

FOURTH EDITION – MARCH 2019

CALIFORNIA TAX FACTS

AN OVERVIEW OF THE GOLDEN STATE'S TAX STRUCTURE



CALIFORNIA
TAX FOUNDATION

Established by CalTax in 1980

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FOURTH EDITION – MARCH 2019



Willie L. Brown, Jr. Bridge, San Francisco



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Chapter 1

CALIFORNIA'S TAX STRUCTURE

In California, a tax is defined in law as any charge – regardless of its label – that generates revenue to fund a general benefit for the public.

To increase an existing tax or impose a new tax, a two-thirds vote of the Legislature is required for state taxes. State taxes also can be imposed by the people, via an initiative approved by a majority of voters in a statewide election.

At the local level of government, a vote of the electorate is required to impose a tax. Local taxes earmarked for a specific government program require a two-thirds vote. Local taxes that are not earmarked require approval by a majority of the voters.

Proposition 26, approved by California voters in 2010, establishes parameters to distinguish a tax from a fee (described on page 3).

VOTE REQUIREMENTS IN CALIFORNIA

VOTES NECESSARY TO APPROVE	PROPOSALS IN THE LEGISLATURE	MEASURES ON THE STATE BALLOT
State Budget (excluding tax/bond provisions)	Majority	No Vote Required
Tax (including a tax contained in the budget)	2/3	Majority
Fee	Majority	Majority
General Obligation Bond (including school bonds)	2/3 ¹	Majority
Revenue Bond	Majority	No Vote Required
Initiative Statute (including proposals to raise taxes or issue debt)	Not Applicable	Majority
Constitutional Amendment Proposed by the Legislature or Initiative	2/3 ¹	Majority
VOTES NECESSARY TO APPROVE	LOCAL PROPOSALS	PROPOSALS ON THE LOCAL BALLOT
Municipal Budget (excluding tax/bond provisions)	Majority	No Vote Required
Tax Used for General Purposes	Majority or 2/3 ^{1,2}	Majority
Tax Earmarked for a Specific Program	Majority or 2/3 ^{1,2}	2/3
Property Assessment or Property-Related Fees	Majority	Majority ³
Fee (except property-related)	Majority	Majority ⁴
General Obligation School Facilities Bond	2/3 ¹	55%
General Obligation Bond	2/3 ¹	2/3
Revenue Bond	Majority	No Vote Required

NOTES: 1. Must also be approved by voters. 2. Proposition 62 of 1986 requires a two-thirds vote of a city council to place a tax before voters in a general law city, while charter cities may opt in to comply with the measure. 3. Requires a vote of property owners only. 4. A majority vote is required if a fee is placed on the ballot.

WHAT IS A TAX?

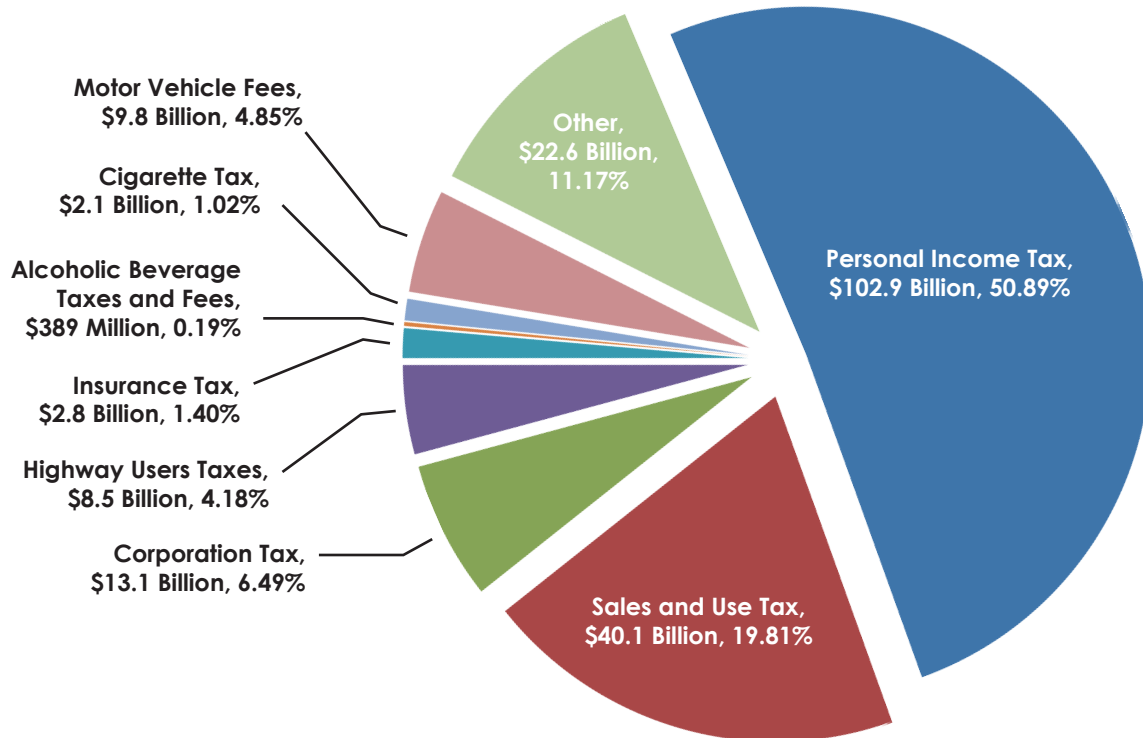
Proposition 26 defines a tax as any source of revenue that does not fall into the categories below. Beneath each category is an example of what may be considered non-tax revenue.

BENEFIT OR PRIVILEGE	GOVERNMENT SERVICE OR PRODUCT	REASONABLE REGULATION	ENTRANCE TO OR USE OF GOVERNMENT PROPERTY	FINE, PENALTY OR MONETARY CHARGE
Limited Liability Company Fee Zoning Fee	Copying Charges Death Certificate Copy Marriage License Vehicle Registration	Agricultural Market Order Fee Audit Fee Investigation Fee Inspection Fee	Block Party Permit Event Space Rental Franchise Fee Library Book Rental	Court-Ordered Fine Penalty for Not Filing a Tax Return Parking Ticket Speeding Ticket
LOCAL ONLY: PROPERTY DEVELOPMENT		LOCAL ONLY: PROPERTY-RELATED		
Developer Fee		Business Improvement District Assessment Street Lighting Assessment		

State and local governments must be able to demonstrate that any of the fees above are reasonable and do not cover unnecessary or excessive costs. Otherwise, the “fee” may be a tax.

CALIFORNIA'S TAX AND FEE REVENUE

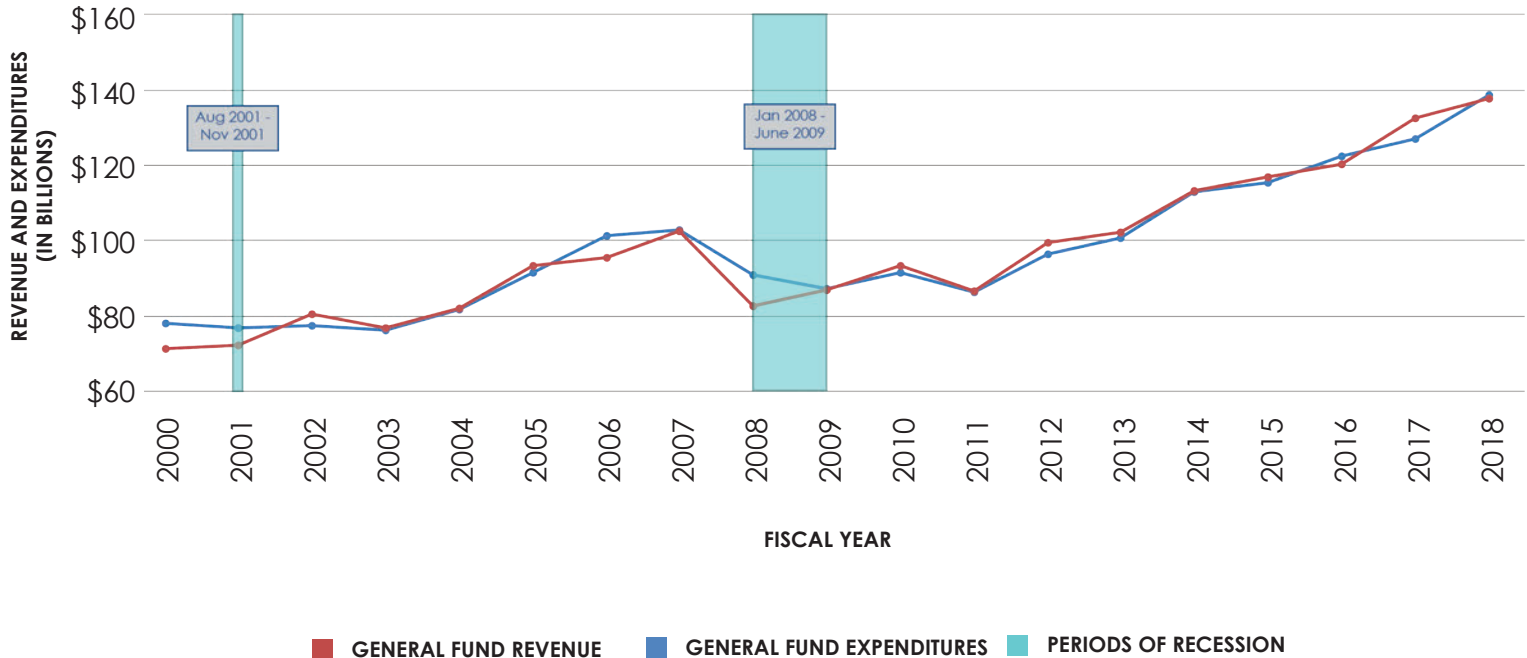
California's budget is comprised of the general fund and many special funds. The state's largest source of revenue in the 2019-20 budget is the personal income tax.



