

Revenue Fundamentals

Sales, Use and Transactions Taxes



August 22, 2017

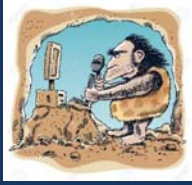
California Society of Municipal Finance Officers



A Brief History...

- **1933** – State Sales Tax Adopted - 2 ½%: Gold Bullion, Goods sold to Federal Government & Public Utilities exempted.
- **1935** – Use Tax Imposed – 3.0%: Food Sold for Home Consumption exempted.





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- **1955** – Bradley- Burns Uniform Tax adopted. 1.0%.
- **1968** – Legislature preempts local governments from independent sales tax levies (R&T 7203.5 footnote).



Sales Tax History Continued....

- **1969** – Counties authorized to go to Voters for Transactions and Use Tax Overrides.
- **1972** – Bradley-Burns rate increased to 1 ¼% - for funding of country wide transportation programs.
- **1974** – Proposition 172 Imposed - ½ cent for public safety to replace confiscation of ERAF property tax revenues.
- **2004** – Transactions and Use Tax authorized for Cities - Triple Flip initiated – Voters pass Prop 1A barring future state tampering with Bradley-Burns.



Statewide Sales Tax Rate

State General Fund	3.9375%
County Realignment	1.5625%
Prop. 172 Public Safety	0.5000%
Bradley-Burns Uniform Tax	1.2500%
Local General Fund	1.00%
Countywide Transportation	-0.25%
Total	7.2500%
Optional Transactions Tax	2.0000%
*Except Alameda, Contra Costa, Monterey, San Mateo, Counties:	2.50%
Los Angeles County:	2.75%
Total Rate	9.2500%
Alameda, Contra Costa, Monterey, San Mateo, Los Angeles Counties:	(10.0% to 10.25%)

Key Characteristics....

- 🎲 Only on purchase or lease of tangible personal property. Real property and services excluded.
- 🎲 Charged only when sold to end user.
- 🎲 Significant exemptions(Over \$11.5 billion annually).
- 🎲 85% of revenue generated by 5% of businesses.

The Local Government Share...

- 🌐 One Cent Local Tax (Point of Sale)
 - County State and Allocation Pools
 - State Administrative Fees
 - County Bite
- 🌐 Transactions Tax Overrides (Point of Purchase)
- 🌐 Proposition 172 Public Safety (Via Counties By Ratio of Sales)



Sales and Use Tax Allocated To:

- 🌐 Where sales office or order desk located.
- 🌐 If order out-of-state, where in-state inventory maintained.
- 🌐 Tax on equipment that is leased, purchased from out of state, affixed to buyer's property or where seller has no permit is distributed via County and State allocation pools.
- 🌐 If out-of-state transaction over \$500,000 and there is no in-state inventory, to jurisdiction of purchase.





Online Sales

<u>Where Order is Placed</u>	<u>Location of Goods At The Time of Sales</u>	<u>Then Sales Tax Allocation To:</u>
In-State Order	In-State	Jurisdiction Where Order Was Placed
In-State Order	Out-of-State	Countywide Pools
Out-of-State Order	In-State	Jurisdiction where goods are located and shipped from
Out-of-State Order	Out-of-State	Countywide Pools
Out-of-State Order	Pick Up at Store	Jurisdiction of store if from store's inventory - County pool if goods drop shipped to store from out-of-state
Out-of-State Order	Shipped from Out-of-State "FOB Destination"	Jurisdiction to where order is shipped
Out-of-State Order	Out-of-State Over \$500,000	Jurisdiction to where order is shipped

