

[Assembly Bill 561](#) (Voepel)

Date: Introduced

Program: Sales and Use Tax

Sponsor: Author

Revenue and Taxation Code Section 6012.4

Effective: January 1, 2018

Michele Pielsticker (Chief) 916.322.2376

Debra Waltz (Analyst) 916.324.1890

Patrick Alessandri (Revenue) 916.445.0840

This analysis is limited to the provisions that impact the Board of Equalization (BOE).

Summary: Among its provisions, excludes from sales and use tax the portion of the price that exceeds \$300,000 of any public safety first responder vehicle and any required equipment purchased by a local public agency.

Purpose: To allow local public agencies to allocate more tax dollars to improve public safety first responder services instead of paying sales tax with taxpayer funds on their public safety first responder vehicles and any required equipment on those vehicles.

Fiscal Impact Summary: Estimated state and local revenue loss for fiscal year 2018-19 is \$10.7 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. As of January 1, 2017, California's statewide sales and use tax rate is 7.25%. The table below 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 (RTC Sections 6051, 6051.3, 6201, 6201.3)
0.50%	State (Local Public Safety Fund)	Local governments to fund public safety services (Section 35, 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 Part 1 of Division 2 of the Revenue and Taxation Code (RTC) (commencing with Section 6001).

² RTC Sections 6011 and 6012, respectively.

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.

Rate	Jurisdiction	Purpose/Authority
1.0625%	Local Revenue Fund 2011	Realignment of local public safety services (RTC Sections 6051.15 and 6201.15)
1.25%	Local (City/County) 1.00% City and County 0.25% County	(RTC Sections 7202 and 7203) General city and county operations County transportation purposes
7.25%	Total Statewide Rate	

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

“Local public agency” is defined as any city, county, municipal corporation, district, or public authority located within this state which provides or may provide first responder emergency services.

The bill takes effect January 1, 2018.

Legislative History: Two public safety first responder exemption bills were considered during the 2013-14 and 2015-16 Legislative Sessions:

- [SB 120](#) (Anderson, 2015) contained provisions similar to this bill. This bill was held in the Senate Appropriations Committee.
- [AB 1367](#) (Anderson, 2014) also contained provisions similar to this bill, but did not include the \$300,000 threshold. The bill failed passage in the Senate Governance and Finance Committee.

Commentary:

1. **Proposed exemption applies to purchase amounts over \$300,000.** If a public safety first responder vehicle and any required equipment cost \$1,000,000, only the first \$300,000 is fully taxable, exempting the remaining \$700,000. According to the author’s office, the exemption is intended to apply to individual items with a purchase price in excess of \$300,000, and to multiple items purchased in single transaction for which the sum of all items exceeds \$300,000. In other words, if a local public agency purchases three items in a single transaction--an engine/pumper truck with a cost of \$500,000, a water tank with a cost of \$10,000, and a hose with a cost of \$2,000, for a total cost of \$512,000, the exemption would apply to \$212,000 [(\$500,000 + \$10,000 + \$2,000) - \$300,000]. However, the bill is not clear on this. In addition, BOE staff notes that fire trucks are typically purchased unequipped, with the equipment required to be used on these trucks purchased in a separate transaction. BOE staff is willing to work with the author’s office to draft amendments that reflects the author’s intent.
2. **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.

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3. **“First responder” should be defined.** The author’s office indicates that the bill only intends to exempt firefighter, emergency medical services, and law enforcement vehicles and equipment. However, the term “first responder” could include electrical utility trucks, animal control, and park rangers. Therefore, it is recommended that the bill clearly define “first responder.”

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

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 public agencies on their purchases of first responder vehicles (fire, police, and ambulance) and any equipment required on those vehicles. Based on data from the U.S. Census for local governments, staff estimated that in fiscal year (FY) 2013-14, cities, counties, and fire districts spent approximately \$21.2 billion on public safety. Staff did not find any data to determine what those local agencies specifically spend annually on public safety vehicles and equipment. Comparing expenditures from FY 2012-13 with FY 2013-14 yields a growth rate of 4.5%. Based on a 4.5% rate, staff estimates expenditures for FY 2017-18 and FY 2018-19 to be \$25 billion and \$26.1 billion, respectively.

The ratio of public safety vehicle and equipment expenditures to the overall public safety expenditures is about 1%. 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 \$250 million ($1\% \times \$25 \text{ billion} = \250 million) for FY 2017-18 and \$261.5 million ($1\% \times \$26.1 \text{ billion} = \261 million) for FY 2018-19. 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 is \$125 million in FY 2017-18 and \$130.5 million in FY 2018-19.

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 \$10.2 million ($\$125 \text{ million} \times 8.21\% \text{ statewide rate} = \10.2 million) in FY 2017-18. Assuming the operative date is January 1, 2018, only half this amount will be lost in the first fiscal year. Thus, for FY 2017-18 revenue losses would be \$5.1 million ($\$10.2 \text{ million} / 2 = \5.1 million). In the first full fiscal year, FY 2018-19, revenue losses would be \$10.7 million ($\$130.5 \text{ million} \times 8.21\% \text{ statewide rate} = \10.7 million).

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