Orange County's news source
ocregister
Wednesday, August 21, 2013

Michelle Steel: Sales tax rate inequities

By MICHELLE STEEL / For the Register

Confusion about local tax rates is causing some Californians to be overcharged sales tax when they make purchases. And it doesn't help that the Board of Equalization's publications for finding tax rates are almost as complicated as the tax rates themselves. I am working with agency staff and my board colleagues to correct this problem.

Recently a taxpayer in San Diego sent an email to my office because he had been overcharged sales tax when purchasing tools for his home business. The taxpayer lives in an unincorporated community near El Cajon. His home shares a ZIP code with that city, but not the city's additional 1 percent sales tax.

He noticed something was wrong when he got his bill. He had been charged 9 percent in sales tax instead of the county rate of 8 percent that he owed. When he called the tool company to let them know about the error, they said that their records showed he lived in El Cajon because he had the same ZIP code, so they charged him the El Cajon tax rate.

Using ZIP codes to determine local tax rates is common practice, but it has become outdated. ZIP codes are great for determining a general location, but they don't line up with county, city, or district lines – some ZIP codes even cross state boundaries.

As more local governments add additional sales taxes, ZIP codes become a less reliable tool for determining the tax rate in a given area. And while the Board of Equalization officially frowns upon the use of ZIP codes to determine tax rates for this very reason, there are few other cost effective options available for in- and out-of-state businesses that are required to collect the tax at the local rate when they ship products to California customers.

Similar problems have been reported across California. In June, three rental car dealerships at the Sacramento Airport were found to be erroneously charging the city of Sacramento's additional half percent sales tax to their customers even though the airport is located outside of the city.

When these errors occur, they are generally resolved quickly. But that is no excuse for the headache and the loss of time and money created for taxpayers,

cities and counties, and for the tax agency, when this should be a simple matter to correct.

In June, I began discussions with board staff to find better tools for retailers and taxpayers to accurately determine the tax they should owe. I said that the board should be able to provide a simple online tool – certified for accuracy – that would allow retailers to type in an address and find the right local rate. At our August board meeting, staff shared the progress they have made on this important project.

By early September, the board will offer on its website – free of charge – a new Tax Rate Lookup tool that will help businesses and consumers determine accurate sales tax rates across the state. Board staff will also use geocoding technology to improve the agency's online registration system.

The state requires retailers to collect the sales tax on its behalf. Therefore, it is the state's responsibility to provide the most accurate information available. Errors will always occur, but they should not occur because the board is unable to furnish information that retailers can rely on.

Michelle Steel is vice chairwoman of the California Board of Equalization.