City Sales Tax Rates

County	City rate ^a	Cities	County	City rate ^a	Cities	County	City rate ^a	Cities
1	2	3	1	2	3	1	2	3
Alameda	1.00	Dublin/Livermore/ San Leandro	Kings	.95	Hanford	San Joaquin	1.00	All cities
	.95	All other cities		.98	All other cities	San Luis Obispo	1.00	All cities
Alpine	-	No incorporated cities	Lake	1.00	All cities	San Mateo	.95	All cities
Amador	1.00	All cities	Lassen	.95	Susanville	Santa Barbara	.70	Goleta
Butte	.95	Chico	Los Angeles	1.00	All cities		1.00	All other cities
Calaveras	.87	Angels Camp	Madera	.92	Chowchilla	Santa Clara	1.00	All cities
Colusa	1.00	All cities	Marin	.94	Madera	Santa Cruz	1.00	All cities
Contra Costa	1.00	Oakley	Mariposa	1.00	All cities	Shasta	1.00	All cities
	.975	All other cities		-	No incorporated cities	Sierra	.95	Loyalton
Del Norte	1.00	Crescent City	Mendocino	1.00	All cities	Siskiyou	1.00	All cities
El Dorado	1.00	All cities	Merced	.925	Merced	Solano	1.00	All cities
Fresno	.9469	Fresno		.95	Los Banos	Sonoma	1.00	Windsor
	.95	Clovis/Firebaugh/ Fowler/Kerman/ Kingsburg/Reedley/ Sanger/Selma		1.00	All other cities	Stanislaus	.95	Ceres/Modesto/ Oakdale/Turlock
	.955	Coalinga	Modoc	1.00	Alturas		1.00	All other cities
	.97	San Joaquin	Mono	1.00	Mammoth Lakes	Sutter	1.00	All cities
	.985	Mendota	Monterey	1.00	All cities	Tehama	.90	Corning/Red Bluff
	1.00	All other cities	Napa	1.00	All cities		1.00	Tehama
Glenn	1.00	All cities	Nevada	1.00	All cities	Trinity	-	No incorporated cities
Humboldt	1.00	All cities	Orange	1.00	All cities	Tulare	.95	All cities
Imperial	1.00	All cities	Placer	1.00	All cities	Tuolumne	.87	Sonora
Inyo	1.00	Bishop	Plumas	.95	Portola	Ventura	1.00	Ojai
Kern	1.00	All cities	Riverside	1.00	All cities		.967	All other cities
			Sacramento	1.00	All cities	Yolo	1.00	All cities
			San Benito	1.00	All cities	Yuba	1.00	All cities
			San Bernardino	1.00	All cities			
			San Diego	1.00	All cities			
			San Francisco	1.00	-			

Each city's tax rate is credited against the county's 1 percent tax.

Transactions Tax Overrides

- 🌐 Tax collected only from Jurisdiction's businesses and residents:
 - Vehicles, vessels, aircraft registered to district.
 - Merchandise shipped into district from out-side pays. Merchandise shipped from inside to outside does not.
 - Walk-In retail matches sales tax.
- 🌐 Retailers without in-district nexus not obligated to collect tax.



Sales Tax Follows The Seller..... Transactions Tax Follows The Buyer

Santa Maria Resident purchases car from dealership in Santa Barbara (Pays 8.0% tax):

- City of Santa Barbara receives sales tax
- City of Santa Maria receives 0.25% Transactions Tax
- SBCTA receives 0.50% Transactions Tax

Santa Barbara Resident purchases car from dealership in Santa Maria: (Pays 7.75% tax):

- City of Santa Maria receives sales tax
- Santa Barbara County Association of Governments receives 0.50% transactions tax.
- Santa Barbara does not have a Trans. tax. Therefore, none collected





½ Cent Prop. 172 Revenues

- Based on each of the 58 counties share of taxable sales in prior calendar year.
- Calculation of final ratio held for one quarter to allow for late payments and other adjustments.
- Cash flow calculations based on September through August fiscal year.