NOTE: As of January 2019; figures are rounded. SOURCES: Department of Finance, Governor's Budget Summary 2019-2020.

CALIFORNIA'S BUDGET

California's state general fund budget often mirrors the “booms and busts” of the stock market, because a significant portion of the state's revenue comes from taxes on capital gains.

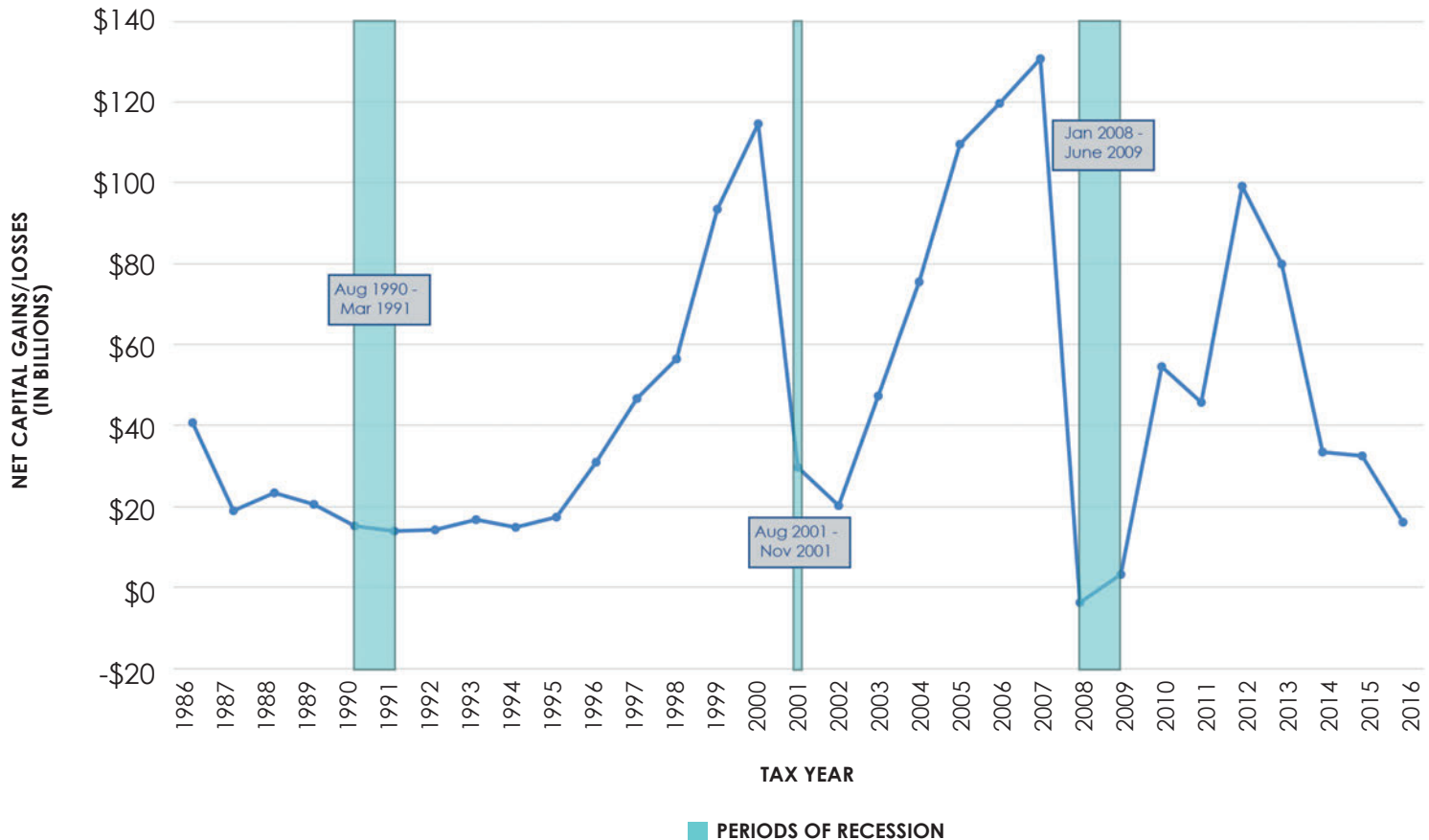


NOTE: Revenue includes revenue and transfers, but excludes prior-year balance.

SOURCES: Department of Finance, National Bureau of Economic Research.

VOLATILITY OF CAPITAL GAINS

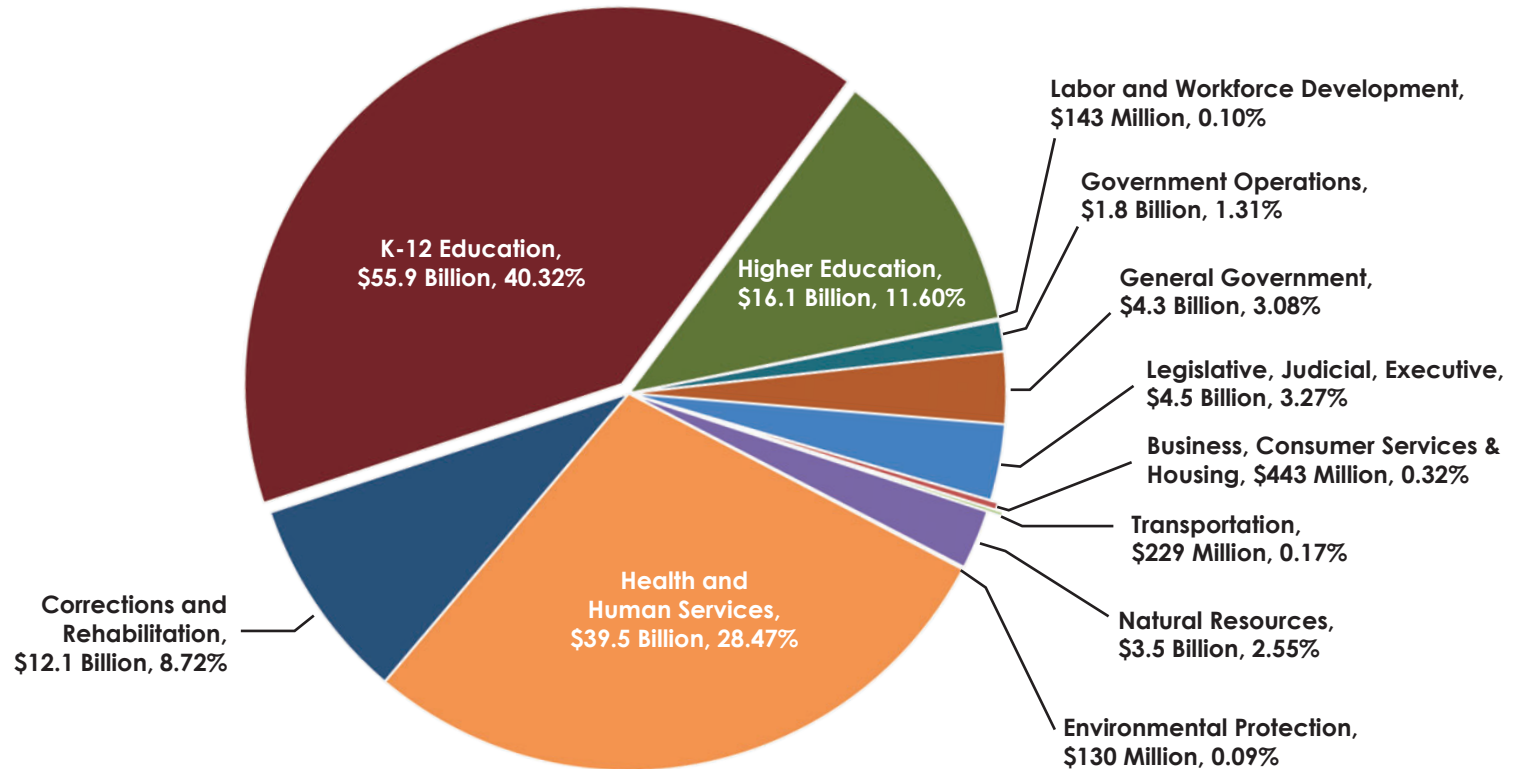
Capital gains and losses fluctuate with the economy, creating significant cyclical swings in personal income tax revenue. The chart below shows the net gains and losses reported by personal income taxpayers since 1986.



SOURCES: Franchise Tax Board, National Bureau of Economic Research.

WHERE OUR TAX DOLLARS GO

California's general fund budget expenditures totaled more than \$138.68 billion in fiscal year 2018-19.



SOURCES: Department of Finance, Governor's Enacted 2018-2019 Budget.

CALIFORNIA'S RESERVE FUNDS

In 2014, voters approved Proposition 2, which amended the state constitution to require the state to make annual payments to reduce debt and make minimum deposits into a rainy day reserve (Budget Stabilization Account). By the end of 2018-2019, the BSA will be fully funded at \$13.8 billion, which represents 10 percent of general fund revenue.

