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Geographic and Income Class Characteristics of California Households Paying Use Taxes on State Personal Income Tax Returns

Use Tax Payments Made by Households

Data from the Franchise Tax Board (FTB) indicate that California households paid about \$10.4 million in use tax payments on their personal income tax returns related to calendar year 2009 liabilities (the latest year for which complete data are available). These tax payments are associated with remote purchases (including Internet and traditional mail order) made from companies located outside the state that do not collect California sales taxes from their customers.

Use Tax Payments Higher in 2010

Comparable data for calendar year 2010 liabilities are incomplete because taxpayers have until mid-October, 2011 to file returns timely. However, preliminary data indicate that use tax payments related to 2010 liabilities are likely to be up about 9 percent, implying use tax payments of around \$11.3 million.

Average Participation and Payments

The participation rate (percentage of all taxpayers with adjusted gross incomes (AGI) greater than zero who reported use taxes) averaged 0.42 percent for 2009. For these households who reported use taxes, payments averaged \$170 per household.

Participation and Payments by Income Class

The data indicate wide disparities in both the participation rates and average payments by income class. While the participation rate averaged 0.42 percent, they increased dramatically as incomes increased for every income class. As shown in Table 1, participation rates ranged from a low of 0.15 percent for taxpayers with AGI between zero and \$30,000 to a high of 1.12 percent for taxpayers with AGI over \$100,000. Participation rates approximately doubled for each income class. Average use taxes paid per return showed a much different pattern. They were similar for the bottom three income classes, ranging from \$70 to \$81 per household. In contrast, the highest-earning households, on average, paid close to four times as much use tax as each of the three lowest AGI classes, averaging \$311 per household.

Table 1
Participation and Average Use Tax Payments by AGI Class in 2009

Adjusted Gross Income (AGI) Class (\$ Thousands)	Use Tax Participation Rates of Taxpayers Reporting More Than Zero in AGI	Average Use Tax Reported per Tax Return
Between zero and \$30K	0.15%	\$76
\$30K to \$60K	0.34%	\$70
\$60K to \$100K	0.66%	\$81
Greater than \$100K	1.12%	\$311
Total, All AGI Classes	0.42%	\$170

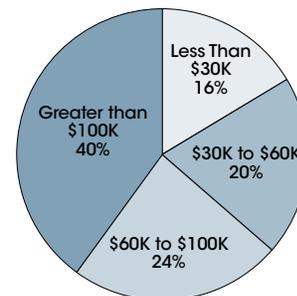
Use Tax Participation and Payments Highly Concentrated in Upper Income Class

About 40 percent of all households paying use taxes on their income tax returns had incomes over \$100,000. (See Chart 1.) This reflects the relatively high participation rates for high AGI earners discussed earlier. As shown in Chart 2, these high income households accounted for about 73 percent of all use tax payments made on personal income tax returns.

Top Ten Counties

The FTB also provided use tax payment data by county. For purposes of this discussion, we will report these data for the top ten counties in population, using January 1, 2011 figures from the California Department of Finance to rank the counties. The top ten counties account for 72 percent of total California population.

Chart 1
Percentages of Use Tax Payers by Income Class for Those Reporting Use Taxes on Personal Income Tax Forms



Board Members

Betty T. Yee
First District
San Francisco

Sen. George Runner (Ret.)
Second District
Lancaster

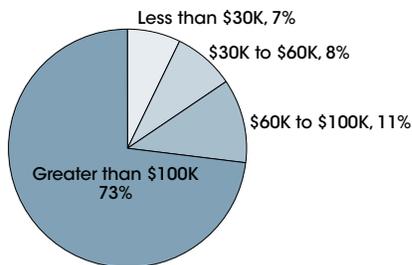
Michelle Steel
Third District
Rolling Hills Estates

Jerome E. Horton
Fourth District
Los Angeles

John Chiang
State Controller

Kristine Cazadd
Interim
Executive Director

Chart 2
Percentages of Use Taxes Reported by Income Class for Those Reporting Use Taxes on Personal Income Tax Forms



Participation Rates by Income Class and County

Table 2 shows the participation rates for all income groups for the top ten counties compared to the California average. The counties are ranked from low to high participation rates. As shown in the table, participation rates vary from a low of 0.19 percent for San Bernardino County to a high of 1.03 percent for Santa Clara County. Tables 3 through 6 show participation rates for the top ten counties for each of four income classes.

Lowest AGI, Lowest Participation Rates

Compared to the other income classes, participation rates are lowest for the lowest income class for each county. For example, the participation rate for households with AGI between zero and \$30,000 average 0.08 percent for San Bernardino County (Table 3). This is much lower than (less than half) the average for all San Bernardino AGI classes of 0.19 percent discussed above (Table 2). Likewise, the state average for the lowest AGI class is 0.15 percent (Table 3), less than half the state average of all income classes of 0.42 percent (Table 2).

