

Extending California's Sales and Use Tax to Services

Presentation to the
Commission on the 21st Century Economy
February 12, 2009

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Background

- ✓ Sales tax was first imposed in 1933 (use tax was added two years later).
 - ✓ Initial rate was 2.5 percent.
 - ✓ Services were not taxed.
- ✓ Since then, services have become a much larger proportion of the state's economy.
- ✓ About 40 percent of personal income is currently spent on taxable goods.

2007 FTA Survey

- ✓ California taxes few services when compared to other states.
- ✓ A 2007 Federation of Tax Administrators survey shows that California taxes 21 services out of the 168 that were included in the survey.
- ✓ Nine states in the survey tax fewer services.

Comparison to Other States

	Total in FTA Survey	Taxed in California
Agricultural Services	5	0
Industrial and mining services	4	1
Construction	4	0
Utilities	16	2
Transportation	9	0
Storage	6	0
F.I.R.E.	8	0
Personal services	20	2
Business services	34	7
Computer services	8	2
Automotive services	5	1
Admissions and amusements	15	1
Professional services	9	0
Leases	4	2
Fabrication, repair and installation	19	3
Miscellaneous	2	0
Total	168	21

Revenue Estimates

- ✓ The 2009-10 Governor's Budget proposes to extend the sales and use tax to include certain services, including appliance and furniture repair, vehicle repair, and veterinarian services, amusement parks, sporting events and golf.
- ✓ Governor's proposal estimates that \$1.2 billion will be raised in 2009-10.
- ✓ Studies indicate that extending the sales tax to services more broadly could raise as much as tens of billions of dollars annually.

BOE Administrative Issues

- ✓ Governor's proposed list of services was chosen based on ease of implementation.
- ✓ Entities providing those services already have a relationship with the Board of Equalization.
- ✓ Audits/collections could be easier: no longer a distinction between taxable and nontaxable transactions.

BOE Administrative Issues

- ✓ Significant implementation issues from extending SUT to services more broadly:
 - ✓ Need to identify and register the expanded base of firms.
 - ✓ Need for outreach.
 - ✓ Currently 800,000 firms registered with BOE. If all services were taxed, the number of firms needing to register would be about 2 million.