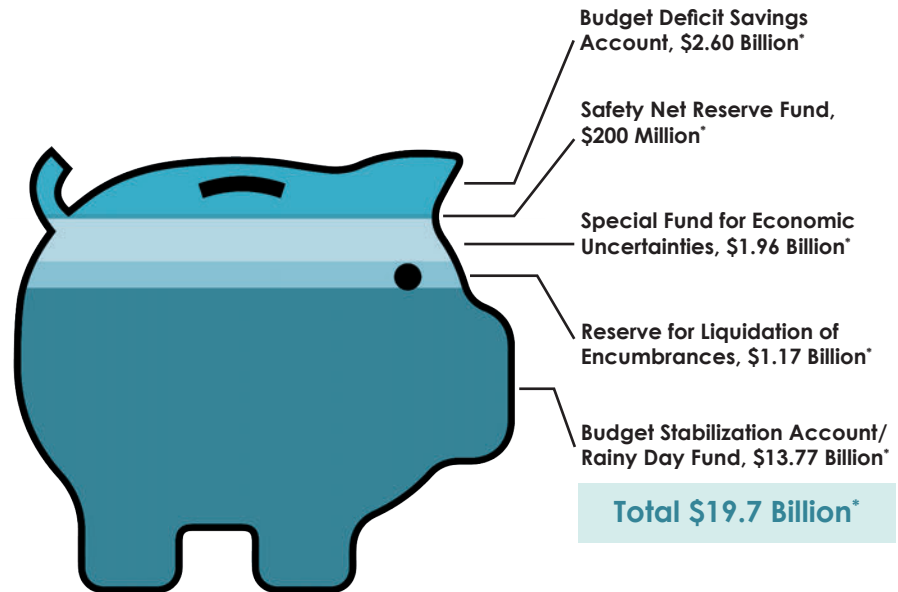
Statutes trigger a reduction in the state's sales tax if discretionary budget reserves reach a certain threshold. In 2018, the Legislature passed AB 1830 (Chapter 42, Statutes of 2018) to create two additional reserve funds that essentially forestall a sales tax reduction if discretionary reserves continue to grow: the Budget Deficit Savings Account (to temporarily hold additional reserves prior to transfer to the BSA) and the Safety Net Reserve Fund (to supplement social services and health spending growth). Collectively, these funds hold \$2.8 billion.

The final two reserve funds are the Reserve for Liquidation of Encumbrances (RLE) and the Special Fund for Economic Uncertainties (SFEU). They hold a combined \$3.1 billion. The RLE saves funds for the procurement of goods or services that

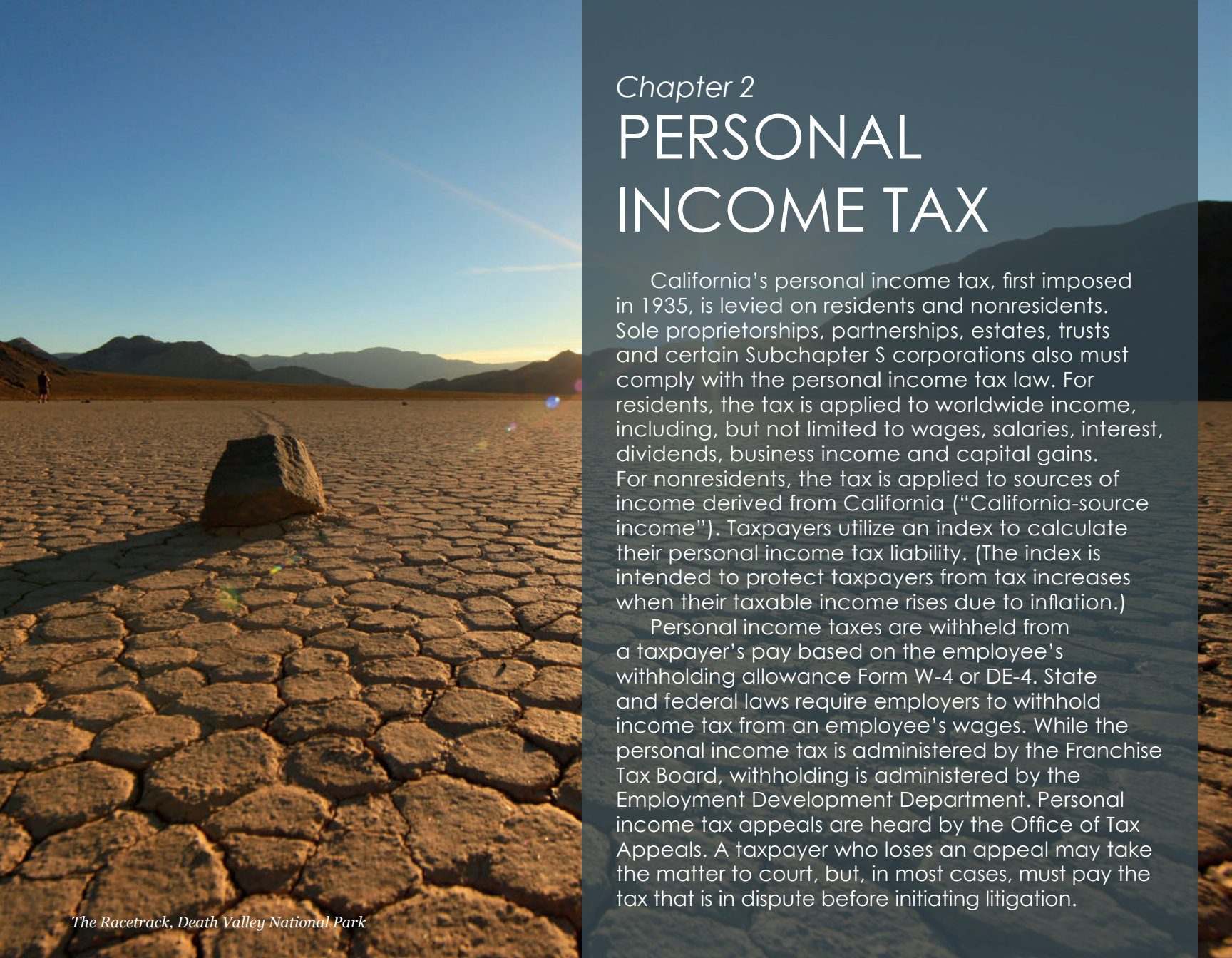
the state has not yet received. State law provides that encumbrances cannot be counted as general fund expenditures until the state receives those goods or services.

The SFEU ensures the state's ability to meet its obligations in the event of declining revenue or unanticipated expenditures.

As of the 2018-2019 budget, California's five reserve funds total \$19.7 billion that can be used to alleviate budget crises during economic downturns.



NOTE: *Numbers have been rounded to nearest \$100 million.



Chapter 2

PERSONAL INCOME TAX

California's personal income tax, first imposed in 1935, is levied on residents and nonresidents. Sole proprietorships, partnerships, estates, trusts and certain Subchapter S corporations also must comply with the personal income tax law. For residents, the tax is applied to worldwide income, including, but not limited to wages, salaries, interest, dividends, business income and capital gains. For nonresidents, the tax is applied to sources of income derived from California ("California-source income"). Taxpayers utilize an index to calculate their personal income tax liability. (The index is intended to protect taxpayers from tax increases when their taxable income rises due to inflation.)

Personal income taxes are withheld from a taxpayer's pay based on the employee's withholding allowance Form W-4 or DE-4. State and federal laws require employers to withhold income tax from an employee's wages. While the personal income tax is administered by the Franchise Tax Board, withholding is administered by the Employment Development Department. Personal income tax appeals are heard by the Office of Tax Appeals. A taxpayer who loses an appeal may take the matter to court, but, in most cases, must pay the tax that is in dispute before initiating litigation.

BY THE NUMBERS

PERSONAL INCOME TAX

California's Taxable Income:

\$1,159,688,167,275

Returns Filed:

16,586,620

Sole Proprietorships Filing a Return:

2,412,067

Highest Total Tax Liability for a Single ZIP Code:

94301 (Palo Alto)

Filers Claiming Student Loan Deduction:

1,057,014

Filers Claiming a Dependent:

12,088,970

Filers With Income of \$1 Million or More:

69,441

NOTE: All figures are for tax year 2016. SOURCE: Franchise Tax Board.

Taxpayers subject to California's personal income tax first must compute their federal "adjusted gross income." Federal AGI is total gross income, reduced by allowable deductions, such as alimony and deductible contributions to an IRA. Taxpayers then subtract any itemized deductions (such as home mortgage interest and charitable contributions) or the standard deduction from their AGI to determine their taxable income. Taxpayers may subtract from their tax liability any credits, such as the dependent exemption credit and the renter's credit. Due to the lack of federal tax conformity (discussed on page 11), differences exist between federal and state income and deduction determinations and credits.

California voters have approved various changes to the tax, adding certain provisions, as well as surcharges. Passage of Proposition 30 in 2012 added three additional brackets, bringing the top tax rate to 13.3 percent (which includes a mental health surcharge approved in 2004). These tax increases were set to expire in 2018; however, voters approved Proposition 55 in 2016 to extend these tax increases through 2030.

