



# STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	<b>02/01/10</b>	Bill No:	<b><a href="#">AB 1700</a></b>
Tax:	<b>Sales and Use</b>	Author:	<b>Gaines</b>
Related Bills:	<b>SB 952 (Wyland)</b>		

## BILL SUMMARY

This bill repeals various tax provisions enacted during the 2009-10 Special Session budget agreement. Among other things, this bill would repeal the one percent state sales and use tax rate increase that began on April 1, 2009.

## ANALYSIS

### CURRENT LAW

Under current law, the statewide sales and use tax rate is 8.25 percent. The components of this rate are as follows:

- 6 percent state tax allocated to the state's General Fund (Sections 6051, 6051.3, 6051.7, 6201, 6201.3, and 6201.7)
- 0.25 percent state tax allocated to the Fiscal Recovery Fund (Section 6051.5 and 6201.5)
- 0.50 percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (Section 6051.2 and 6201.2)
- 0.50 percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Section 35 of Article XIII of the California Constitution).

In addition to the state portion of sales use tax rate, the following local taxes are imposed by cities and/or counties and are administered by the Board:

- 1 percent Bradley-Burns Uniform Local Sales and Use Tax which is allocated to cities and counties (Part 1.5, commencing with Section 7200).
- Transactions and Use Tax levied at varying rates from 0.10 to 1 percent by some cities, counties, and special taxing jurisdictions in various cities and counties within the state and which are distributed to those local agencies (Parts 1.6 and 1.7, commencing with Section 7251).

### PROPOSED LAW

This bill, among other things, would amend Sections 6051.7 and 6201.7 of the Revenue and Taxation Code to repeal the state General Fund sales and use tax rate of one percent effective on the first day of the first quarter commencing more than 90 days after the bill is enacted.

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*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*

## BACKGROUND

Operative April 1, 2009 the sales and use tax rate increased by one percent through enactment of AB 3, Third Extraordinary Session of 2009, Chapter 18, signed by the Governor on February 20, 2009. As enacted, the rate increase was to sunset on June 30 of either 2011 or 2012, with the longer period contingent on voter approval of a proposed budget stabilization constitutional amendment. This amendment was proposed by Senate Constitutional Amendment 13 of the 2007–2008 Regular Session (Resolution Chapter 144, Statutes of 2008) and Assembly Constitutional Amendment 1 of the 2009–2010 Third Extraordinary Session (Resolution Chapter 1, 2009–2010 Third Extraordinary Session), and was presented to the voters as Proposition 1A at the May 19, 2009 Statewide Special Election. Voters defeated Proposition 1A by 65.4% of the votes. Therefore, absent any other measures, the one percent increase will expire on June 30, 2011.

## COMMENTS

1. **Sponsor and purpose.** The author is the sponsor of this measure. According to the author's office, this bill is intended to give Californians a financial break while trying to weather economic recession. The author notes, "Instead of giving families a break, the Legislature last year made life harder by passing the largest tax increase in state history on the over-burdened taxpayers of our state. Not only has this caused unnecessary pain for so many Californians, but it has also driven jobs away. Increasing taxes was and is the worst thing for our state, and my legislation will give Californians and our economy the boost they need to get back on track."
2. **Impact of rate change on the Board.** The one percent increase is currently set to expire June 30, 2011. Enactment of this bill would simply speed up this expiration date. The soonest the rate decrease could occur under this bill would be June 30, 2010 (if enacted by April 1, 2010). Tax rate changes historically have had a significant effect on the Board. However, this impact is minimized when the rate change takes place on the first day of a calendar quarter and when the Board has sufficient lead time (at least 90 days) prior to the rate change. Since the proposed tax rate decrease would become operative within these parameters, the Board should have sufficient lead time to properly inform taxpayers, make necessary programming changes and return and publication revisions.
3. **Related legislation.** A similar bill has also been introduced – SB 952 (Wyland).

## COST ESTIMATE

To properly ramp down the rate increase, the Board would incur non-absorbable costs related to notifying taxpayers and updating and revising computer programs. Costs of \$420,000 would be incurred to print and mail a special notice to the over 850,000 taxpayers and \$451,000 would be required to reprogram the Board's computer systems and databases for the rate change.

**REVENUE ESTIMATE**

A one percent decrease in the sales and use tax rate would result in the following revenue loss:

<i>in millions</i>				
	FY 2010-11 (if enacted by 4/1/10)	FY 2010-11 (if enacted by 7/1/10)	FY 2010-11 (if enacted by 10/1/10)	FY 2010-11 (if enacted by 1/1/11)
1 percent rate decrease	\$4,406*	\$3,325*	\$2,215*	\$1,110*

\*These figures are based on the Department of Finances January 2010 taxable sales forecast.

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