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## California AB 1249, Sales Tax Holiday for School Supplies

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## Tax Policy Analysis

### California AB 1249, Sales Tax Holiday for School Supplies

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#### Introduction

California bill, AB 1249 was introduced by Assemblymember Tri Ta in February 2023. The purpose of this bill is to “relieve the financial burden for families and teachers buying school supplies” by implementing a two-day sales exemption for “qualified school supplies.”<sup>1</sup> The exemption, also referred to as a sales tax holiday, would be in effect for 2024 through 2028. This bill would add Revenue & Taxation Code Section 6372 to exempt sales tax on the sale of, and the storage, use or other consumption of qualified school supplies for a two-day period beginning at 12:01 am the third Saturday of July of each year and ending 11:59pm on the following day.

Qualified school supplies are included in two categories:

1. Items with a sale price under \$100 each of various listed supplies such as binders, notebooks, book bags, lunch boxes, crayons, calculators.
2. The first \$1,000 of total sales price for specified electronic items purchased for noncommercial home or personal use including laptops, printers, tablets, keyboards, and batteries.

The inclusive list can be found in the proposed bill AB 1249. The bill does not specify if the electronic item limit of \$1,000 is per buyer or per student or how it would be tracked when purchases are made at multiple times and/or multiple stores during the two-day sales tax holiday.

The tax policy analysis below uses the 12 Principles of Good Tax Policy from the AICPA Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals to analyze California AB 1249.

Principle	Application	+/-
Equity and Fairness - Are similarly situated taxpayers taxed similarly? Also	Horizontal Equity: The principle of horizontal equity is not met due to the potential variance in situations among taxpayers within similar income brackets, resulting in uneven advantages stemming from this proposal. For example, families with a	-

<sup>1</sup> Assembly Bill 1249 text and analysis;  
[https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill\\_id=202320240AB1249](https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202320240AB1249).

<p>consider any different effects based on an individual's income level and where they live.</p>	<p>larger number of children, who require more school supplies, would enjoy a more substantial tax benefit during the Sales Tax Holiday because of their greater expense on school supplies. While this proposal does impose some restrictions on the pricing of these school supplies (with qualified electronic items limited to the first \$1,000 and other eligible school supplies capped at items under \$100), taxpayers in similar income brackets could still disproportionately leverage this tax savings if they purchase numerous items falling under the \$100 threshold compared to other taxpayers who may not purchase as many school supplies. They could also potentially surpass the \$1,000 limit for qualified electronic items by making separate purchases for electronic items at different stores and by using multiple buyers (such as family members making purchases that when aggregated exceed the \$1,000 threshold for electronic items). Retailers have a challenge determining whether a taxpayer has already reached the \$1,000 limit on electronics through previous purchases, given that the sales tax exemption is applied at the point of sale without a log of prior transactions.</p> <p>Vertical Equity: The principle of vertical equity is not met given the proposal's advantages lean more towards taxpayers with higher income, as opposed to those with lower incomes. This discrepancy arises because individuals with greater earnings possess a higher capacity to allocate funds for school supplies in comparison to their lower-income counterparts. Despite the sales tax functioning as a uniform tax, imposing an identical tax rate irrespective of income level, the impact is disproportionate. Specifically, individuals with lower incomes allocate a larger percentage of their earnings for school supplies when compared to those with higher incomes, assuming a relatively consistent expenditure. However, individuals with higher incomes are more inclined to acquire pricier items and potentially a larger quantity of school supplies, resulting in heightened benefits from the savings derived through the sales tax holiday. In addition, lower income families might not be able to purchase all supplies and electronic items needed for the school year during the two-day sales tax holiday whereas a higher income family and more readily do so and enjoy a greater amount of sales tax savings.</p>	
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<p>Certainty - Does the rule clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined?</p>	<p>This principle of certainty is partially fulfilled through the proposal. Certainty is fulfilled as the bill precisely outlines the eligible goods for the sales tax exemption and specifies the dollar threshold for the exemption. However, the element of certainty is compromised due to the seller's inability to ascertain the intended purpose for which the buyer is acquiring the school supplies. As a result, the seller lacks control over whether they inadvertently breach the regulation by selling tax-exempt school supplies to buyers who intend to utilize these supplies for purposes other than noncommercial home or personal use. In addition, it is not clear how the \$1,000 purchase cap on electronic items would be tracked and if it is per buyer or per student.</p>	<p>+/-</p>
<p>Convenience of Payment - Is tax due at a time that is convenient for the payor?</p>	<p>The principle of convenience of payment is partially met by this bill. Convenience of payment is satisfied as the tax savings are administered to eligible items at the point of sale, before a final decision is made about making the purchase. Items ineligible for exemption and/or surpassing threshold values will be subject to taxation at the applicable tax rate. However, the bill does not include particular clauses addressing online transactions where items are purchased by customers in California from retailers situated outside of the state. This absence makes it challenging to ascertain whether the principle of convenience of payment applies.</p>	<p>+/-</p>
<p>Effective Tax Administration - Costs to collect a tax should be kept to a minimum for both the government and taxpayers.</p>	<p>The principle of effective tax administration is not met by this proposal. Although the state government would not incur additional tax collection costs, the implementation would necessitate the introduction of supplementary audit guidance for the California Department of Tax and Fee Administration (CDTFA), retailers and the general public.</p> <p>Furthermore, the bill neglects to compensate local agencies for any revenue losses resulting from this exemption. Nevertheless, the responsibility of implementing the proposed bill falls on the retailers. They would need to adapt their point-of-sale (POS) systems to accommodate the two-day sales tax holiday. Retailers also bear the responsibility of substantiating that the sales occurred within the specified two-day Sales Tax Holiday window in order to justify the exemption from tax collection. In the event of any errors, they would be held liable,</p>	<p>-</p>

