



Legislative Bill Analysis

[Senate Bill 419](#) (Roth)

Date: May 4, 2023 (Amended)

Program: Property Taxes

Sponsor: Author

Revenue and Taxation Code section 242

Effective: Upon enactment

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Analysis Date: May 15, 2023

Summary: Extends the property tax exemption for personal property used in space flight for an additional 10 years.

Summary of Amendments: The May 4, 2023 amendments state that, by January 1, 2034, the Legislative Analyst's Office shall provide to the Assembly Committee on Revenue and Taxation, the Senate Committee on Governance and Finance, and the public a report that summarizes its findings regarding the performance indicators, which are (1) the change in the number of employees in the space flight industry in California resulting from the exemption, (2) the change in the compensation amounts of employees in the space flight industry in California resulting from the exemption, and (3) the change in the amount of investment made in space flight facilities in California resulting from the exemption. In researching the report, the Legislative Analyst's Office may request and receive information from County Assessors, the State Board of Equalization (BOE), taxpayers benefitting from the exemption, trade associations, or other individuals or entities. Any information received by the Legislative Analyst's Office shall be subject to the appropriate confidentiality requirements of the State Board of Equalization or the County Assessor or shall be confidential at the request of the taxpayer.

Fiscal Impact Summary: Indeterminable revenue loss.

Existing Law: Current law exempts from property tax qualified property for use in space flight for lien dates 2014 to 2024, inclusive. "Space flight" means any flight designed for suborbital, orbital, or interplanetary travel by a space vehicle, satellite, space facility, or space station of any kind. The exemption is limited to taxpayers that have a primary business purpose in space flight activities. The exemption does not apply to any material that is not intended to be launched into space but does apply regardless of whether the property will ultimately be returned to California.

"Qualified property" includes:

- Tangible personal property that has space flight capacity. This includes but is not limited to, an orbital space facility, space propulsion system, space vehicle, launch vehicle, satellite, or space station of any kind, and any component thereof.
- Tangible personal property, including raw materials, work in process, or finished goods, that has, or upon manufacture, assembly, or installation, has space flight capacity.
- Fuel produced, sold, and exclusively used for space flight and not adaptable for use in ordinary motor vehicles.

The Assessor cannot deny the exemption for either of the following reasons:

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- The space flight launch fails, is postponed, or is canceled.
- A launch vehicle, or any component thereof, is destroyed.

Proposed Law: This bill extends the exemption for property used in space flight from a lien date of January 1, 2024, to a lien date of January 1, 2034. In addition, the repeal date of this section is extended from July 1, 2025, to July 1, 2035. This bill also adds uncodified language, to comply with Revenue and Taxation Code (RTC) section 41, which requires the Legislative Analyst's Office to report detailed performance indicators to the Legislature by January 1, 2034. These provisions allow the Legislative Analyst's Office to request and receive information from County Assessors, the BOE, and others.

In General: Business Personal Property. Personal property used in a trade or business is generally taxable, unless specifically exempt. Annually, the law requires property owners to report their business personal property to the County Assessor on a business property statement, which is subject to audit. The value limitations for real property under Proposition 13 do not apply to personal property, which is valued each lien date at the current fair market value.

A business property statement includes information regarding supplies, business equipment, and leasehold improvements for each business location in the state. The owner reports the acquisition costs of supplies, business equipment, and leasehold improvements that were owned on the lien date at the business location. The owner-provided information is then used to assess and tax property in accordance with the law. With certain exceptions, business inventory and licensed vehicles are not taxable personal property and are not reported on the statement.

Business Inventory. Business inventory includes all personal property that becomes part of, or are themselves, a product that is held for sale or lease in the ordinary course of business on the lien date (January 1). For an item of personal property to qualify for the business inventory exemption, the key phrases "*ordinary course of business*" and "*goods intended for sale or lease*" must apply.

Commentary:

1. **The Legislature may tax or exempt personal property at its discretion.** Because space flight property is classified as personal property, the Legislature may legally exempt it, provided they do so by a two-thirds vote of both houses. Section 2 of Article XIII of the California Constitution provides that the Legislature, two-thirds of the membership of each house concurring, may classify personal property for differential taxation or for exemption.
2. **Related Property Tax Rule 133 and State Board of Equalization (BOE) Legal Opinions.** Property Tax Rule [133](#), *Business Inventory Exemption*, was amended effective October 1, 2014, and provides that exempt business inventories include space flight property that is not operationally reusable. On December 24, 2013, the BOE's Legal Department issued an advisory, non-binding legal opinion (Property Tax Annotation [205.0280](#)) stating that the business inventory exemption applies to space flight property fabricated and used to transport satellites and cargo to locations in outer space if the owner relinquishes ultimate control at launch to a federal launch safety authority for space flight termination purposes.
3. **Data Collection.** This bill requires the Legislative Analyst to issue a report on the effectiveness of this exemption and may request data from the BOE and County Assessors, if necessary, to comply

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with the provisions of RTC section 41. However, we note that RTC section 41 applies to tax exemptions imposed by RTC Part 1 (commencing with RTC section 6001) of Division 2, which is the sales and use tax law and does not have applicability to property tax exemptions.

4. **Prior Legislation.** SB 862 (Umberg) in 2022 proposed to expand the space flight property tax exemption to include qualified property used for space flight activities commencing with the January 1, 2022, lien date and extend the property tax exemption to, and including, the January 1, 2032, lien date and repeal the section on July 1, 2033. The bill was held in committee without further action.

Costs: BOE will have to issue a Letter to Assessors (LTA) announcing the sunset date extension. The cost to notify County Assessors of the extension is approximately \$1,051. However, there will be additional unabsorbable costs if the LAO asks the BOE to collect and report data from County Assessors.

Revenue Impact: County Assessors have indicated that taxpayers are not required to report or identify assets exempted by law as they are only required to provide the County Assessor with this information upon request. A request for information on exempt assets would be done through an audit process performed by the County Assessor. This explanation by the County Assessors highlights the difficulty in estimating the current exemption impact on local property tax revenues. Therefore, at this time, the revenue loss is indeterminable.