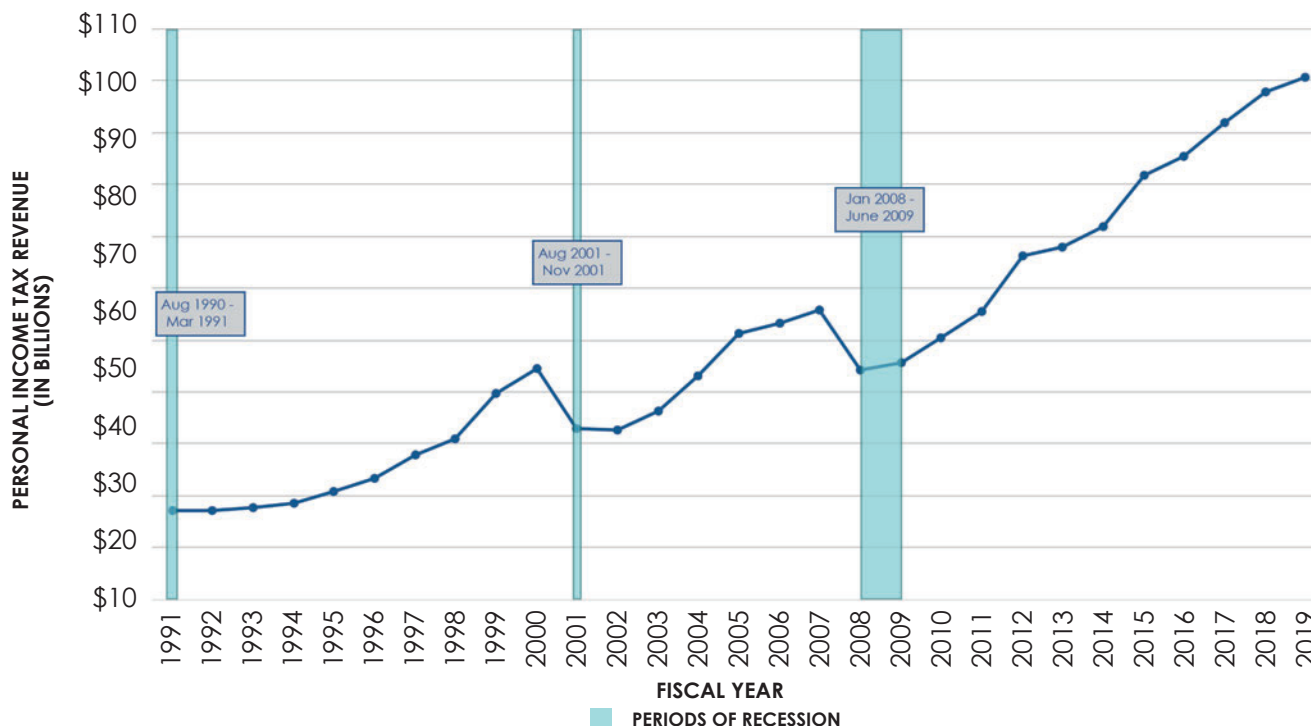
California's personal income tax return has the same due date as the federal tax return (April 15 for calendar-year filers, or the following Monday if April 15 falls on a weekend or federal holiday), and similar penalties apply for late returns and payments.

FEDERAL TAX CONFORMITY

California selectively conforms to federal personal income tax, corporate income tax and franchise tax laws. Under selective conformity, California law does not automatically conform to changes to federal tax law, except under specified

circumstances. Instead, California must pass legislation to conform to federal changes. Congress makes many federal tax changes annually, and California can remain out of conformity. Currently, California generally conforms to the federal income tax laws as of January 1, 2015, with certain exceptions.

GROWTH OF PERSONAL INCOME TAX REVENUE



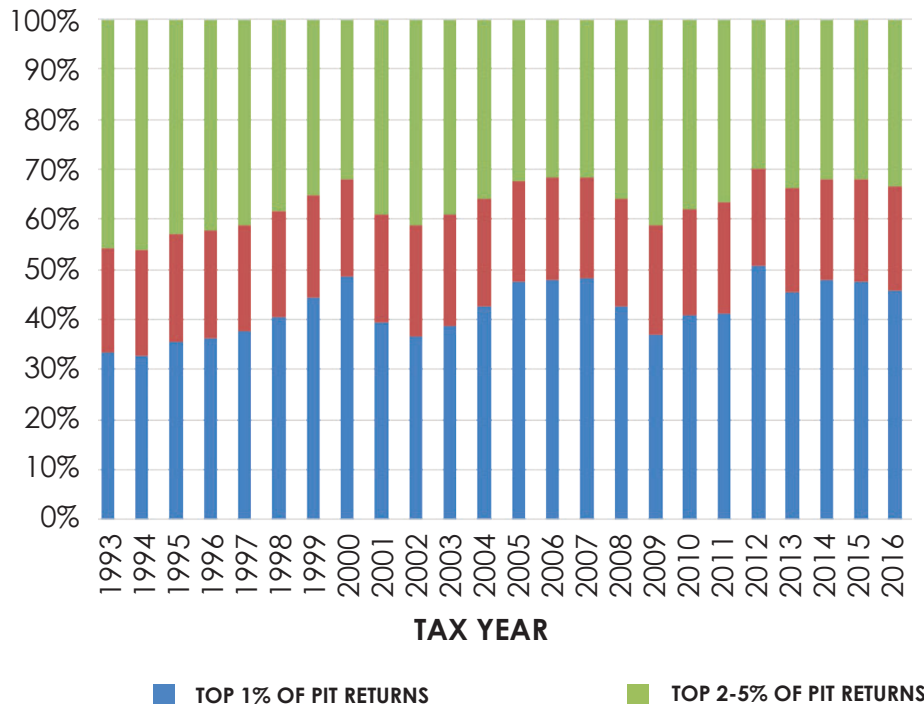
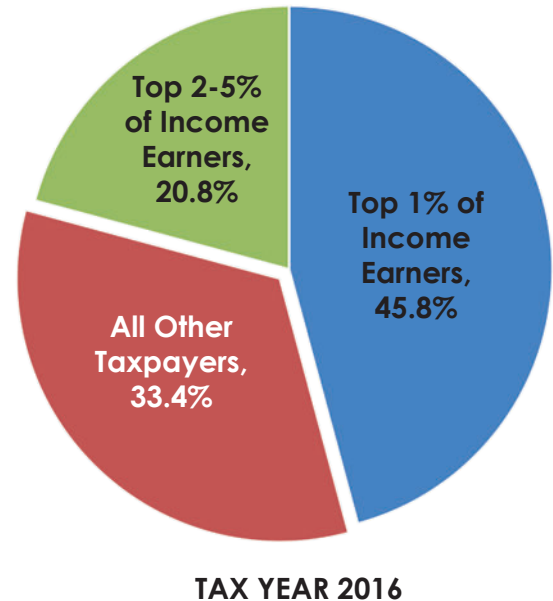
NOTES: Data for 2019 estimated as of January 2019. Figure represents fiscal-year revenue.

SOURCES: Department of Finance, National Bureau of Economic Research.

WHO PAYS THE PERSONAL INCOME TAX?

Since the 1990s, the share of the personal income tax paid by the top 5 percent of income earners has increased. In tax year 2016, the top 5 percent of earners paid 66.6 percent of the personal income tax.

INCOME DISTRIBUTION AMONG PERSONAL INCOME TAX FILERS

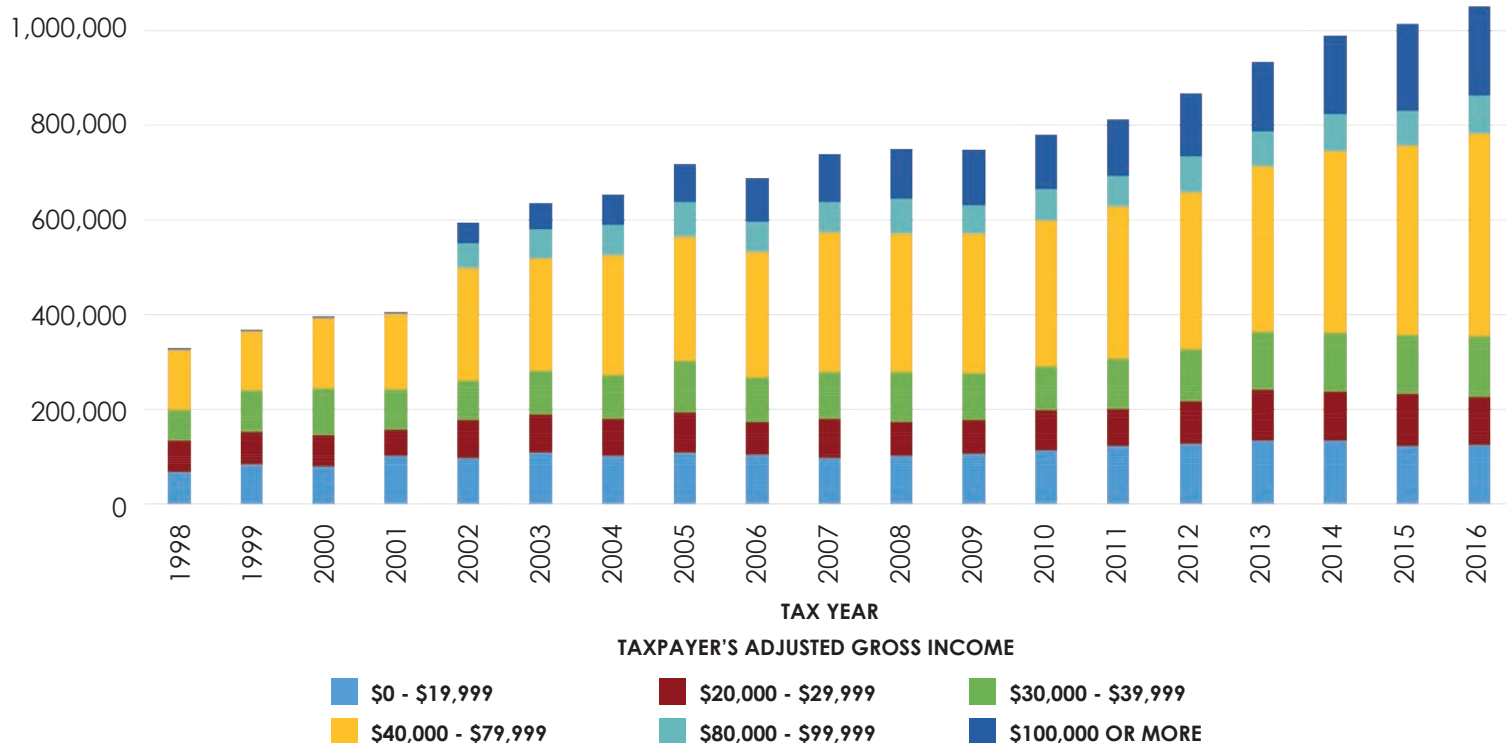


SOURCE: Franchise Tax Board.