Table 2
Top Ten Counties, Adjusted Gross Income (AGI), All Income Classes

County	Use Tax Participation Rate of AGI Taxpayers
San Bernardino	0.19%
Riverside	0.19%
Fresno	0.25%
Los Angeles	0.26%
Orange	0.32%
San Diego	0.39%
California Average	0.42%
Sacramento	0.46%
Contra Costa	0.63%
Alameda	0.76%
Santa Clara	1.03%

Table 3
Top Ten Counties, Adjusted Gross Income (AGI) Between Zero and \$30,000

County	Use Tax Participation Rate of AGI Taxpayers
San Bernardino	0.08%
Riverside	0.09%
Fresno	0.09%
Los Angeles	0.10%
Orange	0.12%
California Average	0.15%
Sacramento	0.16%
San Diego	0.16%
Contra Costa	0.23%
Alameda	0.27%
Santa Clara	0.29%

Table 4
Top Ten Counties, Adjusted Gross Income (AGI) \$30,000 to \$60,000

County	Use Tax Participation Rate of AGI Taxpayers
San Bernardino	0.18%
Riverside	0.19%
Los Angeles	0.22%
Orange	0.26%
Fresno	0.26%
San Diego	0.33%
California Average	0.34%
Sacramento	0.42%
Contra Costa	0.46%
Alameda	0.53%
Santa Clara	0.63%

Table 5
Top Ten Counties, Adjusted Gross Income (AGI) \$60,000 to \$100,000

County	Use Tax Participation Rate of AGI Taxpayers
Riverside	0.33%
San Bernardino	0.33%
Los Angeles	0.47%
Orange	0.52%
Fresno	0.58%
San Diego	0.63%
California Average	0.66%
Sacramento	0.85%
Contra Costa	0.86%
Alameda	1.05%
Santa Clara	1.14%

Participation Rates Increase Follow AGI Classes

As AGI increases, participation rates go up for all counties. The rankings of the counties change little as the AGI classes increase. For the highest AGI group, all ten counties have participation rates higher than the overall average of 0.42 percent for all income classes. As shown in Table 6, participation rates range from a low of 0.45 percent for Riverside County to a high of 2.35 percent for Santa Clara County.

Table 6
Top Ten Counties, Adjusted Gross Income (AGI)
Greater Than \$100,000

County	Use Tax Participation Rate of AGI Taxpayers
Riverside	0.45%
San Bernardino	0.52%
Orange	0.72%
Fresno	0.79%
Los Angeles	0.82%
San Diego	0.87%
Sacramento	1.05%
California Average	1.12%
Contra Costa	1.31%
Alameda	1.68%
Santa Clara	2.35%

Santa Clara County’s Exceptional Participation for all AGI Classes

As these tables show, Santa Clara County taxpayers have exceptionally high participation rates compared to the rest of the counties at all AGI levels. Even the second lowest AGI group for Santa Clara County (a participation rate of 0.63 percent, as shown in Table 4) has a higher participation rate than that of the highest AGI groups for Riverside and San Bernardino counties (Table 6).

County Participation Rate Variation Difficult to Explain

The variation among the top ten counties for each of the four AGI classes is difficult to explain. Usually taxpayers in the same income class exhibit similar average behavior regardless of where they live.

Use Taxes by Income Class and County

Average use taxes paid by AGI class for the top ten counties are shown in Tables 7 through 11. As shown in Table 7, use taxes paid by households in all income classes range from a low of \$77 per household for San Diego County to a high of \$579 per household for Contra Costa County. Most of the counties are below the state average of \$170 per household.

Table 7
Top Ten Counties, Adjusted Gross Income (AGI),
All Income Classes

County	Average Use Tax Reported Per Return
San Diego	\$77
Fresno	\$79
San Bernardino	\$79
Orange	\$83
Riverside	\$97
Alameda	\$102
Sacramento	\$119
California Average	\$170
Santa Clara	\$190
Los Angeles	\$296
Contra Costa	\$579

Interaction of Participation Rates and Average Use Tax Payments

Mathematically, average use taxes per household in all income classes are a function of participation rates and total numbers of households in each AGI class. Tables 8 through 11 show use taxes paid by AGI class for the top ten counties. One observation from these data shows that Santa Clara County, while having the highest participation rates at every income level (as seen in Tables 3 through 6), does not have the highest average use tax per household (Table 7). Los Angeles, while having below average participation rates for every income class (Tables 3 through 6), has use tax payments per household well above average (Table 7). Tables 8 through 11 show why this is the case: Santa Clara County generally has lower than average use tax payments in each income class, while Los Angeles County generally has above average use tax payments for each income class.

