AMENDED IN SENATE AUGUST 01, 2022

AMENDED IN ASSEMBLY MAY 19, 2022 Amendment dates (most recent on top)

AMENDED IN ASSEMBLY APRIL 27, 2022

CALIFORNIA LEGISLATURE— 2021–2022 REGULAR SESSION This is only used with AB (not SB)

Either Senate or Assembly **ASSEMBLY BILL** **NO. 1951** Bill Number

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Lead Author

Introduced by Assembly Members Grayson, Cooley, Cooper, Daly, Gipson, Petrie-Norris, Quirk-Silva, Ramos, Salas, Villapudua, and Wood Joint Authors (in alphabetical order)

February 10, 2022 Date of Introduction

Coauthors listed on next line

Actions being taken Code section

Title An act to amend, add, and repeal Section 6377.1 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy. Code

Relating Clause

LEGISLATIVE COUNSEL'S DIGEST

First version is "as introduced"

AB 1951, as amended, Grayson. Sales and use tax: exemptions: manufacturing. Subject

"Existing Law" Statement

Existing sales and use tax laws impose taxes on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state, or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state. The Sales and Use Tax Law provides various exemptions from those taxes, including a partial exemption from those taxes, on and after July 1, 2014, and before July 1, 2030, for the gross receipts from the sale of, and the storage, use, or other consumption of, qualified tangible personal property purchased by a qualified person for purchases not exceeding $200,000,000, for use primarily in manufacturing, processing, refining, fabricating, or recycling of tangible personal property, as specified; qualified tangible personal property purchased for use by a qualified person to be used primarily in research and development, as provided; qualified tangible personal property purchased for use by a qualified person to be used primarily to maintain, repair, measure, or test any qualified tangible personal property, as provided; and qualified tangible personal property purchased by a contractor purchasing that property for use in the performance of a construction contract for the qualified person, that will use that property as an integral part of specified processes. Existing law, on and after January 1, 2018, and before July 1, 2030, additionally exempts from those taxes the sale of, and the storage, use, or other consumption of, qualified tangible personal property purchased for use by a qualified person to be used primarily in the generation or production, as defined, or storage and distribution, as defined, of electric power.

"This Bill" statement

This bill would, on and after January 1, 2023, and before January 1, 2028, make this a full exemption for purchases not exceeding $200,000,000. The bill would repeal these provisions on January 1, 2028, and would revert to the above-described partial exemption on that date.

Existing law 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, and data collection requirements.

This bill would require the California Department of Tax and Fee Administration to submit a report to the Legislature on the exemption and would provide findings and declarations relating to the goals of the exemption.

The Bradley-Burns Uniform Local Sales and Use Tax Law authorizes counties and cities to impose local sales and use taxes in conformity with the Sales and Use Tax Law, and existing laws authorize districts, as specified, to impose transactions and use taxes in accordance with the Transactions and Use Tax Law, which generally conforms to the Sales and Use Tax Law. Amendments to the Sales and Use Tax Law are automatically incorporated into the local tax laws.

Existing law requires the state to reimburse counties and cities for revenue losses caused by the enactment of sales and use tax exemptions.

This bill would provide that, notwithstanding Section 2230 of the Revenue and Taxation Code, no appropriation is made and the state shall not reimburse any local agencies for sales and use tax revenues lost by them pursuant to this bill.

This bill would take effect immediately as a tax levy.

DIGEST KEY

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no Keys

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BILL TEXT

Enacting Clause

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1.

Findings and declarations (uncodified)

The Legislature finds and declares all of the following:

(a) Businesses conducting manufacturing or research and development activities are essential to the economic well-being of the state of California and provide high-wage jobs for Californians. In recent years, many of these businesses have chosen to relocate operations to lower cost jurisdictions or expand outside of California.

(b) California has the highest state-level sales tax rate among the 50 states in the United States, and once local rates are accounted for, sales and use tax rates in California can reach up to 10.75 percent.

(c) Thirty-eight states fully exempt manufacturing equipment from sales and use tax. With California's current partial exemption, taxpayers pay more to buy equipment in California than they would elsewhere, creating a competitive disadvantage for the state.

(d) It is the intent of the Legislature to expand the sales and use tax exemption for manufacturing and research and development equipment to preserve California's status as a hub of innovation and technology and encourage greater investment in California.

Existing law is being amended

SEC. 2.

Action Line

Section 6377.1 of the Revenue and Taxation Code is amended to read:

Actual language to be codified

6377.1.

(a) Except as provided in subdivision (e), on or after July 1, 2014, and before January 1, 2023, there are exempted from the taxes imposed by this part the gross receipts from the sale of, and the storage, use, or other consumption in this state of, any of the following:

(1) Qualified tangible personal property purchased for use by a qualified person to be used primarily in any stage of the manufacturing, processing, refining, fabricating, or recycling of tangible personal property, beginning at the point any raw materials are received by the qualified person and introduced into the process and ending at the point at which the manufacturing, processing, refining, fabricating, or recycling has altered tangible personal property to its completed form, including packaging, if required.

