
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2021 - 2022 Regular Session

SB 1041 (Atkins) - Sales and use taxes: general exemptions

Version: April 26, 2022

Urgency: No

Hearing Date: May 16, 2022

Policy Vote: GOV. & F. 5 - 0

Mandate: No

Consultant: Robert Ingenito

Bill Summary: SB 1041 would remove the sunset date for the sales and use tax exemption for goods sold by thrift stores that are both located on a military installation and operated by a "military welfare society."

Fiscal Impact: The California Department of Tax and Fee Administration (CDFTA) estimates that this bill would result in annual General Fund revenue losses of \$12,000. The department would incur minor and absorbable costs to implement the measure.

Background: Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed \$81 billion annually.

Except where a specific exemption or exclusion is provided, current law imposes sales and use tax (SUT) on all retailers for the privilege of selling tangible personal property (TPP) at retail in California, or on the storage, use, or other consumption in this state of TPP purchased from a retailer. Unless purchasers pay the sales tax to the retailer, they are liable for the use tax, which the law imposes on any person consuming tangible personal property in the state. The use tax is the same rate as the sales tax.

After CDFTA collects SUT revenue (\$66 billion in 2020-21), it allocates the money to various state and local funds. Roughly half—collected from an approximately 3.9 percent rate—goes to the General Fund and can be spent on any state program, such as education, health care, and criminal justice. Another 1.25 percent, known as the Bradley-Burns rate, goes to cities and counties for general purposes. Three sales tax funds have uniform state rates and support specified programs—an approximately 1.1 percent rate for 2011 realignment (county-administered criminal justice, mental health, and social service programs); a 0.5 percent rate for 1991 realignment (county-administered health and social services programs); and a 0.5 percent rate for city and county public safety programs pursuant to Proposition 172 (1993). Additionally, some local governments levy optional local rates—known as Transactions and Use Taxes (TUTs)—and a small portion of these funds are used for general purposes. As of October 1, 2021, the average statewide SUT rate was 8.57 percent.

Federal law currently designates four organizations as military welfare societies: Army Emergency Relief, Air Force Aid Society, Inc., Navy-Marine Corps Relief Society, and

Coast Guard Mutual Assistance. Military welfare societies manage and administer programs that provide financial, educational, and other assistance to members of the US Armed Forces, eligible family members, and survivors. These non-profit organizations aim to support the immediate needs of those who are eligible and in need, while promoting practices that allow for long-term self-sufficiency and financial management. Participating organizations provide military installations with resale stores that offer low prices on donated clothes, uniforms, and household items.

In 2009, the Legislature exempted property sold by a thrift store located on a military installation and operated by a military welfare society from the SUT until January 1, 2014. In 2013, the Legislature extended the exemption until January 1, 2024.

Proposed Law: This bill would, among other things, remove the sunset for the SUT exemption for tangible personal property sold by a thrift store operated by a military welfare society and on a military installation.

Related Legislation:

- AB 163 (Atkins, Chapter 72, Statutes of 2013) extended the military thrift store exemption from January 1, 2014 to January 1, 2024.
- SB 765 (Dutton, Chapter 615, Statutes of 2009) enacted the military thrift store exemption until January 1, 2014.

Staff Comments: CDTFA indicates that this bill would only apply to the sales from the thrift shops operated by the Navy-Marine Corps Relief Society. The Society, operating in partnership with the Navy and Marine Corps, also operates 25 thrift shops, seven of which are located within California at various naval or marine bases. As noted above, the Society's thrift shops sell used clothing, uniforms, and household items to service members and their families at a nominal cost.

CDTFA notes that while the other branches of the military have similar relief societies, those relief organizations do not operate thrift shops or make other sales of tangible personal property.

Navy Marine Corps Relief Society thrift shop revenue averages \$1.1 million annually. Given that seven of their 25 locations (or 28 percent) are in California, CDTFA assumes total sales that would be exempted by this bill amount to \$310,900 annually.

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