DEDUCTING STUDENT LOAN INTEREST

National statistics indicate that approximately half of millennials (individuals born between 1980 and 1995) have student loan debt. State and federal laws allow these taxpayers to deduct interest accrued on these loans. Since the FTB began reporting on the deduction in 1998, the number of taxpayers claiming the deduction has more than doubled.

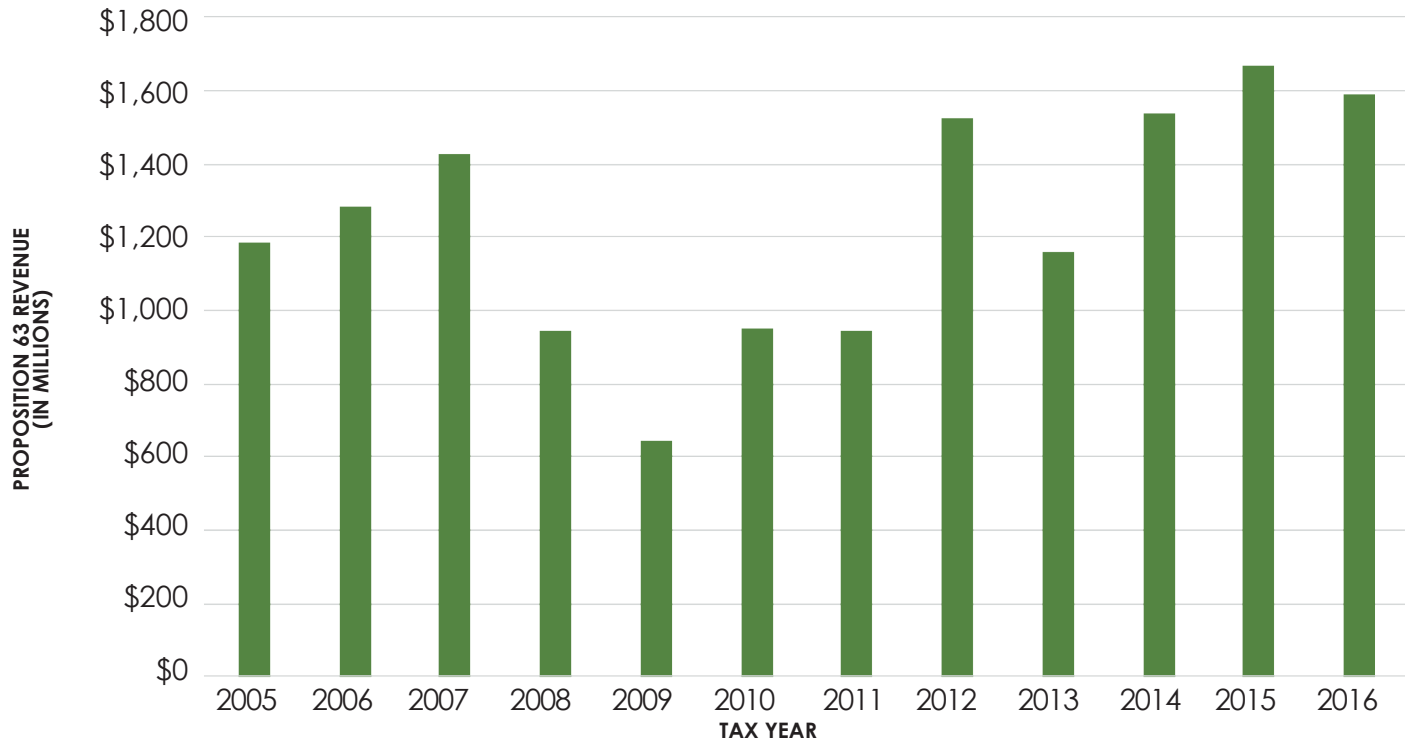
NUMBER OF RETURNS FILED WITH DEDUCTION FOR STUDENT LOAN INTEREST



SOURCE: Franchise Tax Board.

THE TAX ON MILLIONAIRES

In 2004, voters approved Proposition 63, which added a 1 percent surcharge to the personal income tax for filers with taxable income of \$1 million or more (regardless of filing status). Revenue from the surcharge, earmarked for mental health programs, fluctuates annually because it often is based on one-time events, such as the sale of a home or investment.



SOURCE: Franchise Tax Board.

PERSONAL INCOME TAX RATES FOR TAX YEAR 2018

FILING STATUS	IF TAXABLE INCOME IS ...		TAX IS ...	
	OVER	BUT NOT OVER	AMOUNT DUE, PLUS RATE	OF AMOUNT OVER
SINGLE OR MARRIED FILING SEPARATELY	\$ 0	\$ 8,544	\$ 0 + 1%	\$ 0
	\$ 8,544	\$ 20,255	\$ 85.44 + 2%	\$ 8,544
	\$ 20,255	\$ 31,969	\$ 319.66 + 4%	\$ 20,255
	\$ 31,969	\$ 44,377	\$ 788.22 + 6%	\$ 31,969
	\$ 44,377	\$ 56,085	\$ 1,532.70 + 8%	\$ 44,377
	\$ 56,085	\$ 286,492	\$ 2,469.34 + 9.3%	\$ 56,085
	\$ 286,492	\$ 343,788	\$ 23,897.19 + 10.3%	\$ 286,492
	\$ 343,788	\$ 572,980	\$ 29,798.68 + 11.3%	\$ 343,788
	\$ 572,980	and over	\$ 55,697.38 + 12.3%	\$ 572,980
MARRIED FILING JOINTLY AND QUALIFYING WIDOW(ER)	\$ 0	\$ 17,088	\$ 0 + 1%	\$ 0
	\$ 17,088	\$ 40,510	\$ 170.88 + 2%	\$ 17,088
	\$ 40,510	\$ 63,938	\$ 639.32 + 4%	\$ 40,510
	\$ 63,938	\$ 88,754	\$ 1,576.44 + 6%	\$ 63,938
	\$ 88,754	\$ 112,170	\$ 3,065.40 + 8%	\$ 88,754
	\$ 112,170	\$ 572,984	\$ 4,938.68 + 9.3%	\$ 112,170
	\$ 572,984	\$ 687,576	\$ 47,794.38 + 10.3%	\$ 572,984
	\$ 687,576	\$ 1,145,960	\$ 59,597.36 + 11.3%	\$ 687,576
	\$ 1,145,960	and over	\$ 111,394.75 + 12.3%	\$ 1,145,960
HEAD OF HOUSEHOLD	\$ 0	\$ 17,099	\$ 0 + 1%	\$ 0
	\$ 17,099	\$ 40,512	\$ 170.99 + 2%	\$ 17,099
	\$ 40,512	\$ 52,224	\$ 639.25 + 4%	\$ 40,512
	\$ 52,224	\$ 64,632	\$ 1,107.73 + 6%	\$ 52,224
	\$ 64,632	\$ 76,343	\$ 1,852.21 + 8%	\$ 64,632
	\$ 76,343	\$ 389,627	\$ 2,789.09 + 9.3%	\$ 76,343
	\$ 389,627	\$ 467,553	\$ 31,924.50 + 10.3%	\$ 389,627
	\$ 467,553	\$ 779,253	\$ 39,950.88 + 11.3%	\$ 467,553
	\$ 779,253	and over	\$ 75,172.98 + 12.3%	\$ 779,253

NOTE: Taxable income in excess of \$1 million is also subject to a 1 percent surcharge, regardless of filing status. SOURCE: Franchise Tax Board.

THE PERSONAL INCOME TAX APPLIED

The amount that Californians owe in personal income tax can differ greatly depending on income and filing status.