	as they are accountable for both sales tax collection and remittance to the CDTFA.	
Information Security - Tax administration must protect taxpayer information from all forms of unintended and improper disclosure.	No taxpayer information is required. The sales tax exemption would be directly applied on the receipt's gross amount at the time of sale. This analysis assumes that the CDTFA would not require retailers to obtain personal verification that the buyer is purchasing for a student.	N/A
Simplicity - Simple tax laws are necessary so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.	The principle of simplicity is partially met. Although the bill specifies the eligible items and the threshold limits, the items listed as exempt might create confusion due to potential variations between the official definition of qualified school supplies and personal interpretations. To address this, it is crucial for retail establishments to take initiative in clearly marking tax-exempt items, facilitating customer understanding, and reducing confusion. However, vendors face the greater challenge in the enforcement of tax-free sales rules, stemming from the lack of guidance on verifying the end user's noncommercial status and the frequency of exemption use for electronic items. These compliance gaps could significantly heighten vendors' responsibilities, especially if items are inadvertently sold to commercial or business users.	+/-
Neutrality - Minimizing the effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction is important.	The principle of neutrality is compromised, as taxpayers would be incentivized to buy school supplies specifically during the sales tax holiday. This is highlighted by the significant benefit from the tax exemption applied to the first \$1,000 spent on electronic devices, such as personal computers, laptops, tablets, etc. Furthermore, the bill's lack of inclusivity prevents the fulfillment of the neutrality principle favoring only a particular category of essential student items, while neglecting others such as clothing and books.	-
Economic Growth and Efficiency - The tax system should not unduly impede	The principle of economic growth and efficiency is partly fulfilled by this bill. It is likely that the bill will boost sales and improve the efficiency of businesses selling tax-exempt items. It is a well-known fact that many shoppers buy things not	+/-

