deposited in that account available, upon appropriation by the Legislature, for expenditure by the district;
- Provide that the Legislature may, for the 2007-08 fiscal year, and each fiscal year thereafter, transfer to the Joint Strike Fighter Impact Zone Account an amount that does not exceed a certain percentage of the increase of the state tax revenues, as calculated by the Legislative Analyst, that are attributable to the Joint Strike Fighter Impact Zone during the prior fiscal year, as compared to the state tax revenues attributable to the Joint Strike Fighter Impact Zone during the base fiscal year.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the author in an effort to generate more jobs in Kings County, as well as generate more economic activity.

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2. **The Board staff does not see a problem in complying with the provisions of this bill.** This bill requires the LAO, in conjunction with the BOE, by December 31, 2004, to calculate the state sales and use tax revenues for Kings County during the fiscal year 2003-04, and then on December 31, 2007, and each December 31 thereafter for the prior fiscal year. The Board staff does not see a problem in calculating the state sales and use tax revenues for the prior fiscal year by each December 31st.

3. **Definition of state tax revenues.** This bill defines the term “state tax revenues” to include revenues derived from taxes imposed under the Sales and Use Tax Law (Part 1 of Division 2 of the Revenue and Taxation Code (R&T Code)). The following is a breakdown of the sales and use tax rates imposed under Part 1 of Division 2 of the R&T Code:

| Rate | State – Type of Fund | Part 1, Div. 2 of R&T Code |
|---|----------------------|----------------------------|
| 4.75 % | General Fund | 6051, 6201 |
| 0.25 % | General Fund | 6051.3, 6201.3 |
| 0.50 % | Local Revenue Fund | 6051.2, 6201.2 |
| <u>Operative July 1, 2004</u> 0.25 % | Fiscal Recovery Fund | 6051.5, 6201.5 |

As previously stated, there is a 0.50 percent state sales and use tax imposed under Section 35 of Article XIII of the California Constitution. The revenues derived from the taxes imposed under this constitutional provision are transferred to the Local Public Safety Fund for allocation by the Legislature to counties, as specified. Does the Legislature want the 0.50 percent state sales and use tax imposed under this constitutional provision to be included in the calculation of the state tax revenues for Kings County?

COST ESTIMATE

Costs associated with this bill would be insignificant. The BOE would only be required to provide the LAO with information regarding the state sales and use tax revenues attributable to Kings County for the fiscal year 2003-04, and for the fiscal year 2007-08 and each fiscal year thereafter.

REVENUE ESTIMATE

This bill would not impact the state’s revenues.

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