Sales Tax Trends... Demographics... Technology... and Giving it Away

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Sales Tax Collections

Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)
Local 1% Sales Tax Revenue as a Percent of Personal Income

Source: California State Board of Equalization (Sales Tax), US Dept of Commerce Bureau of Economic Analysis (California Personal Income)

Consumer spending growth is in:
- Housing
- Healthcare
- Food
- Entertainment
- Education

The population is aging
- spending on taxable items declines with age

Tax growth is concentrating in distribution centers
- Major amounts kicked-back to corporations - not to public services

Some taxable goods being replaced by non-taxed digital equivalents:
- computer software
- music
- movies
- games
- books
Sales Tax Reform in California
Policy Questions

✓ Narrow base, high rate compared to other states
  o Unfairly burdensome on some?
  o Revenue volatility and sustainability

✓ Disparate tax treatment of commercial activity – why?

✓ Fairness among local agencies.
  o Service need, service impact,
  o economic activity re sale,
  o over the life of the product.

How should sales tax revenues be allocated?

✓ Revenue rebates – loss of revenue for services, economic incentives … Good policy?

Services Commonly Taxed
in Other States … But Not California

<table>
<thead>
<tr>
<th>Service</th>
<th>Texas</th>
<th>Florida</th>
<th>Utah</th>
<th>#States*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional sports (34), amusement parks (34), cultural events (29), circus/fairs (33), bowling alleys (26)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>26-34</td>
</tr>
<tr>
<td>Private club memberships, golf</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>23</td>
</tr>
<tr>
<td>Garment, shoe repair or alteration</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>19</td>
</tr>
<tr>
<td>Marina services</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>15</td>
</tr>
<tr>
<td>Laundry / dry cleaning</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>21</td>
</tr>
<tr>
<td>Exterminating</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>19</td>
</tr>
<tr>
<td>Pet grooming</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>15</td>
</tr>
<tr>
<td>Carpet/ upholstery cleaning</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Remodeling – Labor</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>14</td>
</tr>
<tr>
<td>Health clubs</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>21</td>
</tr>
<tr>
<td>Landscaping / lawncare</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>Swimming pool cleaning</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>16</td>
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<tr>
<td>Digital downloads</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>23</td>
</tr>
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</table>

Source: Mazerov “Expanding Sales Taxation of Services: Options and Issues, Center on Budget and Policy Priorities

*States plus District of Columbia
Looking For Solutions
Sales Tax: Expanding the Base

<table>
<thead>
<tr>
<th>Estimated Sales and Use Tax Revenues</th>
<th>State GeneralFund</th>
<th>Counties Realignment</th>
<th>Local BradleyBums</th>
<th>Transp %</th>
<th>Prop172 %</th>
<th>Local Add-on TriTax</th>
<th>(millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amusement Parks</td>
<td>$56.7</td>
<td>$22.5</td>
<td>$14.4</td>
<td>$10.8</td>
<td>$11.8</td>
<td>$116.2</td>
<td></td>
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<tr>
<td>Sporting Events</td>
<td>$47.3</td>
<td>$18.6</td>
<td>$12.0</td>
<td>$9.0</td>
<td>$9.8</td>
<td>$96.8</td>
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</tr>
<tr>
<td>Appliance/Furniture Repair</td>
<td>$49.6</td>
<td>$19.7</td>
<td>$12.6</td>
<td>$9.6</td>
<td>$10.3</td>
<td>$101.6</td>
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<tr>
<td>Golf</td>
<td>$64.7</td>
<td>$25.7</td>
<td>$16.4</td>
<td>$12.3</td>
<td>$13.4</td>
<td>$132.6</td>
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<tr>
<td>Vehicle Repair</td>
<td>$641.0</td>
<td>$254.3</td>
<td>$162.8</td>
<td>$122.1</td>
<td>$133.1</td>
<td>$1,313.3</td>
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<tr>
<td>Veterinarians</td>
<td>$672.9</td>
<td>$267.0</td>
<td>$170.9</td>
<td>$128.2</td>
<td>$139.7</td>
<td>$1,378.7</td>
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<tr>
<td>Total</td>
<td>$1,532.0</td>
<td>$608.0</td>
<td>$389.1</td>
<td>$291.8</td>
<td>$318.2</td>
<td>$3,139.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Board of Equalization

Defining Situs
Where Does the Sale Take Place in Remote Sales?

What is the location of the sales transaction (the situs)?

- Seller’s location? Location of product receipt? Product location?
- California currently uses “origin sourcing,” the situs is the retailer’s place of business where negotiations take place.

Origin sourcing often => concentration of tax revenue

- Far in excess of service costs at the office or warehouse location
- Economic activity, service impacts also occur elsewhere (i.e., where product is used)

To lure jobs and tax revenues, some cities have entered into rebate agreements with corporations.
20% to 30% of total local taxes paid statewide are now rebated back to corporations rather than funding public services.

Possible Solutions

Redefine sourcing rules to situs of receipt:
- Does not change over the counter sales.
- Allocates remote sales to receipt (user's location)
  - Broader distribution among all cities.
  - Closer distribution to overall economic activity / service impact.
  - Could phase-in and/or split source (origin/receipt).
- Reduces incentive for sales tax rebate agreements.
- Returns as much as $1 billion back to city general funds.

Strictly limit or prevent new sales tax rebate agreements:
- Eliminate loopholes that allow rebates where there is no net new economic benefit among California communities.