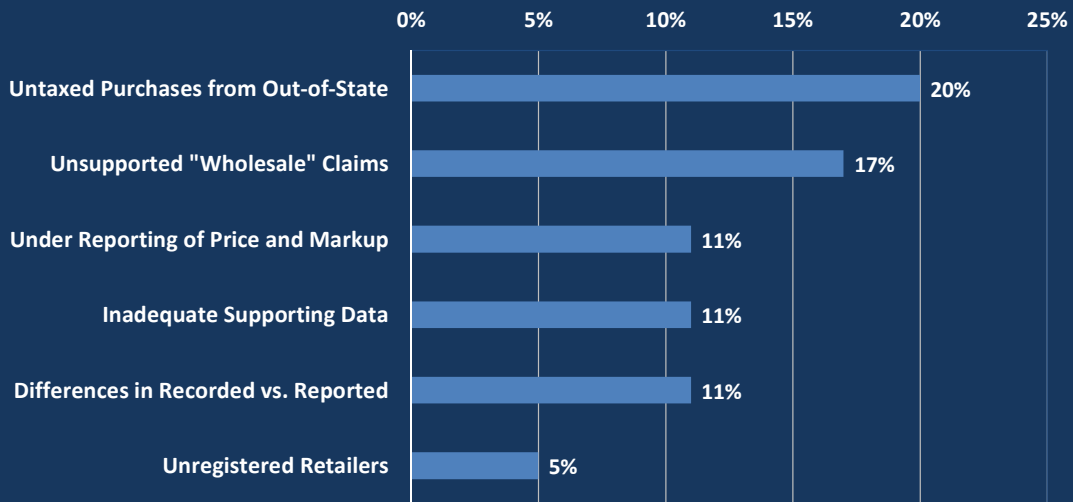
Revised State Administration of Sales and Use Taxes

BOARD OF EQUALIZATION (Effective July 1, 2017)	DEPT OF TAX AND FEE ADMINISTRATION (CDTFA) (Effective July 1, 2017)	OFFICE OF TAX APPEALS (Effective January 1, 2018)
Four Board Members Elected by District + State Controller	Division of Government Operations Agency	Independent Director with Administrative Law Judges
<ul style="list-style-type: none"> • Oversight of Property Tax Assessment Practices • Assessment of Railroad & Utility Company Properties • Alcohol & Insurance Taxes 	<ul style="list-style-type: none"> • Sales, Transaction & Use Tax Regulations, Collection & Distribution • Timber Yield, Tobacco & Environmental Fees 	<ul style="list-style-type: none"> • Income Tax Appeals • Sales Tax Appeals • Franchise Tax Appeals



CDTFA Audits

Top Areas of Non-Compliance



Tax Evasion or Under Reporting

- 🌐 CDTFA Hotline: 888-334-3300
- 🌐 CDTFA Investigations Division: 916-324-0105
- 🌐 CDTFA Investigation Fax: 916-324-1578
- 🌐 California Department of Tax & Fee Administration
Investigations Division, MIC:42
State Board of Equalization
P.O Box 942879
Sacramento, California 94279-0042

🌐 Complaint Form: <http://boe.ca.gov/info/icomplaint.htm>



CDTFA

Local Government Allocation Methodology

- 🌐 Taxpayer has 30 days at the end of the quarter to file return.
- 🌐 CDTFA requires at least 6 weeks to process 900,000 plus returns.
- 🌐 CDTFA “advances” revenue via monthly payments based on 90% of prior year’s comparable quarter plus CPI adjustment:

Receipts from October Through December Sales			
December	January	February	March
30%	30%	40%	Clean Up Payment + Advance for April

CDTFA Administrative Fees

- Bradley – Burns (Average 1.21% in 2016-17)
 1. Calculation of cost elements: direct, shared and central.
 2. Calculated amount spread by ratio of sales.
 3. First quarter “true up” to cover over or under charges in preceding year.
- Transactions Tax Overrides
 1. Districts calculated Individually based on audit activity and actual workload factors.
 2. Capped at 5% of gross collections for rates less than 0.25%, 3% for rates less than 0.5% and 1.5% for rates .50% or greater.



Confidentiality

Rev & Tax Code Section 7056

Prohibits public disclosure of taxpayers personal, proprietary and financial information:

- 🌐 Amounts of tax paid by individual taxpayer.
- 🌐 Whether taxpayers returns are up or down.
- 🌐 Registration information of home based or sole proprietary businesses (Civil Code Section 1798.69).



Working with Confidential Information

- 🌐 Local officials can review for legitimate government purposes if authorized by resolution:
 - Position title rather than individual name.
 - City Manager or designated representative.
 - Elected Officials ...?
- 🌐 Data that can be publicly revealed:
 - Jurisdiction's top taxpayers if list has at least 25 or more and is listed randomly or alphabetically.
 - Amounts generated by business type if type has four or more separate business registrations and no business in the group represents more than 80% of total dollars.