PEGGY



Single

PETE & TRUDY



Married Filing Jointly

JOAN



Head of Household

ROGER & MARIE



Married Filing Jointly

DON



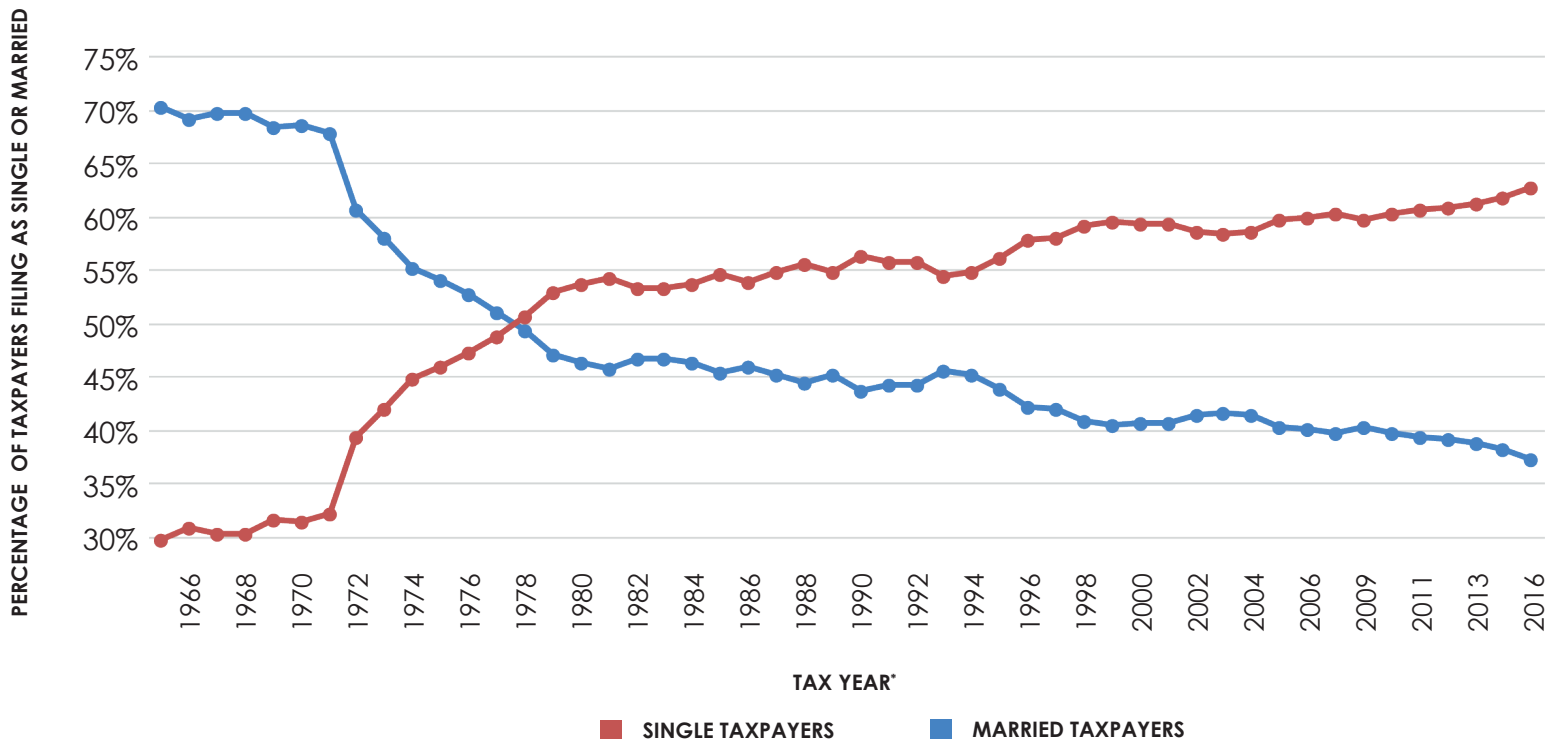
Single

	Single	Married Filing Jointly	Head of Household	Married Filing Jointly	Single
Taxable Income	\$75,000	\$75,000	\$75,000	\$2,500,000	\$2,500,000
Base Amount Due	\$2,469.34	\$1,576.44	\$1,852.21	\$111,394.75	\$55,697.38
2018 California Tax Rate	plus 9.3% of the amount of income over \$56,085	plus 6% of the amount of income over \$63,938	plus 8% of the amount of income over \$64,632	plus 12.3% of the amount of income over \$1,145,960	plus 12.3% of the amount of income over \$572,980
California Income Tax Liability	\$4,228.44	\$2,240.16	\$2,681.65	\$277,941.67	\$292,720.84
Mental Health Surcharge	\$0	\$0	\$0	\$25,000.00	\$25,000.00
TOTAL TAX	\$4,228.44	\$2,240.16	\$2,681.65	\$302,941.67	\$317,720.84

SOURCE: Franchise Tax Board, based on California Tax Foundation calculations.

THE TAXPAYER'S RELATIONSHIP STATUS

Fewer Californians are married today compared to a generation ago. The 1978 tax year marked the first time more returns were filed by single taxpayers (single and head-of-household filers) compared to married taxpayers (married filing jointly and married filing separately).



NOTE: *No data was published for tax years 2008 and 2015. SOURCE: Franchise Tax Board.

Chapter 3

CORPORATE & FRANCHISE TAX

California's corporate franchise and income tax is levied on a corporation's net revenue. Subchapter S and C corporations, financial institutions and other business entities subject to California's corporation and franchise tax are subject to the tax on income from sources in California. Nonprofit organizations, such as churches and charitable groups, generally are exempt from the tax, and insurance companies are subject to the gross premiums tax in lieu of this tax.

Most multistate taxpayers are required to determine tax liability by utilizing the single sales factor apportionment formula. The tax is administered by the Franchise Tax Board.

FRANCHISE TAX VS. INCOME TAX

The corporate franchise tax is imposed on all corporations (including limited liability companies electing to be taxed as corporations) that are incorporated or organized in California, qualified or registered to do business in California, or are doing business in California (whether or not incorporated, organized, qualified or registered under California law). There is a minimum franchise tax of \$800 that must be paid annually by these entities.



Downtown San Diego

APPORTIONMENT AND COMBINED REPORTING

The principle behind business income apportionment is that California cannot tax income that is earned beyond its borders. Article I, Section 8 of the U.S. Constitution states that Congress has the sole power of regulating interstate and foreign commerce. Given federal limits on what states can tax, the goal of California's apportionment formula is to fairly estimate how much of a business' income was earned in the state.

Two or more corporations that are members of a commonly controlled group and engaged in a unitary business must file a combined report with the FTB. Combined reports reflect a corporation's income from California sources when the corporation is part of a unitary business that conducts business inside and outside California. Generally, the basis of the combined report starts with worldwide income and apportions income based on activity in California. However, California's water's-edge election allows a taxpayer to limit California's taxation of activities conducted outside the United States.

Since the passage of Proposition 39 in 2012, most taxpayers use the single sales factor apportionment formula to calculate their corporate and franchise tax liability.

FEDERAL TAX CONFORMITY

California law generally conforms to federal law as it read on January 1, 2015, under the Corporation Tax Law, with exceptions.

CORPORATE TAX RATES

Corporations (Excluding Banks and Financial Institutions)	8.84% (\$800 minimum tax for franchise taxpayers only)

Banks and Financial Institutions	10.84%

Alternative Minimum Tax	6.65%

S Corporations (Excluding Banks and Financial Institutions)	1.50% (\$800 minimum tax for franchise taxpayers only)

S Corporations (Banks and Financial Institutions)	3.50%

SOURCE: Franchise Tax Board.

DETERMINING CORPORATE TAX LIABILITY

SINGLE SALES

Proposition 39 of 2012 requires most corporate filers to calculate their tax liability using the single sales factor apportionment formula.



PERCENTAGE
OF SALES IN
CALIFORNIA*

X



WORLDWIDE
BUSINESS INCOME**

X



CALIFORNIA
APPLICABLE
TAX RATE

=

**TAX
LIABILITY**

3-FACTOR

Taxpayers in extractive, agricultural, savings and loan, and bank and financial industries are required to use a three-factor formula to calculate their tax.



PERCENTAGE
OF PROPERTY
IN CALIFORNIA

+



PERCENTAGE
OF PAYROLL IN
CALIFORNIA

+



PERCENTAGE
OF SALES IN
CALIFORNIA*

3

=



TOTAL PERCENTAGE

X



WORLDWIDE
BUSINESS
INCOME**

X



CALIFORNIA
APPLICABLE
TAX RATE

=

**TAX
LIABILITY**

NOTES: *Use market sourcing for services and other intangible sales. **Under a "water's-edge" election, generally only the income of a unitary or combined group of an affiliated corporation doing business within the "water's edge" of the United States is used to determine taxable income.

Chapter 4

PROPERTY TAX

California's property tax is imposed on locally assessed property and state-assessed property. Most real property in California subject to the property tax is taxed locally, under Proposition 13.

The property tax is determined by multiplying the tax rate of 1 percent by the assessed value. Counties may exceed the 1 percent limit if local voters approve specified indebtedness (bonds) to be repaid through higher property taxes. Revenue from the property tax is allocated by statute through a complex formula.

Proposition 13 limits the taxable value for locally assessed real property to the lower of the property's market value or acquisition value (or purchase price indexed for inflation not to exceed 2 percent). Specified changes in ownership of a property will trigger a new market-value assessment. If a property owner adds new construction (such as an additional bedroom), the assessed value will increase.



San Francisco

Locally assessed properties under Proposition 13 include most residential, commercial, industrial, agricultural, open space, timberland, and vacant land. Government property and property used for religious or charitable purposes may be exempt from property tax. Household personal property also is exempt (but certain business property, including office furniture, computers, etc., is not). Locally assessed business personal property subject to tax is assessed annually at market value.

Some properties are not assessed by locally elected assessors under Proposition 13, but instead by the State Board of Equalization. Properties assessed by the state generally include railroad and utility properties, and exemptions are limited.

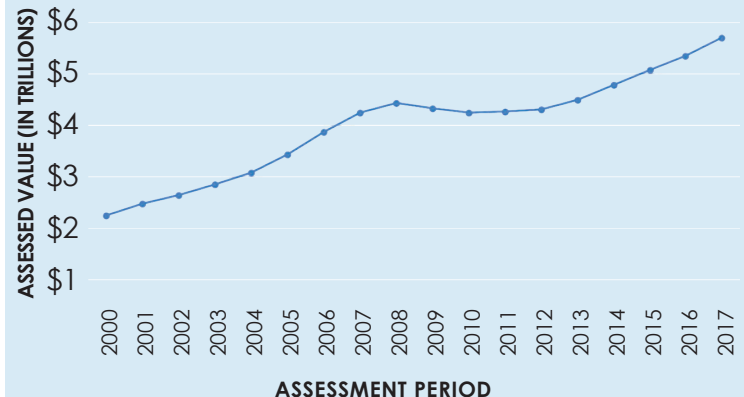
DETERMINING VALUE

When property must be reassessed, the value is determined for most property at its “highest and best use” consistent with the restrictions on the property, using one of three valuation methods:

- **Comparative Sales.** The comparative sales method requires an assessor to review sales of comparable properties within a given region, and within a given timeframe, to determine the value. While no two pieces of land or property are exactly the same, comparable properties can be used to determine a reasonable assessed value. In some cases, however, there are no properties comparable to the property being assessed.

