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CA Sales Tax Increases on the 2024 November Ballot

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High and widespread local sales taxes are relatively new in California. Prior to the 1955 Bradley-Burns Uniform Local Sales and Use Tax Law, only the state government levied a sales tax (2.5% enacted in 1933). Bradley-Burns allowed counties to enact a sales tax of up to 1%, and by 1962 all California counties had done so. Bradley-Burns was amended in 1972 to add 0.25% for county transportation funds. The 1969 Transactions and Use Tax Law authorized local governments to adopt local sales tax add-ons for specific uses, most commonly transportation. The local governments had to seek special legislation to do this.

Following Proposition 13's restriction on property taxes, however, local governments began to look for different sources of revenue while avoiding the two-thirds voter requirement set out by Prop 13. To the dismay of property owners, local governments turned to special benefit assessment districts. In the eyes of many, what was supposed to be a tool used by governments to pay for projects that would benefit their property value became a de facto property tax. In response, voters put Proposition 218 on the 1996 state ballot. Proposition 218 amended the California Constitution to set voter requirements

Passed in 1978, Proposition 13 dramatically changed the California taxation landscape by enacting several important limitations. Prior to Prop 13, local governments had free reign on setting their property tax rates. Prop 13 introduced three important checks against increasing property taxes. First, property taxes were capped at 1% of the property's assessed value statewide. Going forward, taxes were based on the purchase price of a property, and the taxable value could then increase by no more than 2% annually. Finally, any new special tax would face a two-thirds voter requirement. The impact of Proposition 13 was felt immediately, with property tax revenue falling 60% in the first year. While popular with many property owners, especially those who purchased their property decades ago, Prop 13 is controversial. Some argue that it has led to less property turnover, exacerbating the already tight housing supply crisis in California. Additionally, some have argued that it has proved regressive, as the wealthy receive a disproportionately large portion of the tax relief.

on all new local taxes. Additionally, Prop 218 made it significantly easier for voters to reduce or repeal existing taxes. Prop 218 shifted most of the power over taxation from locally elected governing boards to residents and property owners. It is no surprise, then, that the California Senate Office of Research cited Prop 218 in 1999 as one of the most significant California laws of the 20th century.

Local jurisdictions did not gain the power to increase sales taxes themselves until 2003 when Governor Gray Davis signed SB 566 into law. SB 566 allowed counties and cities to seek voter approval of tax increases of .125% or a multiple thereof. Since its enactment, sales tax increases have become more common, with most jurisdictions now having some sales tax above the state minimum. Once on the ballot, the voter requirement depends on the purpose of the tax. If the revenue from a local tax is directed toward the local government’s general fund and is thus meant to pay for standard government services (police, fire department, parks, etc.), the measure requires only a simple majority. However, if the measure is meant to pay for some specific program, such as new housing or environmental cleanup, a two-thirds majority is required.

When a person pays a sales tax in California it is allocated between local and state jurisdictions. Currently, the base local sales tax is 1%, all of which goes to the city or county in which the purchase was made. In addition, there is a 0.25% tax for the “Local Transportation Fund” which is collected

Use taxes are distinct from other sales taxes in that they are reported and collected by the buyer of a good rather than the seller. Generally, these taxes apply to goods used in California but purchased from a business outside of the state, from a merchant over whom the state is not able to exert jurisdiction to require sales tax collection. Like sales taxes, use taxes vary from district to district but are almost always the same rate as the sales tax. States generally do a very poor job of enforcing use tax. In 2013, NPR reported that only 1.6% of liable taxpayers actually paid their use tax.

and used by the county. When combined with the 6% state sales tax, the minimum sales tax in California is 7.25%.

Sales taxes in California, however, can and often do go above the 7.25% minimum. Local jurisdictions, either city or county, can impose an additional district tax. All of the revenue from the district tax goes to the taxing entity. Although districts can impose multiple district taxes, there is currently a cap of 2%, the exception being where voters pass a law to increase taxes above the cap. These district taxes can be used to fund a wide variety of programs. For instance, while most counties such as San Bernardino

How the 7.25% Base Sales Tax Rate is Allocated

| RATE | JURISDICTION | PURPOSE |
|---------------|--|--|
| 3.6875% | State | State General Fund |
| 0.25% | State | State General Fund |
| 0.50% | State | Local Public Safety Fund to support local criminal justice activities (1993) |
| 0.50% | State | Local Revenue Fund to support local health and social services programs (1991 Realignment) |
| 1.0625% | State | Local Revenue Fund 2011 |
| 0.25% | Local | County transportation funds |
| 1.00% | Local | City or county operations |
| Total: | | |
| 7.25% | Total Statewide Base Sales and Use Tax Rate | |

Source: Detailed Description of Sales and Use Tax, California Department of Tax and Fee Administration, <https://www.cdtfa.ca.gov/taxes-and-fees/sut-rates-description.htm>.

and Riverside have a 0.5% tax to fund transportation commissions, Los Angeles County also has a 0.25% tax to help combat the homelessness crisis.

Unsurprisingly, California’s sales taxes are high compared to those of the rest of the nation. As of July 2024, the Tax Foundation reports that California had the highest base sales tax in the country, 0.25 percentage points higher than Rhode Island, Tennessee, and Mississippi, which are all tied for second. California does edge down in the rankings when one looks at average sales taxes. The Golden State ranks eighth out of the 45 states and the District of Columbia that impose sales taxes. Currently, California has an average sales tax of about 8.8%, about 0.8 percentage points lower than the number one Louisiana. It is, however, significantly higher than the states it most competes with for businesses and residents: 0.6 percentage points higher than Texas and 1.8% higher than Florida.

