



April 18, 2022

TO: Members, Assembly Committee on Revenue and Taxation

SUBJECT: **AB 1951 (Grayson) – Sales and use tax: exemptions: manufacturing**

The California Manufacturers & Technology Association (CMTA), the California Taxpayers Association (CalTax), and the organizations listed are proud to **SUPPORT AB 1951**, which would provide a sales and use tax exemption for the purchase of manufacturing and research and development (R&D) equipment, expanding investment and production opportunities in California.

California ranks among the highest in the nation in state and local sales tax rates. While the base state sales tax rate is 6 percent, when combined with local and district portions, the sales and use tax rate can reach up to 10.75 percent.

AB 1951 will provide a state and local sales and use tax exemption for the purchase of manufacturing and R&D equipment. This exemption broadens the current partial exemption, which is narrowly defined, limiting its application and providing a minimal exemption at a rate of 3.9375 percent. With the high district tax rates in some parts of the state, as well as the state's high operating costs, the current exemption simply does not provide manufacturers with an incentive to invest and grow in California. **AB 1951** will make California competitive with the 38 states that already exempt manufacturing equipment from sales and use tax. Through this exemption, California can provide more opportunities for growth, innovation, and high-quality jobs that come from increased investments in California manufacturing.

Thirty-eight states already fully exempt manufacturing equipment purchases from sales and use tax, and another five states do not have a state sales tax. California's manufacturing industry remains at the forefront of global leadership and innovation, but the industry hasn't kept pace with the rest of the country in job growth and investments. California's manufacturing industry experienced only 3 percent job growth in the past decade while U.S. manufacturing flourished with 11 percent growth¹. At the same time, California attracted no more than 1 percent of the country's large manufacturing investments, according to data from Site Selection Magazine. **AB 1951** will send the proper signal to manufacturers that California is serious about retaining and attracting high-quality jobs and production. With tremendous ripple effects throughout the economy, each manufacturing job supports at least 2.5 other jobs in the workforce.

AB 1951 protects local government revenue and can provide additional flexibility for state spending. The bill contains an important backfill provision that would allow the Legislature to offset any local sales and use tax dollars lost due to the exemption, keeping local governments and counties financially whole. The California Department of Tax and Fee Administration (CDTFA) will be required to prepare an annual report estimating how much local governments will "lose" from a sales and use tax exemption for manufacturing equipment, with the estimate being made publicly available. The Legislature may provide an annual appropriation if it determines that a local government lost sales and use tax revenue due to this exemption. This annual appropriation would be considered a subvention for purposes of the State Appropriations Limit pursuant to Government Code Section 7903. The Legislative Analyst's Office has recommended statutory changes to "make room" under the limit. Because California is nearing its State Appropriations Limit and may see "negative room" under the cap, increasing spending on "excluded purchases", such as subventions to local governments, will provide additional budget and spending flexibility in future years. More importantly, this bill promotes economic growth and high-wage jobs in the communities where manufacturing equipment is put into action and keeps jobs from being moved out of California. The bill creates long-term local benefits and revenue streams that are far more vital than any one-time sales tax collection.

AB 1951 will provide manufacturers the opportunity to continue to lead and compete in a domestic and global economy that operates on razor-thin margins. This bill will facilitate further innovation, production of wide-ranging goods, and provide high-quality jobs throughout California's regionally diverse economies.

For these reasons, we are pleased to **SUPPORT AB 1951** and ask for your "AYE" vote when it comes before you in committee.

¹ This data is extracted from The Bureau of Labor Statistics

On behalf of,



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California Manufacturers & Technology
Association



Peter Blocker
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Aerospace and Defense Alliance of CA (ADAC)
Advanced Medical Technology Association (AdvaMed)
Biocom California
California Forward
California League of Food Producers
California Life Sciences
Bay Area Council
California Business Properties Association
California Business Roundtable
California Chamber of Commerce
Council on State Taxation
El Dorado County Chamber of Commerce
El Dorado Hills Chamber of Commerce
Elk Grove Chamber of Commerce
Family Business Association of California
Folsom Chamber of Commerce
Kern County Taxpayers Association
Lincoln Area Chamber of Commerce
Los Angeles Chamber of Commerce
NAIOP of California, the Commercial Real Estate Development Association
National Federation of Independent Businesses
Orange County Business Council
Rancho Cordova Area Chamber of Commerce
Rocklin Area Chamber of Commerce
Roseville Area Chamber of Commerce
Santa Maria Valley Chamber of Commerce
Silicon Valley Leadership Group
Valley Industry & Commerce Association
Ventura County Taxpayers Association

Yuba Sutter Chamber of Commerce

cc. The Honorable Tim Grayson, California State Assembly
Julia King, Consultant, Assembly Republican Caucus