Analysis

Services Tax May Need Voter OK to Yield Revenue for Local Governments

Will local governments benefit from Governor Arnold Schwarzenegger's groundbreaking proposal to broaden the sales tax base to include a limited set of services?

Consumers today pay a sales tax ranging from 7.25 percent to 8.75 percent, depending on where they make the purchase. The General Fund portion of this rate is 5 percent (the Governor proposes raising this by another 1.5 percentage points), with cities, counties and special districts levying the balance.

Although the rate is variable, the sales tax base is consistent for all jurisdictions that levy the tax. So whether it is the state General Fund, the city of Dinuba or the Los Angeles County Transportation Commission, all collect taxes from sales of cars, clothes, restaurant meals and any other tangible good deemed taxable by the Legislature or Board of Equalization.

Then would not local governments receive a windfall of revenues if the Legislature broadened the sales tax base?

Probably not.

It turns out the state Constitution may have several speed traps to prevent just such boon to local agencies:

- First, Article XIII, Section 24 states that the "Legislature may not impose taxes for local purposes."
- Second, local governments may impose new taxes only under the authority of Proposition 218 (Article XIII C), which requires local voter approval — two-thirds for special taxes and a majority vote for general taxes.

Therefore, the only circumstance under which local agencies would receive revenues from a broadening of the sales tax base would be if they asked their voters to approve such a tax. It would not be an inevitable consequence of a broader sales tax base.

CalChamber: Industry-Specific Taxes Hurt Economy, Budget Solution

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"Sound fiscal policy will result in material improvements to California's economy and encourage a swift and strong rebound from the current slowdown. On the other hand, the wrong policies will only make matters worse. Ultimately, the solution to California's budget crisis will only come from robust economic growth and job creation.

"With this in mind, we must make you aware of the most troubling revenue-raising proposals included in your plan, namely, tax increases that single out a specific industry or profession to shoulder billions of dollars of permanent tax burden. These industry-specific taxes kill good jobs and harm industries unique to California.

"For example, a new tax on oil production in California will ultimately make California oil more expensive than that produced in foreign countries and harm our state's competitiveness. It won't change the amount of oil used in California, but it will result in loss of high quality jobs in the industry, increased imports to the state and increased prices at the pump.

"Likewise, singling out the alcoholic beverage industry for a $293 million tax increase will directly affect our important wine industry and beer production facilities, costing high quality jobs in both sectors.

"In addition to the above mentioned proposals, we also oppose sales taxes on services and on entertainment. These taxes would impede sustained economic recovery and burden already-struggling California businesses. Adding the services tax to the new proposed general sales tax hike would be a sudden, nearly 10 percent price increase in repairs, entertainment events and veterinary services. We have no doubt that such an increase would result in substantially less business at repair shops, attendance at entertainment events, and care for ailing pets.

"We recognize that arriving at solutions to the state's budgetary problems are difficult at best, but these targeted tax increases will hamper our economic recovery just when we will need jobs and tax revenues the most. Although we support your leadership and call for economic stimulus, we must oppose these industry-specific taxes."

Staff Contact: Marc Burgat

World's Largest Tech Trade Show Seeks California Businesses

The California Chamber of Commerce is encouraging members to attend a December 3 presentation on the benefits to businesses that participate at CeBIT, the world's leading trade fair for digital business solutions and information and communications.

California is a partner state for CeBIT. This is the first time that a state, not a country, will serve as a partner.

California's participation at CeBIT 2009 will spotlight the state's innovative information and communications technologies in several key industries, including: entertainment, Internet-based services, telehealth, security, consumer electronics, digital content generation and distribution, aerospace and research and technology. California also will feature its green information technology initiatives.

Those interested in being a CeBIT exhibitor should attend the December 3 presentation at the Irvine Marriott Hotel. A briefing focusing on exporting health and telehealth technologies is scheduled for December 5 at the Westin San Francisco Airport.

For more information about CeBIT, visit ***www.hfusa.com.***

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