Tax Sharing & Rebates

- 🌐 **Article VIII, Section 29, California State Constitution:**
 - Authorizes Sharing Agreements between local agencies if approved by 2/3rd vote of agencies' governing bodies.
- 🌐 **Gov. Code Section 53083:**
 - Subsidies and rebates to private parties exceeding \$100,000 require public notification, hearings, analysis and justification.
- 🌐 **Gov. Code Section 53084:**
 - No rebates or subsidies to big box retailers of 75,000 sq. ft or more relocating within same market area (25 drive miles) or to auto dealerships relocating within same market area(40 drive miles).
- 🌐 **Gov. Code Section 53084.5:**
 - Using subsidy to poach sales office requires pre notification to losing agency and hearings if retailer continues to maintain physical presence in losing jurisdiction.



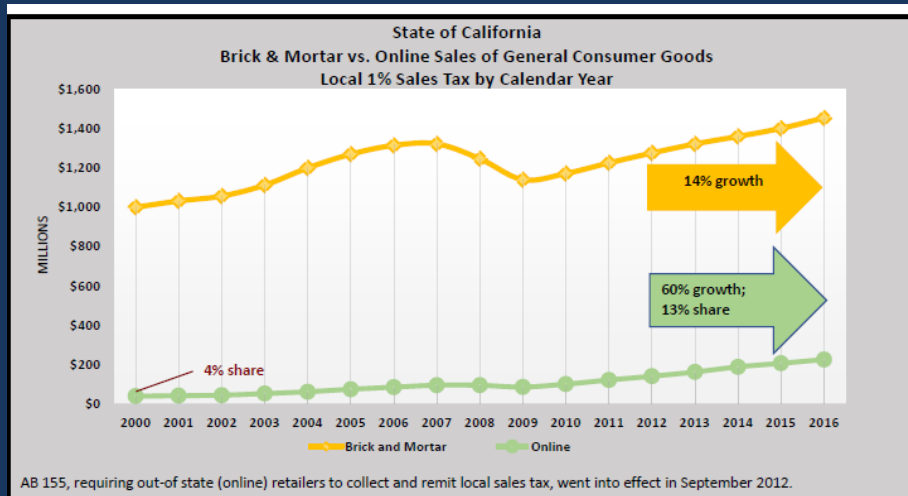
THE EVOLVING CHALLENGES TREND # 1

SLOWER TAX GROWTH IN THE FUTURE...

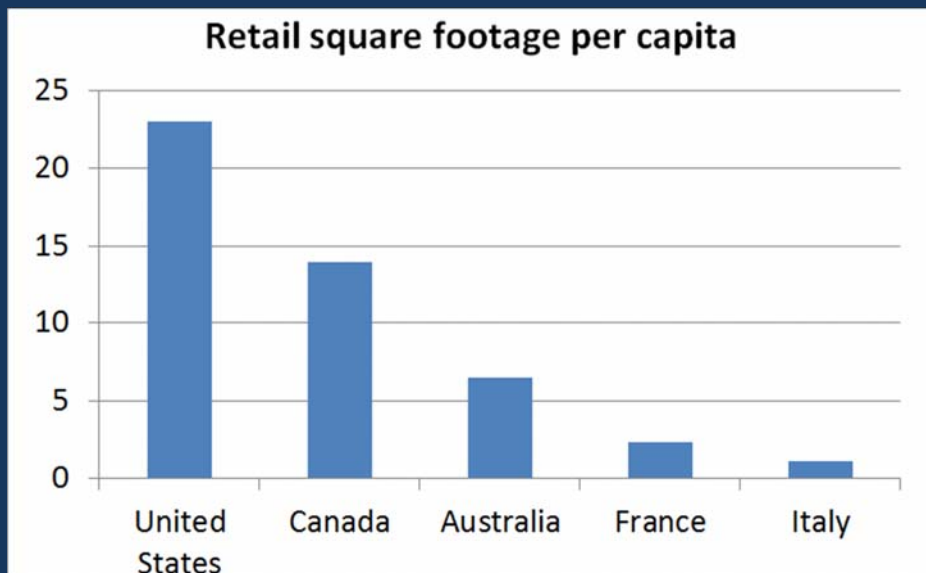
- 🌐 Technology reducing the cost of goods.
- 🌐 More spending on services than goods.
- 🌐 State exemptions narrowing the taxable base.
- 🌐 Baby boomers aging and spending less.
- 🌐 Millennials focused on social networking and education – not on Stuff.



