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## SENATE COMMITTEE ON GOVERNANCE AND FINANCE

Senator Robert M. Hertzberg, Chair  
2015 - 2016 Regular

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**Bill No:** SB 898  
**Author:** Nguyen  
**Version:** 4/4/16  
**Consultant:** Bouaziz

**Hearing Date:** 4/20/16  
**Tax Levy:** No  
**Fiscal:** Yes

### *SALES AND USE TAXES: EXEMPTION: ANIMAL BLOOD*

*Provides a sales and use tax exemption for the sale of animal blood.*

### Background

State law imposes a sales and use tax (SUT) on the sale, storage, or use of tangible personal property unless exempted by state law. Generally, nonprofits, public agencies, and charities are subject to sales and use tax, unless otherwise exempted. Cities and Counties may increase the SUT rate up to 2% as a transactions and use tax for either specific or general purposes with a vote of the people.

The current state SUT rate on tangible personal property is 7.5% and is imposed as follows:

<b>Rate</b>	<b>Jurisdiction</b>	<b>Purpose/Authority</b>
3.9375%	State (General Fund)	State general purposes
1.0625%	Local Revenue Fund 2011	Realignment of local public safety services
0.25%	State (Fiscal Recovery Fund)	Repayment of the Economic Recovery Bonds
0.25%	State (Education Protection Account)	Schools and community college funding
0.50%	State (Local Revenue Fund)	Local governments to fund health and welfare programs
0.50%	State (Local Public Safety Fund)	Local governments to fund public safety services
1.00%	Local (City/County) 0.75% City and County 0.25% County	City and county general operations. Dedicated to county transportation purposes
<b>7.50%</b>	<b>Total Statewide Rate</b>	

State law exempts human whole blood, plasma, blood products, and blood derivatives, or any human body parts held in a bank for medical purposes, from SUT. This exemption does not

apply to animal blood and blood products. SB 898 seeks to exempt animal blood and blood products from SUT as well.

### **Proposed Law**

Senate Bill 898 provides a sales and use tax exemption for the sale of animal blood, plasma, blood products, and blood derivatives, sold for use in the cure, mitigation, treatment, or prevention of injury or disease in animals.

SB 898 requires the State Board of Equalization (BOE) to cancel any current notice of determination and any related penalties and interest, and shall not issue any new notice of determination.

SB 898 makes findings and declarations.

### **State Revenue Impact**

BOE estimates an annual state and local sales and use tax revenue loss of \$158,000. This amount does not include unpaid liabilities that this bill requires the BOE to cancel.

### **Comments**

1. Purpose of the bill. According to the author, "SB 898 amends the California Revenue and Taxation code to clarify that the sale and use of animal blood, blood products, and derivatives by a licensed animal blood bank are not subject to tax. Since one of the two animal blood bank organizations provides an integral portion of the California's animal donor blood, the need to ensure the protection of this vital service is necessary and appropriate. Furthermore a similar tax exemption exists in the California tax code for human blood banks, a logical application of this exemption should extend towards animals as well."
2. Animal blood banks. According to the California Department of Food and Agriculture, only two animal blood banks in California hold licenses to produce, market, and sell animal blood and blood products. These facilities provide whole blood, plasma, platelets, and clotting factors to veterinary hospitals and clinics. The blood used to make these products is collected from an animal "blood donor" housed permanently or semi-permanently at the blood bank. California law does not allow pet owners to volunteer their animals as donors to commercial blood banks.
3. Small universe, big impact. With such a small number of taxpayers, proponents argue that absent SB 898, the cost of animal blood will increase and the supply will decrease, even potentially placing one of the two facilities out of business. The two California facilities account for a significant portion of North America's animal blood supply. Animal blood banks are critical to save animal lives, and proponents state without SB 898, access to life saving animal blood and blood products will be jeopardized.
4. Precedent. SB 898 requires the State Board of Equalization (BOE) to cancel any current notice of determination and any related penalties and interest, and shall not issue any new notice of determination. While in this case the use of the tangible personal property is laudable, and the amount of revenue loss is relatively small, the bill sets a dangerous precedent for future SUT exemptions. Taxpayers that believe a SUT exemption applies to a type of tangible personal property could forgo remitting SUT to BOE, and when a notice of determination is issued,

attempt to push legislation through the process with both a SUT exemption and a cancellation of any current notice of determination provision.

5. Shrinking revenue source. SUT exemptions erode an already shrinking base. Although the SUT represents the state's second largest source of General Fund (GF) revenues, in the past 60 years there has been a dramatic reduction in the state's reliance on the SUT and a corresponding increase in its reliance on personal income tax revenues. In fiscal year (FY) 2014-15, SUT revenues are estimated to comprise 23% of the state's GF revenues, down from nearly 60% in FY 1950-51. In effect, each SUT exemption is subsidized by State, city, and county governments whose own taxes produce less revenue from a smaller base.

**Support and Opposition** (4/18/16)

Support: ACVS Veterinary Surgeon; American Emergency Clinic; American Holistic Veterinary Medical Association; American Holistic Veterinary Medical Foundation; Animal Urgent Care; California Veterinary Medical Association; Center for Integrative Animal Medicine; Eye Care for Animals; Hemopet; Holistic Veterinary Care; Meridian Veterinary Care; SAGE Centers for Veterinary Specialty and Emergency Care; VCA Emergency Animal Hospital and Referral Center.

Opposition: California State Association of Counties; League of California Cities.

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