

# Overview of California's Tax Expenditures: Sales and Use Tax

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# How Many SUT TEPs Exist?

- ✓ The Sales and Use Tax (SUT) has about 100 TEPs worth over \$11 billion.
- ✓ The five largest TEPs account for about 95 percent of the total.
- ✓ Many SUT-related TEPs do not have revenue estimates because of a lack of data.

# Food Products

- ✓ Sales of food for human consumption are generally exempt from tax unless sold in a heated condition (except hot bakery items or hot beverages, such as coffee, sold for a separate price), served as meals, consumed at or on the seller's facilities, ordinarily sold for consumption on or near the seller's parking facility, or sold for consumption where there is an admission charge.
- ✓ Estimated Revenue Reduction: \$5.0 billion.
- ✓ Rationale: This program provides tax relief to consumers of food products, by reducing their price. The underlying rationale put forth is that food is a basic necessity of life, and thus its price should not be increased through the application of sales tax.

# Gas, Electricity, Water & Steam

- ✓ The sale of gas, electricity and water, including steam and geothermal steam, brines, and heat is exempt from taxation if delivered through mains, lines, or pipes. Further, water sold to an individual in bulk quantities of 50 gallons or more for household use is exempt from taxation if the residence is not serviced by mains, lines, or pipes. Also, sales and purchases of liquid petroleum gas (LPG) are exempt from tax when delivered into a tank of 30 gallons or more to either a qualified residence for household use, or, a qualified person to be used in producing and harvesting agricultural products.
- ✓ Estimated Revenue Reduction: \$2.3 billion.

# Gas, Electricity, Water & Steam

- ✓ Rationale: Gas and electric bills are subject to municipal utility user taxes in many cities, often at rates higher than the sales tax rate. Thus, it is argued by some that the SUT exemption avoids subjecting gas and electricity to double taxation.
- ✓ Also argued that utilities provide basic services, which should not be made more costly to consumers by imposing sales tax on them.

# Prescription Medicines

- ✓ This program exempts specified medicines and medical products used for treating health problems of human beings. In addition to medicines, qualifying items include such medical products as prosthetic and orthotic devices, hemodialysis products, insulin syringes, bone screws and artificial limbs and eyes.
- ✓ Estimated Revenue Reduction: \$1.8 billion.
- ✓ Rationale: The price should not be increased by taxation because proper medical care and treatment is basic necessity.

# Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, and Medicines Water

- ✓ The sale and use of animal life or feed for animal life, seeds, and plants the products of which normally constitute food for human consumption are exempt from tax. The sale and use of fertilizer to be applied to land the products of which are to be used for human consumption are also exempt. In addition, the sale and use of drugs and medicines including oxygen that are administered to food animals, the primary purpose of which is the prevention or control of disease, are exempt from tax. This is an expansion of the general food exemption.
- ✓ Estimated Revenue Reduction: \$464 million.
- ✓ Rationale: An extension of the exemption for food.

# Candy, Confectionary, Snack Foods and Bottled Water

- ✓ This program exempts the sale or use of candy, gum, other confectionary products and bottled water for home consumption. This program is included within the overall food exemption and is subject to the same limitations.
- ✓ Estimated Revenue Reduction: \$319 million.
- ✓ Rationale: These items deserve the same tax exemption granted for food generally.
- ✓ This exemption was repealed in July 1991 as part of a broadening of the sales and use tax base. The exemption was reinstated in November 1992 as part of Proposition 163.