THE EVOLVING CHALLENGES
TREND # 2
CONSUMERS ARE MOVING ONLINE



THE EVOLVING CHALLENGES
#3
TOO MANY STORES.....



THE EVOLVING CHALLENGES
TREND # 4

THE CHANGING WORLD OF SALES TAX GENERATION...

- Smaller, more efficient footprints.
- Pop-up stores, stores within stores, “Omni-channel” retailing.
- “Retailtainment”
 - ambiance, emotion, sound & food
- Industry is the new retail.



Economic Development Opportunities

Brick & Mortar Not Going Away - See, touch and feel will always be important.

Smaller Footprints accommodate previously ignored markets – Credible data essential.

Main Street back in Vogue - New opportunities to rebuild downtowns and community shopping centers.

More Attention to Industrial Uses .





Maximizing Sales and Use Tax Revenues

🌐 Sales Tax.....

Accurate coding of sales offices and order desks, “over the counter” transactions vs. installation sales, warehouses.

🌐 Use Tax.....

Out-of-State purchases over \$500,000, Construction contracts exceeding \$5 million, Direct Payment Permits.

🌐 Economic Development Tool.....

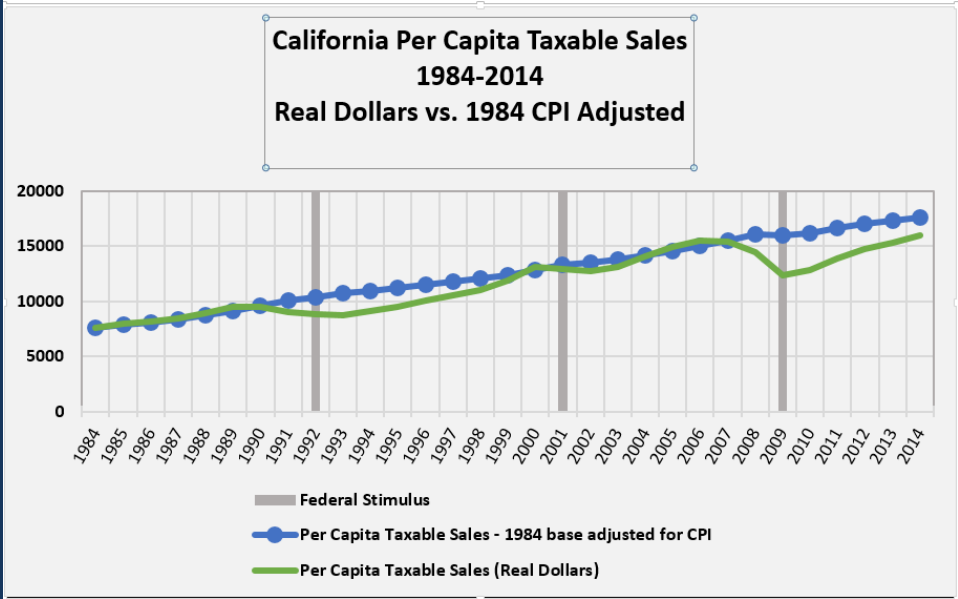
Track who is growing and may need expansion room, Analyze market voids, Identify leveraging opportunities.