The Inland Empire tends to have lower sales taxes compared to the rest of the state. As of October 1, 2024, the California Department of Tax and Fee Administration reports that the average sales tax in San Bernardino and Riverside Counties was 8.14% and 8.34% respectively. There is, however, relatively wide variation within each county. While many cities have a “low” 7.75% sales tax, there are some that go much higher. For instance, Montclair, in San Bernardino County, has a sales tax of 9%, 1.14 percentage points above the average. Similarly, Riverside County’s Palm Springs has a sales tax of 9.25%. Both Inland Empire counties, however, have a much lower sales tax than Los Angeles County, which boasts an average sales tax of 9.97%, about 1.2 percentage points above the state average. While there is also some variation across Los Angeles County, the lowest tax rate, shared by many cities, is an eye-watering 9.5%. When combined with housing costs, it is no wonder that so many people choose to live in the Inland Empire and commute to work in Los Angeles County.

2024 has been a popular year for sales tax ballot measures. Voters across the state will vote on 109 ballot measures related to sales taxes, all but one of which either impose a new tax or extend an existing one. Out of these 109 measures, 25 apply to those living in San Bernardino, Los Angeles, or Orange Counties. Five measures to extend or impose new taxes were already voted on in the March 25, 2024 election. Of those five, only one, Measure I in the city of Bell, failed to pass. Interestingly, two of the measures that passed, Pomona’s Measure P and Measure X, were competing. While Measure P extended a 0.75% sales tax to help fund public services such as the police and fire

Selected CA Sales and Use Tax Rates

| JURISDICTION | SALES TAX RATE |
|--------------------------------------|----------------|
| Los Angeles County | |
| Base Rate -- 31 Cities | 9.50% |
| 7 Cities | 10.00% |
| 49 Cities | 10.25% |
| Santa Fe Springs | 10.50% |
| Orange County | |
| Base Rate - 24 Cities | 7.75% |
| La Habra | 8.25% |
| 6 Cities | 8.75% |
| Santa Ana, Westminster | 9.25% |
| Riverside County | |
| Base Rate - 12 Cities | 7.25% |
| 15 Cities | 8.75% |
| Palm Springs | 9.25% |
| San Francisco City and County | |
| | 8.625% |
| San Bernardino County | |
| Base Rate - 44 Cities | 7.75% |
| 8 Cities | 8.75% |
| Montclair | 9.00% |

Source: California Sales and Use Tax Rates by County and City, California Department of Tax and Fee Administration, <https://www.cdtfa.ca.gov/formspubs/cdtfa95.pdf>. As of October 1, 2024 (includes state, county, local, and district taxes). Note: Base rate for each county is comprised of the 7.25% statewide rate plus any county-wide additions.

departments, Measure X would have reduced the tax to only 0.5%. Although both passed, Measure P received a larger number of votes and thereby trumped Measure X.

Arguments in favor of ballot measures that impose new sales taxes depend on what the additional revenue is intended to do. For instance, while Pomona’s Measure P directs money to general government services, Los Angeles County’s Measure A is much more targeted. Measure A would repeal a 2017 0.25% tax and replace it with a sales tax of 0.5%, costing taxpayers an estimated additional \$1 billion annually. The money collected by the new tax would be directed to fund services for the homeless as well as build new affordable housing units. Those in favor argue that while homelessness has not been solved, it can be with a considerable investment of money and effort. While

they acknowledge that “nobody likes paying higher taxes,” supporters argue it is up to all residents of L.A. County to fix its homeless crisis. Similarly, San Clemente’s Measure BB would establish a 0.5% sales tax to fund ocean cleanup and restoration. However, most sales tax measures take the form of Pomona’s Measure P and are meant to fund general government services. Proponents argue that they fund the fire and police departments, build and maintain public parks, and support other traditional local government services.

While specific arguments for raising taxes may vary depending on the measure, some points remain consistent. Sales tax increases are generally individually small, ranging from 0.25% to 1%, allowing many to argue that they are insignificant. “We’re only talking about half a cent” can be found in many articles in support of tax hikes. This is true even in areas such as L.A. County where the sales tax rate is already remarkably high. The second often repeated point is the desire to have tourists and visitors pay their share. With the notable exception of automobile sales, sales taxes are based on where a purchase is made and not on where the customer lives. Thus, sales taxes would, in theory, have visitors and tourists bear some of a community’s fiscal burden. This is based on the premise that visitors enjoy the

benefits of a nice town – clean streets, nice shops, etc. – and should have to contribute to their upkeep.

The opponents of sales taxes all generally fall into the same camp, regardless of what the money is earmarked for: people don’t want to have more of their money taken by taxes, especially when California taxes are already so high. Opponents to L.A. County’s Measure A, including former sheriff Alex Villanueva, for example, contend that enough money has been spent with little to no noticeable return; pumping more money into the bureaucratic machine will only lead to more taxpayer money being wasted. Similarly, opponents to Yucaipa’s Measure S are concerned about paying higher taxes, especially as an increasing number of residents are on fixed incomes. Similarly, some small business owners have expressed concerns that higher sales taxes will drive customers away from their stores and into neighboring markets.

On this last point specifically, opponents of higher sales taxes are backed by research. Numerous studies have shown that when faced with a higher sales tax, consumers will generally go out of their way to avoid it. Traditionally this has meant traveling to different cities or, in dramatic cases, different states, to purchase goods at a lower price.

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