- **Cost.** The cost approach determines the value by estimating what the replacement cost of the property would be.
- **Income.** The income approach can be used to estimate the value of income-producing properties. Under this approach, assessors convert the projected future cash benefits from the property into an estimate of property value.

ASSESSED VALUES FOR PROPERTY COVERED BY PROPOSITION 13



SOURCE: State Board of Equalization.

REASSESSMENTS

Locally assessed property is reassessed when ownership changes or there is new construction. According to state law, a “change in ownership” occurs when a present interest in real property is transferred, when the beneficial use of a property is transferred, and when the property rights transferred are substantially equivalent in value to the fee interest (all tests must be met). A change in ownership also can be triggered when a person or legal entity gains control of more than 50 percent of an entity’s ownership interests.

Voters have approved a number of change-in-ownership exclusions. For example, when a parent or specified grandparent dies or transfers ownership of property to children or grandchildren, the property is not reassessed.

ASSESSMENT LIMITS

When real property prices and inflation rise, Proposition 13 allows a maximum 2 percent annual increase in the property’s taxable value (for inflation). This “factored Proposition 13 value” can decline temporarily when real property prices drop.

Under Proposition 8 of 1978, properties assessed under Proposition 13 may obtain a temporary reduction in assessed value. A decline-in-value assessment occurs when the market value is less than the property’s assessed value on January 1 (the lien date). After a decline-in-value assessment is applied, the property’s value will be reviewed

annually to determine if it has returned to its earlier value. During the Great Recession, many properties received decline-in-value assessments, as the market values were less than the properties’ purchase prices.

Under the “new construction” laws, reassessment is triggered if the construction results in any substantial addition to land or improvements including fixtures, any physical alteration of any improvement to a “like-new” condition, major rehabilitation (as specified) or substantial renovation or modernization.

PROVISIONS OF PROPOSITION 13	
SECTION 1	SECTION 2
Tax Rate Limit. Established a maximum uniform tax rate of 1 percent of the property’s assessed value.	Acquisition-Value Assessments. The value of locally assessed real property is based on the purchase price or appraised value at the time of a change in ownership or new construction, plus an increase for inflation not to exceed 2 percent annually.
SECTION 3	SECTION 4
State Tax Increase Limitation. Requires a two-thirds vote of the Legislature to increase state taxes.	Local Tax Limitation. Requires a two-thirds vote of the electorate to increase local special taxes.

SPLITTING THE PROPERTY TAX ROLL

When all properties on a county's assessment roll are not assessed in a similar manner, or are not subject to the same tax rate, this is called a "split roll."

Since passage of Proposition 13, opponents of the measure have advocated for split-roll assessments, claiming that business property does not change ownership as often as homeowner property, and therefore is undertaxed. A Legislative Analyst's Office report released in 2016 found that this claim is not true, and that business property and homeowner property changes ownership at roughly the same rate.

When analyzing the property tax burden on homeowner and business property under Proposition 13, it is important to understand the differences between these properties. Property owned by individuals who claim the homeowners' exemption (available only for a home used as a principal place of residence) is considered homeowner-occupied property. All other property under Proposition 13 is considered non-homeowner property, or business property. This is because apartments, duplexes, single-family residential rentals and other business properties are used for business or investment purposes. Data from the State Board of Equalization from 1979-80 through 2016-17 shows that taxes have increased faster on non-homeowner property subject to Proposition 13 than on homeowner-occupied property.

IS IT "NEW CONSTRUCTION"?

Removing orchard trees for replanting.

Not New Construction

Adding an extra bedroom or bathroom to a residence.

New Construction

Converting a residential garage into a living area.

New Construction

Converting a warehouse into office space.

New Construction

Replacing a roof.

Not New Construction

Reinforcing masonry to protect property from earthquakes.

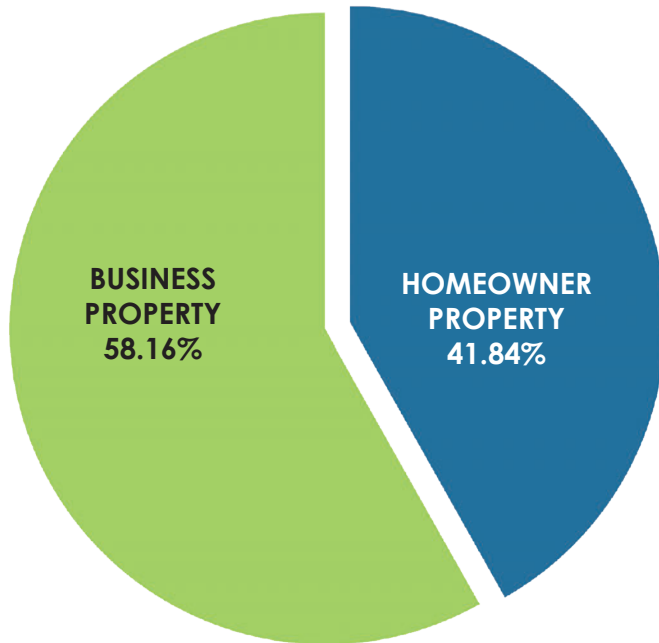
Not New Construction

SOURCE: State Board of Equalization.

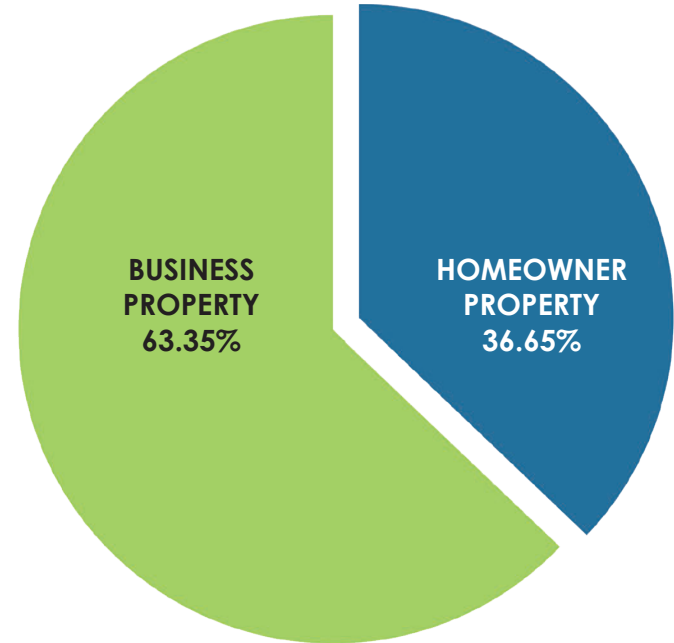
THE PROPERTY TAX BURDEN

Since passage of Proposition 13, the burden of the property tax has not shifted significantly. Homeowners remain the greatest beneficiaries of Proposition 13, as their cumulative property tax burden has remained lower than business property owners' burden, and has gone down more than 5 percent.

1979-80 ASSESSMENT PERIOD



2016-17 ASSESSMENT PERIOD



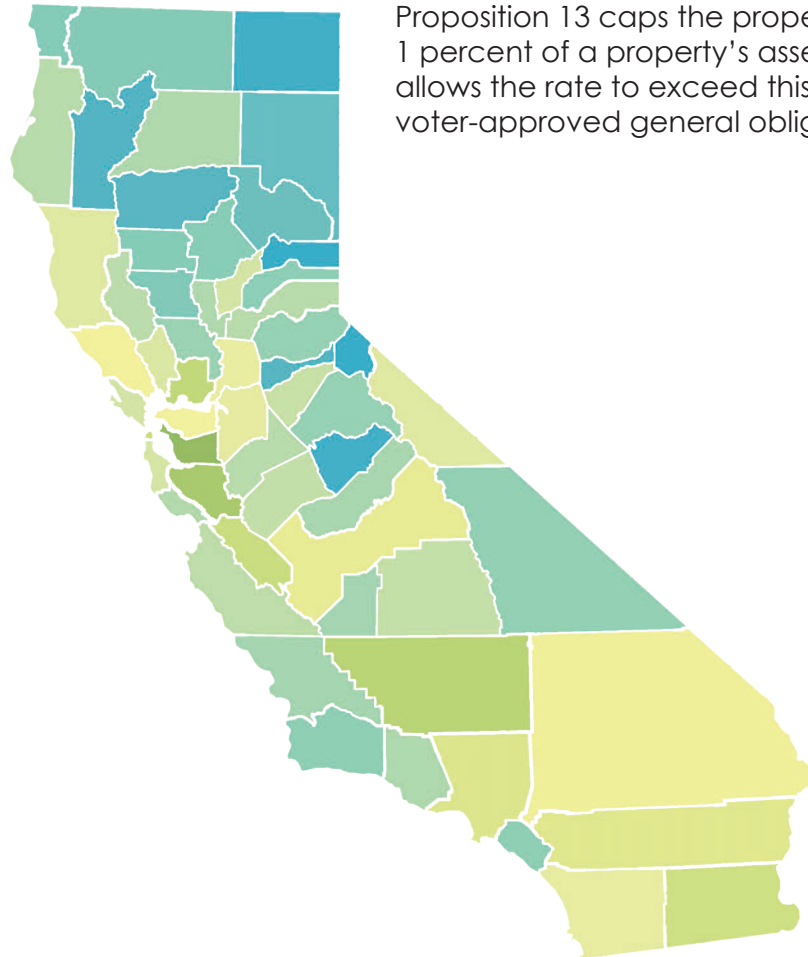
NOTES: Business property includes all non-homeowner-occupied property (including commercial, industrial and residential investment property) subject to Proposition 13 assessments; homeowner property is property owned and occupied as a principal residence, and for which the owners claim the homeowners' exemption. SOURCE: State Board of Equalization.