Table 8
Top Ten Counties, Adjusted Gross Income (AGI)
Between Zero and \$30,000

County	Average Use Tax Reported Per Return
Orange	\$53
Fresno	\$54
Contra Costa	\$57
San Bernardino	\$58
Alameda	\$60
Santa Clara	\$61
Riverside	\$62
Los Angeles	\$65
San Diego	\$71
California Average	\$76
Sacramento	\$376

Table 9
Top Ten Counties, Adjusted Gross Income (AGI)
\$30,000 to \$60,000

County	Average Use Tax Reported Per Return
San Bernardino	\$57
San Diego	\$59
Santa Clara	\$65
Orange	\$66
Sacramento	\$70
California Average	\$70
Alameda	\$70
Contra Costa	\$71
Los Angeles	\$78
Fresno	\$80
Riverside	\$82

Use Tax Payments Increase with AGI

While there are exceptions, generally higher AGI classes are associated with higher use tax payments. (For reasons that are unclear to us, Sacramento County, shown in the lowest income class in Table 8 is a major exception to this general pattern.)

Table 10
Top Ten Counties, Adjusted Gross Income (AGI)
\$60,000 to \$100,000

County	Average Use Tax Reported Per Return
San Diego	\$66
Sacramento	\$66
Riverside	\$70
Orange	\$71
California Average	\$81
Fresno	\$82
Alameda	\$82
Santa Clara	\$82
San Bernardino	\$86
Contra Costa	\$90
Los Angeles	\$95

Table 11
Top Ten Counties, Adjusted Gross Income (AGI)
Greater Than \$100,000

County	Average Use Tax Reported Per Return
Sacramento	\$91
Fresno	\$93
San Diego	\$99
San Bernardino	\$108
Orange	\$111
Alameda	\$136
Riverside	\$166
Santa Clara	\$273
California Average	\$311
Los Angeles	\$650
Contra Costa	\$1,180

Less Variation in Use Taxes Than Participation Rates for Three Lowest AGI Classes

In contrast with participation rates discussed earlier, average use taxes paid show relatively much less variation by county and income class than participation rates for the three lowest income classes. This is in line with what one would expect; when adjusted for income by putting the data into similar income groups, variation among counties is diminished. For example, for the AGI income class from \$30,000 to \$60,000 participation rates range from a low of 53 percent of the California average for this group to a high of 187 percent of the average (data from Table 4). Use Tax payments for this income class, in contrast, range from a low 81 percent of the California average to a high of 117 percent (data from Table 9).

More Variation in Highest AGI Class

The AGI class of over \$100,000 shows the largest variation among the counties. Average use tax payments for households with AGI over \$100,000 ranged from \$91 per household in Sacramento to \$1,180 for Contra Costa County (Table 11). It is not surprising that the highest income class has the largest variation in use tax payments by county, since this class also has the largest variation in household incomes by county.

High Use Tax Payments in Some Isolated Rural Counties

While not presented here because of space considerations and possible distortions that may be caused by small numbers of taxpayers in each group, we analyzed these data for all counties, and were able to make an additional generalization: Some small relatively isolated rural counties had relatively high use tax payments compared to the average for specific income classes. For example, Humboldt County taxpayers with AGI between zero and \$30,000 averaged use tax payments of \$130 per household, well above the statewide average of \$76. This may indicate that households in counties such as Humboldt did more shopping online than average because there are relatively few convenient places to shop in these areas. However, this pattern was not evident for all income classes or all isolated small rural counties.

Contact Us

Please contact us if you would like to be added to our mailing list, or have questions or comments.

Joe Fitz, Chief Economist, MIC:67
 State Board of Equalization
 PO Box 942879
 Sacramento, CA 94279-0067
 916-323-3802
research@boe.ca.gov

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www.boe.ca.gov/news/epcont.htm

Taxpayers' Rights Advocate: 888-324-2798

To contact your Board Member, see
www.boe.ca.gov/members/board.htm

Online Resources

For more information about topics covered in this publication and previous issues, please visit any of the websites listed below.

California Department of Finance
www.dof.ca.gov

California Employment Development Department (EDD), Labor Market Conditions in California
www.labormarketinfo.edd.ca.gov

Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
www.phil.frb.org/econ/spf/index.html

National Association for Business Economists
www.nabe.com

U.S. Bureau of Economic Analysis
www.bea.gov

U.S. Bureau of Labor Statistics
www.bls.gov/cpi/

U.S. Census Bureau
www.census.gov