
SENATE COMMITTEE ON GOVERNANCE AND FINANCE

Senator Anna M. Caballero, Chair

2021 - 2022 Regular

Bill No: SB 1041
Author: Atkins
Version: 4/26/22
Consultant: Hobbs

Hearing Date: 5/4/22
Tax Levy: Yes
Fiscal: Yes

SALES AND USE TAXES: GENERAL EXEMPTIONS

Removes 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."

Background

Sales and use taxes. State law imposes the sales tax on every retailer “engaged in business in this state” that sells tangible personal property, and requires them to register with the California Department of Tax and Fee Administration (CDTFA), and remit taxes collected from purchasers to CDTFA. Sales tax applies whenever a retail sale occurs, which is generally any sale other than one for resale in the regular course of business. The current rate is 7.25% as shown in the table below.

Rate	Jurisdiction	Purpose/Authority
3.9375%	State (General Fund)	State general purposes
1.0625%	Local Revenue Fund (2011 Realignment)	Local governments to fund local public safety services
0.50%	State (1991 Realignment)	Local governments to fund health and welfare programs
0.50%	State (Proposition 172 - 1993)	Local governments to fund public safety services
1.25%	Local (City/County) 1.00% City and County 0.25% County	City and county general operations.
7.25%	Total Statewide Rate	

State law also allows cities, counties, and special districts to impose their own transactions and use tax within its jurisdiction subject to voter approval, known as “local add-ons” or “district taxes,” so long as they relied on the same base and procedures as the sales and use tax.

Military welfare society thrift stores. Federal law 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), and establishes criteria for other nonprofit organizations to qualify (10 USC §1033). 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. The Navy-Marine Relief Society operates thrift stores across the state, in Barstow, Camp Pendleton, China Lake, Lemoore, Miramar, North Island, San Diego, and Ventura.

In 2009, the Legislature exempted property sold by a thrift store located on a military installation and operated by a military welfare society from state and local sales and use taxes until January 1, 2014 (SB 765, Dutton). As a result, thrift stores on military installations operated by a military welfare society do not need to register or remit taxes to the state. In 2013, the Legislature extended the exemption until January 1, 2024 (AB 163, Atkins). With the sunset date soon approaching, the author wants to strike the sunset date on the sales and use tax exemption.

Proposed Law

Senate Bill 1041 removes the sunset for the sales and use tax exemption for tangible personal property sold by a thrift store operated by a military welfare society and on a military installation. The measure also makes legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

Pending.

Comments

1. **Purpose of the bill.** According to the author, “The Navy-Marine Corps Relief Society (NMCRS) is a non-profit, volunteer service organization founded in 1904 to provide financial, educational, and other assistance to active duty and retired members of the Navy and Marine Corps, eligible family members, and survivors. One of NMCRS’ primary sources of revenue to fund their service mission comes from a series of thrift stores located on Navy and Marine Corps military installations across the United States. NMCRS operates eight sites in California, located on military installations in Barstow, Oceanside, Ridgecrest, Lemoore, Miramar, Coronado, San Diego, and Ventura. Since the Legislature granted the 10-year sales tax relief, beginning in 2014, NMCRS has provided, on average, over \$11 million each year to over 14,000 California-based Service members, retirees, and their families. Relief provided far exceeds the combined average yearly income of \$334,000 from all the NMCRS in-state thrift stores. The existing 10-year relief from sales tax provided by the Legislature in AB 163 (Atkins, 2013) is set to expire on Jan 1, 2024. A new bill is required to extend the tax relief permanently, ensuring the continuation of charitable support to Service members and their families at a small cost to the State. This change would give the NMCRS the same tax exemption currently provided to Goodwill Industries and the Salvation Army.”

2. **Revenue loss.** Existing tax law provides various credits, deductions, exclusions, and exemptions for taxpayers. Since the Legislature enacts these items to accomplish some governmental purpose, which has a cost — in the form of foregone revenues — state law refers to them as “tax expenditures.” Extending this existing tax expenditure to benefit military welfare organizations operating thrift stores on military installations would continue to reduce the revenue for the General Fund. The Board of Equalization has previously estimated that the

exemption results in state and local sales and use tax revenue loss between \$15,000 and \$21,215 annually. Without this potential revenue entering the General Fund or local government coffers, state and local governments have less funding to pay for important public services such as education and public safety. As a result, the state and local governments will have to reduce spending or increase taxes to match the foregone revenue. The Committee may wish to consider whether SB 1041 is worth the spending cuts and/or tax increases

3. Section 41. Section 41 of the Revenue and Taxation Code, requires any bill authorizing a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve, detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). To meet these requirements, SB 1041 states that its purpose is to provide an incentive for thrift stores to continue to operate on military installations in partnership with the United States Department of Defense to provide financial, educational, and other assistance to members of the Armed Forces of the United States, eligible family members, and survivors in need. The stated performance indicator of SB 1041 is measured through the amount of charitable giving by recipients of this relief and the number of service members who receive that aid. To measure the exemption's impact, the bill directs the California Department of Tax and Fee Administration to submit a report to the Legislature no later than January 1, 2028.

Support and Opposition (5/2/22)

Support: US Navy Region Southwest
US Marine Corps – Marine Corps Installations West
San Diego Military Advisory Council

Opposition: None received.

-- END --