(2) Qualified tangible personal property purchased for use by a qualified person to be used primarily in research and development.

(3) Qualified tangible personal property purchased for use by a qualified person to be used primarily to maintain, repair, measure, or test any qualified tangible personal property described in paragraph (1) or (2).

(4) Qualified tangible personal property purchased for use by a contractor purchasing that property for use in the performance of a construction contract for the qualified person, that will use that property as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, the generation or production,

that would be required to apportion its business income pursuant to subdivision (b) of Section 25128 if it were subject to apportionment pursuant to Section 25101.

~~(C)No later than each May 1 next following calendar year 2022 the department shall provide to the Joint Legislative Budget Committee and to the Department of Finance a report of the revenue value of the total dollar amount of exemptions taken under this section for the period from July 1 to December 31, 2022.~~

Strikeout words are being repealed (in this statute)

(3) (A) An amount that equals the revenue value of the total dollar amount of exemptions, as reported by the department pursuant to subparagraph (B) of paragraph (2), with the concurrence of the Department of Finance, shall be transferred from the Greenhouse Gas Reduction Fund to the General Fund, no later than each June 30 next following the calendar year described in subparagraph (B) of paragraph (2). Any amount attributable to any cancellations the department made of any outstanding and unpaid deficiency determinations and any refunds under subparagraph (B) of paragraph (13) of subdivision (b) shall be excluded from the transfer of the amount described in subparagraph (B). The transfers to the General Fund shall be accrued to the fiscal year in which the revenue loss occurred.

Regular font words are existing statute (adding new statute in the introduced bill is also in regular font)

Italicized words are being added (in this statute)

(B) (i) For calendar ~~years 2022 through 2023, inclusive,~~ *years beginning in 2022,* an amount not to exceed the difference between the revenue value of the total dollar amount of exemptions as reported by the department pursuant to subparagraph (C) of paragraph (2), and the revenue value of the total dollar amount of exemptions as reported by the department pursuant to subparagraph (B) of paragraph (2), may be transferred from the Greenhouse Gas Reduction Fund to the General Fund, no later than ~~each July 31 following that calendar year described in subparagraph (C) of paragraph (2).~~ *July 31, 2023.* The transfers to the General Fund shall be accrued proportionally to the fiscal year in which the revenue loss occurred.

(ii) The amount transferred under this subparagraph ~~for each fiscal year~~ shall be as determined by the Director of Finance, unless a different amount is otherwise specified in the Budget Act for that fiscal year.

(4) For purposes of this subdivision, the "revenue value" of an amount of exemptions shall mean the estimated revenue loss to the General Fund from the allowance of those exemptions.

(h) This section shall be operative until January 1, 2023, and as of that date is repealed.

A new code section is being added

SEC. 3.

Section 6377.1 is added to the Revenue and Taxation Code, to read:

6377.1.

(a) Except as provided in subdivision (d), on or after ~~January,~~ *January 1,* 2023, and before January 1, 2028, there are exempted from the taxes imposed by this part the

(d) No later than July 1, 2024, and each July 1 thereafter, the California Department of Tax and Fee Administration shall submit the report prepared pursuant to subdivision (c) to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate and Assembly Committees on Appropriations, the Senate Committee on Governance and Finance, and the Assembly Committee on Revenue and Taxation. The report shall be submitted in compliance with Section 9795 of the Government Code.

(e) (1) In addition to the reports required pursuant to subdivision (c), the Legislative Analyst's Office shall prepare a report, no later than January 1, 2027, comparing the full exemption authorized pursuant to Section 3 of this act to the partial exemption in effect prior to January 1, 2023. The report shall include information on the following:

(A) The tax savings realized by qualified persons.

(B) The degree, if any, to which the full exemption has led to an increase in sales and purchases of qualified tangible personal property.

(C) The degree to which the full exemption has led to increased manufacturing, research and development, or electric generation activity in this state.

(D) Any attendant economic impacts of the full exemption, including increases in economic activity and job creation, to the degree ascertainable.

(2) The report required by this subdivision shall be submitted to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate and Assembly Committees on Appropriations, The Senate Committee on Governance and Finance, and the Assembly Committee on Revenue and Taxation. The report shall be submitted in compliance with Section 9795 of the Government Code.

These are "plus" sections

SEC. 6.

Notwithstanding Section 2230 of the Revenue and Taxation Code, no appropriation is made by this act and the state shall not reimburse any local agency for any sales and use tax revenues lost by it under this act.

SEC. 7.

This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.