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Plan for sales tax on services gets mixed reviews at hearing

By Tom Chorneau

ASSOCIATED PRESS

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SACRAMENTO – A plan to raise billions of dollars by imposing sales taxes on myriad services drew mixed reviews yesterday during a hearing before a state Senate committee.

The idea, being pushed by Sen. Gilbert Cedillo, D-Los Angeles, the chairman of the Senate Revenue and Taxation Committee, would be to extend the sales tax to thousands of services provided by businesses, ranging from gardeners and dry cleaners to attorneys and accountants.

Although there is no bill yet outlining the plan, and not even a draft proposal, analysts estimate that close to \$30 billion a year could be raised if the minimum sales tax – 7 1/4 percent – was applied to all services.

Cedillo warned business and advocacy groups that the state's budget crisis is so severe that some taxes will have to be raised.

"We are not going to make deep cuts in Medi-Cal or stop building roads or cut law enforcement," he said. "There will be spending reductions, but people have to understand that we are also going to have to look at raising revenues, too."

Hard hit by the downturn in the stock market and the subsequent drop in business and personal income taxes, California faces a revenue shortfall over the next 15 months that could reach \$35 billion.

The Legislature and the governor have approved spending cuts and savings worth about \$8.5 billion over the next two years, but lawmakers agree a big challenge remains.

One of the biggest decisions in designing the proposed tax on services, officials said, is choosing which businesses and services to include. A review performed in connection with a 1995 bill aimed at the same services tax found that start-up costs could be as high as \$10 million.



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A number of lobbyists representing business groups and other organizations spoke against the proposal, including Dave Doerr of the California Taxpayers Association, who said a sales tax on services would drive businesses out of California.

"This is the worst kind of tax you can impose," he said. "It will soak the poor and it will discriminate against small businesses. Look to other revenue choices."

Steve Thompson, a representative of the California Medical Association, said government support for health-care programs has trailed cost increases so much that his group is backing almost any increase in taxes.

"It makes no sense to tax things and not services, especially now that the California economy has become so service-oriented," Thompson said.

In a related development, California sheriffs and police chiefs proposed a constitutional change that would let a smaller majority of voters approve local taxes to fund public safety measures.

The change would lower the majority required to pass a local measure from two-thirds to 55 percent.

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