

Introduced by Senator Hertzberg

February 19, 2016

An act to add Chapter 3.8 (commencing with Section 6305) to Part 1 of Division 2 of the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

SB 1445, as introduced, Hertzberg. Taxation.

The Sales and Use Tax Law imposes a tax on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state, or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state.

This bill would state legislative findings regarding California's tax climate and would state that the intent of the bill is to make 3 changes to the taxation within the state, including broadening the tax base by imposing a modest sales tax on services. This bill would also establish the Retail Sales Tax on Services Fund in the State Treasury and state the intent of the Legislature that moneys in the fund would be appropriated to, among other things, provide tax relief to middle- and low-income Californians to offset the effect of a sales tax on services, among other purposes.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. The Legislature finds and declares all of the
2 following:

1 (a) California has long been known as the land of opportunity,
2 but for many of its residents the future is receding. Inequality
3 continues to rise — even though California has one of the most
4 progressive tax structures in the nation. Protecting middle class
5 Californians is critical to our future.

6 (b) California's tax collections are heavily dependent on the
7 income of its top earners. This has led to dramatic revenue swings
8 year over year. During the dot-com economic boom of the 1990s
9 through the early part of the 21st century, state revenues soared
10 by as much as 20 percent in a single year only to fall precipitously
11 during the dot-com bust. More recently, when the great recession
12 hit, a 3.6 percent decline in California's economy resulted in a 23
13 percent plunge in General Fund revenues which resulted in a loss
14 of over \$20 billion annually to the General Fund.

15 (c) This revenue instability has caused California's residents to
16 suffer. Essential services, including health care and child care for
17 families, were cut at a time when they were needed most. In
18 addition, the state cut billions of dollars to education, including
19 adult education, which could have helped families recover from
20 the recession. Relying on this outdated system to support
21 California's needs is dangerous fiscal policy.

22 (d) An underlying problem is that, while California's economy
23 has evolved, its tax system has failed to keep up with the times.
24 Over the past 60 years, California has moved from an agriculture-
25 and manufacturing-based economy to a service-based economy.
26 As a result, state tax revenues have become less reliant on revenues
27 derived from the Sales and Use Tax on goods and more reliant on
28 revenues derived from the Personal Income Tax. In 1950, the Sales
29 and Use Tax comprised 61 percent of state General Fund revenues;
30 today, it accounts for about 30 percent. The Personal Income Tax
31 accounted for 12 percent of the General Fund in 1950; today, it
32 accounts for almost 70 percent.

33 (e) It is the intent of this act to:

34 (1) Increase opportunities for California residents and businesses
35 and promote upward mobility for Californians with middle class
36 tax relief, more stable education and higher education systems,
37 and new jobs through business growth.

38 (2) Realign the state's outdated tax code with the realities of
39 California's 21st century economy.

1 (3) Substitute a new, revenue neutral personal income tax
2 structure for the existing structure.

3 (4) Ensure that out-of-state corporations that do business in
4 California contribute their fair share to California's economy.

5 (f) The intent of this act is to make three broad changes to the
6 tax code:

7 (1) Provide tax relief to middle- and low-income Californians
8 while simplifying the personal income tax and maintaining
9 progressivity and also mitigating the reliance on top income
10 earners, which currently contributes to revenue instability.

11 (2) Broaden the tax base by imposing a modest sales tax on
12 services. These changes would more fairly apportion taxes between
13 goods and services and would produce more stable revenues. Local
14 jurisdictions would not be authorized to increase sales tax on
15 services, as they now can do with the sales tax on goods. Health
16 care services, education services, child care, rent, interest, and
17 services represented by very small businesses would be exempted
18 from the sales tax on services, and offsetting tax relief would be
19 provided to middle- and low-income California families.

20 (3) Enhance the state's business climate and incentivize
21 entrepreneurship and business creation by lowering the corporate
22 income tax on small businesses, exempting very small businesses
23 from the sales tax on services, and significantly reducing the
24 minimum franchise tax.

25 SEC. 2. Chapter 3.8 (commencing with Section 6305) is added
26 to Part 1 of Division 2 of the Revenue and Taxation Code, to read:

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28 CHAPTER 3.8. RETAIL SALES TAX ON SERVICES FUND

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30 6305. (a) The Retail Sales Tax on Services Fund is hereby
31 created in the State Treasury.

32 (b) All amounts of tax required to be paid to the state under this
33 chapter shall be paid to the board in the form of remittances payable
34 to the board. The board shall transmit the payments, less refunds
35 and costs of administration, to the Treasurer to be deposited into
36 the Retail Sales Tax on Services Fund.

37 (c) It is the intent of this act that the moneys in the fund would
38 be appropriated to:

39 (1) Provide tax relief to middle- and low-income Californians
40 to offset the effect of the sales tax on services.

- 1 (2) Assist in securing greater stability for California's
- 2 infrastructure, its workforce, and its health care and education
- 3 systems, including higher education.
- 4 (3) Enhance California's business climate and incentivize and
- 5 protect small businesses.

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