



**FACT SHEET**  
**Expansion of Local Taxing Authority**  
**SBX1 23 (Senate Budget and Fiscal Review Committee)**  
**As Amended June 2, 2011**

SBX1 23 (Senate Budget and Fiscal Review Committee) seeks to dramatically alter California's tax structure by significantly expanding new taxing authority to counties, school districts, community college districts and county offices of education. California has reserved personal income and excise taxing powers for state government, while allowing local governments to tax sales, property, utilities and hotel charges. SBX1 23 is keyed as a majority-vote bill, and represents a major threat to taxpayers and, if passed, could create long-term economic challenges as businesses are forced to comply with more than 1,000 different tax jurisdictions.

**MAJOR PROVISIONS OF SBX1 23**

- **Local Personal Income Tax.** SBX1 23 would allow each county, school district, community college district and county office of education in California to impose a local personal income tax. This new local personal income tax would be a set percentage based on what a resident of a county owes in state personal income taxes (up to 1 percent of state taxable income).
- **Local Excise Taxes.** SBX1 23 would allow each county, school district, community college district and county office of education in California to impose county-level excise taxes on any and all products or services purchased in that county. SBX1 23 provides examples of the type of transactions that can be taxed; however, the bill specifically states that local government is "not limited to" the taxes specifically mentioned.
- **Local Sales and Use Tax.** Each county, school district, community college district and county office of education in California could impose additional transactions and use taxes beyond the current local rate limitation of 2 percent.
- **Local Car Taxes.** SBX1 23 would allow each county, school district, community college district and county office of education in California to impose a new local Vehicle License Fee (car tax), up to 1.35 percent, if the counties agree to contract with the Department of Motor Vehicles for collection purposes. When combined with the state VLF, some motorists could pay up to 2.5 percent annually on the value of their vehicle.
- **Local Taxes on Natural Resources.** SBX1 23 would allow each county, school district, community college district and county office of education in California with oil and petroleum reserves to impose a 10 percent oil severance tax on the gross value of the product. Counties, school districts, community college districts and county offices of education also would be allowed to impose a tax on "extractive business activities," such as those involving minerals and oil.

SBX1 23 would authorize all counties, school districts, community college districts and county offices of education on an individual basis to levy, increase or extend the taxes listed above with voter approval, as is currently required by Proposition 13, Proposition 26 and Proposition 218.

## **CALTAX CONCERNS WITH SBX1 23**

### **Opens the Floodgates for Higher Taxes**

SBX1 23 would lift decades-old restrictions that prohibit local governments from proposing local personal income taxes, local transactions (sales) and use taxes above the current limits, excise taxes and new local car taxes. SBX1 23 represents not only a major shift of power from state to local government, but the shift would have major implications for the state's long-term economic growth. SBX1 23 would effectively eliminate a business' ability to plan out long-term costs, since businesses would be forced to reckon with more than 1,000 tax jurisdictions, each of which may impose taxes that have different applications, regulations, and rates.

### **Excise Taxes Are a Regressive and Inequitable Form of Taxation**

SBX1 23 incentivizes a regressive tax structure by allowing counties, school districts, community college districts and county offices of education to impose excise taxes on virtually all products or services – anything from haircuts to toys – sold in the county or district. An excise tax is a tax on commodities or services. Generally, excise taxes are imposed under the guise of mitigating a cost that society must pay for (such as a tanning tax for health care services), or as a funding source for a specific purpose (such as fuel taxes for highway construction).

The equity of a tax can be measured by whether the responsibility of paying is shared by all taxpayers, and by a tax's progressivity and proportionality. Excise taxes generally are regressive, and have a greater burden on lower- and middle-income taxpayers.

The Assembly's Major Tax Study from 1965 concluded that excises taxes are "an extremely inequitable, if not the most inequitable, type of taxation." The report continued: "This taxation bears most heavily upon the lower income groups. It takes proportionately more of their income and as a consequence, it reduces their ability to purchase other needed commodities."