or reduce the productive capacity of the economy.	initially on their shopping list. The stores might make more sales on non-exempt items utilizing smart techniques of displaying and placing their merchandise. However, there could be less spending on other things after the sales tax holiday. Buyers with limited budgets aiming to save money on sales tax holidays might overspend and eventually limit or exhaust their resources for other purchases.	
Transparency and Visibility - Taxpayers should know that a tax exists and how and when it is imposed upon them and others.	The principle of transparency and visibility is met partially. While the bill clearly defines the amount to which the tax exemption applies, it is unclear how a taxpayer's use of the exemption would be monitored to prevent misuse, like using it multiple times for electronic items or for non-qualified purposes such as buying school supplies for business use.	+/-
Minimum Tax Gap - Structuring tax laws to minimize noncompliance is essential.	The principle of minimum tax gap is not met. The proposal grants sales tax exemption for school supplies and electronic items purchased only for personal use. As the bill lacks clarity on eligibility enforcement, businesses including self-employed individuals might exploit the tax holiday, ignoring a personal use requirement. The analysis accompanying AB 1249 notes possible misuse such as an individual without children purchasing a Waterman fountain pen for \$95 during the two-day holiday and not paying sales tax. <sup>2</sup>	-
Accountability to Taxpayers - Accessibility and visibility of information on tax laws and their development, modification, and purpose, are necessary for taxpayers.	The principle of accountability to taxpayers is met in part. Retailers can easily inform taxpayers about the sales tax holiday, but the ads might lack details about why this holiday is available to all and focused only on school supplies. Taxpayers are likely to understand lawmakers' intent of assisting families purchase school supplies including due to the date of the sales tax holiday. They might not understand why greater assistance is not provided to low-income families and assistance is provided to high-income families.	+/-

<sup>2</sup> Assembly Bill Policy Committee Analysis (April 28, 2023);, page 5;  
[https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill\\_id=202320240AB1249](https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202320240AB1249).

Appropriate Government Revenues - Tax systems should have appropriate levels of predictability, stability and reliability to enable the government to determine the timing and amount of tax collections.	The principle of appropriate government revenues is not met. The temporary two-day exemption is projected to exceed \$150,000. <sup>3</sup> This figure is small relative to the \$34 billion collected in sales and use tax revenue in 2021. <sup>4</sup> However, this revenue estimate seems low as the California Dept. of Education estimates that there are over 5.8 million K-12 students in California. <sup>5</sup> It likely will be difficult to obtain a estimate of the revenue loss as people may purchase more supplies and electronic items than without the exemption.	-
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### Summary of Analysis

The intent of this bill is to relieve the financial burden for families and teachers buying school supplies. However, based on the tax policy analysis, the bill does not effectively achieve this intent.

The principles of equity and fairness are not upheld by the bill, as it could disproportionately benefit higher-income individuals with more disposable income for school supplies. Taxpayers might delay purchases until the sales tax holiday, compromising the neutrality principle. This is particularly true for expensive items like electronic devices as the savings can become substantial, also creating a higher revenue loss for the government.

The bill also places a substantial burden on retailers, who would need to prepare by identifying eligible items and making temporary adjustments to their POS systems. Additionally, the bill does not adequately prevent misuse of the exemption, potentially leading to noncompliance and higher revenue loss.

Employing an established tax collection system could offer a straightforward way to administer tax laws. However, a more effective strategy could involve directly distributing school supplies or issuing vouchers to assist low-income families. This approach would align better with the bill's intent and prevent potential revenue loss due to noncompliance.

<sup>3</sup> Assembly Bill Policy Committee Analysis (April 28, 2023); [https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill\\_id=202320240AB1249](https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202320240AB1249).

<sup>4</sup> State Sales and Use Tax Collections and Number of Permits (Table 18); Open Data Portal, CDTFA; <https://www.cdtfa.ca.gov/dataportal/dataset.htm?url=SUTStateCollNoPermits>.

<sup>5</sup> California Dept. of Education; <https://www.cde.ca.gov/ds/ad/ceffingertipfacts.asp>.