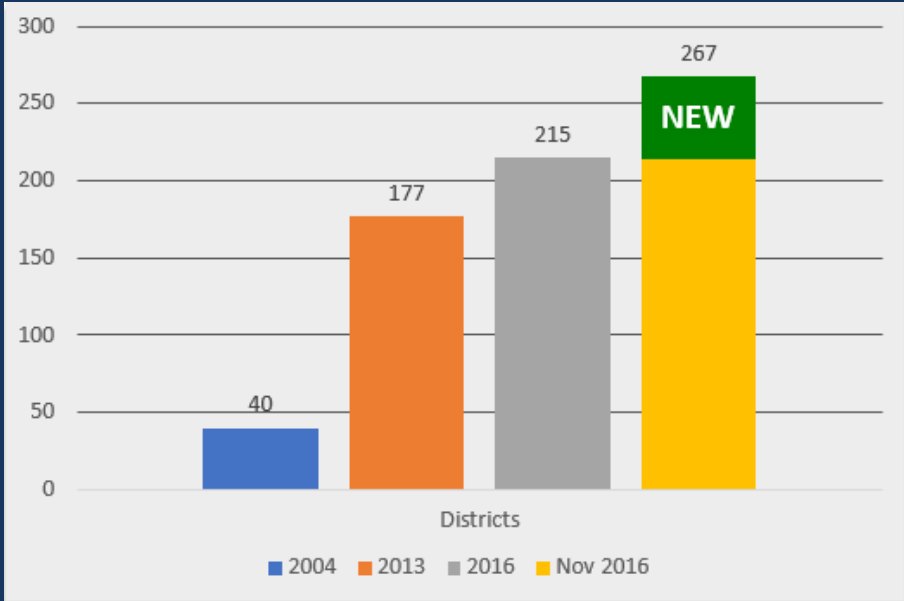
Biggest Challenge of All... THE TAX IS OBSOLETE!



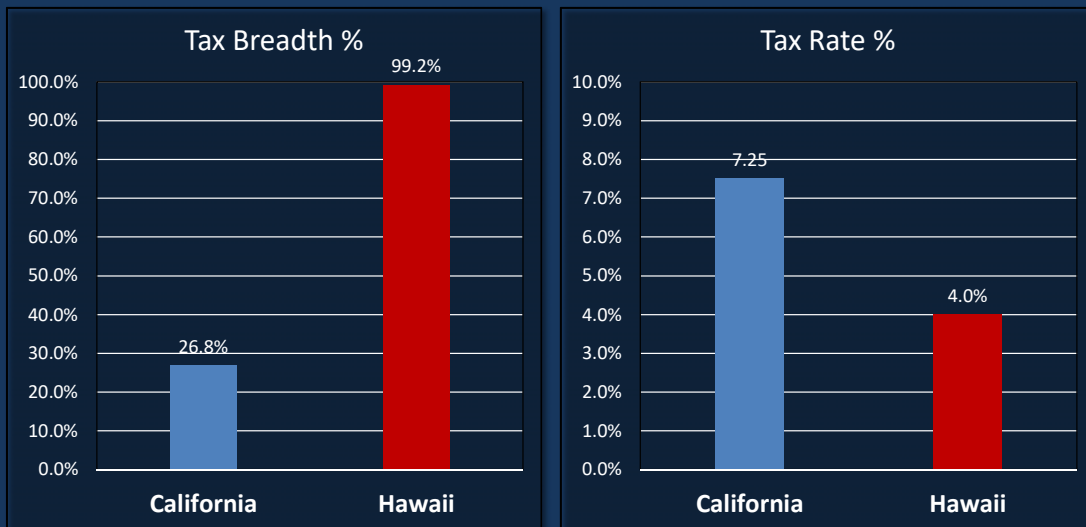
THE TAX IS NOT KEEPING UP WITH INFLATION



LOWER REVENUES – HIGHER TAX RATES



Breadth of Sales Tax Rates



Reform Issues Outlined to League of California Cities Policy Committee

- 🎯 Restore Base to Include Digital Goods
- 🎯 Expand Base to match other states (recreation & entertainment, maintenance & repairs).
- 🎯 Reduce threshold on what goes to agencies versus pools.
- 🎯 Allocations to “Destination” rather than “Point of Sale.”



Resources

<http://www.boe.ca.gov>

- #28: Tax Information for City and County Officials.
- #44:-District Taxes.
- #61: Sales and Use tax Exemptions.

<https://www.hdlcompanies.com>

- Guide to Sales and Use Taxes
- Allocation data and regional comparisons

<http://www.californiacityfinance.com>

Wide range of financial explanations



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