By opening the door for local government to impose excise taxes, California would be promoting a structure of taxation that obstructs opportunity for low- and middle-income taxpayers.

### **Creates Barriers for Disadvantaged Communities**

SBX1 23 is intended to help fund a government that is closer to the people, which, in turn, would create a reliance on local taxes to fund local government. California's Constitution requires local government in to provide services in a manner that does not penalize disadvantaged communities. Many lower-income areas throughout California have a smaller tax base, meaning they would not be able to obtain as much revenue from higher taxes as communities with higher-income individuals. Because SBX1 23 would allow counties, school districts, community college districts and county offices of education to increase taxes to fund local government, lower-income regions of the state would not be able to provide the same quality of services as communities with a higher tax base.

### **Allows Counties, School Districts, Community College Districts and County Offices of Education to Exceed Existing Sales Tax Rate Limits**

SBX1 23 would authorize counties, school districts, community college districts and county offices of education to impose transactions (sales) and use taxes beyond the 2 percent local rate limitation currently authorized by law. Each county, school district, community college district and county office of education could exceed the existing tax rate limit, thus recreating a problem that the Legislature fixed after cities began imposing different tax rates in the 1940s. In order to create tax rate and tax

base consistency, the Legislature passed the Bradley-Burns Uniform Local Sales Tax Act – SBX1 23 would take the state backward.

Currently, California has the highest sales and use tax in the country, with a state rate of 8.25 percent and the ability of local government to add up to 2 percent. Though the worst of the recession has passed, and California's economy is beginning to recover, excessive tax rates on sales and use of tangible property will put the state at a competitive disadvantage. Other markets – such as Asia, the European Union and even emerging economies like Brazil and India – can just as easily compete with California's industries in a global marketplace. SBX1 23 will hinder economic growth by allowing counties, school districts, community college districts and county offices of education to increase California's sales tax to even higher, more excessive rates – with no limit in place.

### **Higher Car Taxes Hurt the Economy**

SBX1 23 would allow each county, school district, community college district and county office of education to impose a new Vehicle License Fee (car tax) up to 1.35 percent. The VLF is intended as an "in-lieu" property tax (to ease administration) and, therefore, should not exceed the 1 percent cap imposed for other property taxes. If the rate varies by jurisdiction, some counties, school districts, community college districts and county offices of education will charge different rates based on the use of the vehicles (commercial vs. non-commercial use) or the type of vehicle (different rate based on emissions, cylinders, size, or weight). These issues not only raise concerns for taxpayers subject to the tax, but raise costs to the state for administering potentially divergent rules in each county, school district, community college district and county office of education. In addition, a local VLF would directly impact the sales of vehicles. The auto industry has been hit particularly hard by the recession, and this proposal will substantially compound the industry's difficulties.

### **Provides Counties, School Districts, Community College Districts and County Offices of Education More Taxing Authority Than Cities**

Under current law, general law cities and charter cities have similar taxing authority (Government Code Section 37100.5). However, a city's taxing authority is much broader than a county's taxing authority, since cities can tax anything not prohibited by law, while counties, school districts, community college districts and county offices of education are limited to tax what is specified in the law. Distinctions between city and other local government taxing authority have been outlined in numerous court cases that employ the theory of "Dillon's Rule," which says that a local government – in the case of SBX1 23, county, school district, community college district and county office of education – has only the express power granted to it by the Legislature. California does not need more than 1,000 new and different taxing approaches.

### **Higher Energy Costs Hurt Commuters**

SBX1 23 would allow counties, school districts, community college districts and county offices of education that have oil and petroleum reserves to impose an oil severance tax. Increased costs for oil production would be passed along to all of California's consumers at the pump, and the new taxes likely would reduce in-state oil production. Because gas prices will rise as a result of increased oil production costs, costs of doing business likewise will increase. As the general costs of doing business in California increase, business activity will slow, leading the state deeper into recession.