AVERAGE PROPERTY TAX RATES

10 COUNTIES WITH THE HIGHEST PROPERTY TAX RATES (Fiscal Year 2016-17)

	Alameda, 1.211%
	Santa Clara, 1.199%
	Kern, 1.190%
	Solano, 1.185%
	San Benito, 1.180%
	San Francisco, 1.180%
	Imperial, 1.176%
	Los Angeles, 1.167%
	Riverside, 1.165%
	Fresno, 1.153%

SOURCE: State Board of Equalization.



TRENDS IN HOMEOWNERSHIP

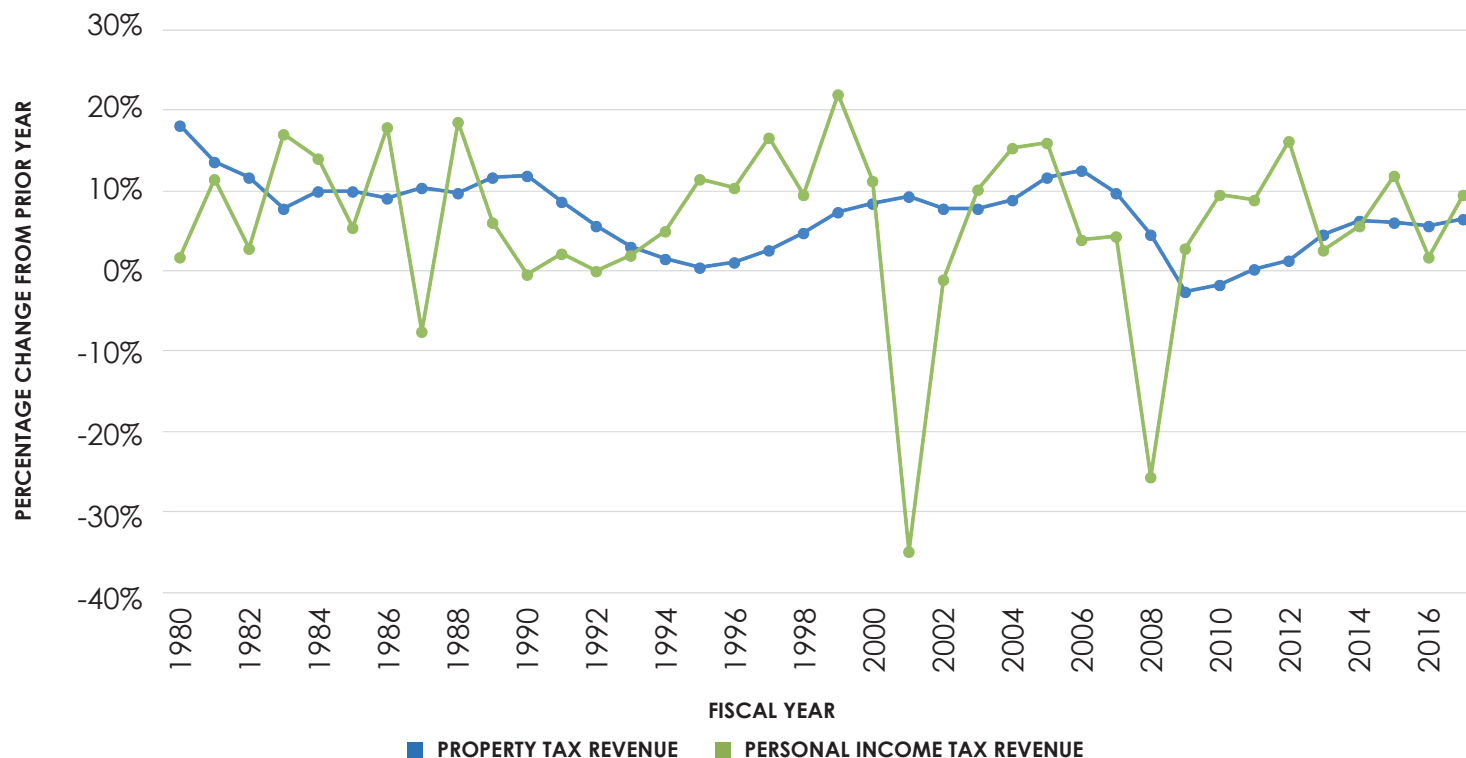
The homeowners' exemption is an important indicator for measuring the property tax burden. California provides a \$7,000 reduction in the taxable value of a home. This exemption may be claimed only by taxpayers who own and occupy the home as their principal residence. For purposes of measuring the property tax burden, the exemption is the most accurate available indicator of "homeowner property." For the year 2017, the homeowners' exemption was claimed by 5,050,660 property owners.



SOURCE: State Board of Equalization.

REVENUE STABILITY UNDER PROPOSITION 13

Unlike the personal income tax, the property tax under Proposition 13 has been, in the words of the Commission on the 21st Century Economy, the “most stable of major state and local sources” of revenue. Since 1980, property tax revenue has increased every year except during the heart of the real estate market crash of the late 2000s.



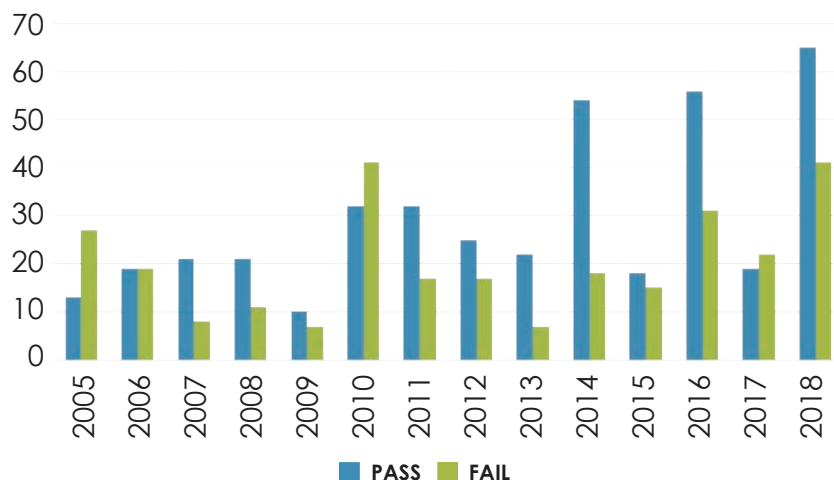
SOURCES: State Board of Equalization, Legislative Analyst's Office.

CALIFORNIA'S OTHER PROPERTY TAX

WHAT IS A PARCEL TAX?

A parcel tax is a local add-on tax on a parcel of land within a local jurisdiction that must be approved with a two-thirds vote of the electorate. Parcel taxes can be imposed by a city, county, school, fire district, or other local government. Some properties may be subject to more than one parcel tax.

PARCEL TAXES DECIDED BY VOTERS



The term “parcel tax” does not exist in state law, nor does any uniform tax structure. Instead, inconsistent rules in various code sections guide local governments on parcel tax administration.

TYPES OF PARCEL TAXES

FLAT RATE

A flat dollar amount per parcel (example: every parcel owner pays \$50).

FRONTAGE

Tax is based on the amount of a property's street frontage multiplied by a dollar amount.

SINGLE-FAMILY EQUIVALENT

Tax is based on several factors, including frontage, square feet, and use code to determine the approximate equivalent of a single-family home.

SQUARE FOOTAGE

Tax is determined by a property's improved and/or unimproved square feet, multiplied by a dollar amount.

USE CODE

Tax is determined by a parcel's use code (single-family, multi-family, commercial, etc.).

MELLO-ROOS TAX

Any of the above types of parcel taxes, but the revenue is used to pay off debt for a capital project.

OTHER PROPERTY-RELATED CHARGES

In addition to the property tax and parcel taxes, other charges appear on some property tax bills. These typically are assessments that provide a direct, proportional and measurable benefit to each property. Assessments cover a wide range of local services, including those listed below, and require either approval by property owners or the electorate under Proposition 218 (a 1996 voter-approved state initiative that requires a public vote on property-related charges).



BUSINESS IMPROVEMENT



STREET IMPROVEMENT



FLOOD



STREET LIGHTING



LANDSCAPING



TRASH



MOSQUITO ABATEMENT



VECTOR CONTROL



SIDEWALKS



WATER



STORM DRAIN



WEED ABATEMENT

\$239.5 MILLION

Property owners in cities paid more than \$239.5 million in benefit assessments for lighting service in fiscal year 2017.

\$3.9 BILLION

Property owners in cities paid more than \$3.9 billion in sewer service assessments in fiscal year 2017.

SOURCE: State Controller's Office.

Property-related assessments are not a new source of revenue. In California, use of property assessments peaked between 1910 and 1930, and regained popularity after passage of Proposition 13 in 1978.

An underwater photograph of a kelp forest, showing tall, green kelp stalks reaching towards the surface where sunlight filters through. The water is a clear, vibrant blue.

Chapter 5

SALES AND USE TAX

The sales and use tax has been imposed in California since the mid-1930s, and consists of three pieces: a statewide rate, a local rate, and an optional add-on rate that varies by local government. The state sales and use tax is administered and collected by the California Department of Tax and Fee Administration. Appeals are heard by the Office of Tax Appeals. Local sales and use taxes also are administered by the CDTFA, as long as local governments agree to certain uniformity standards.

THE SALES TAX

The sales tax is imposed on retailers for the privilege of selling tangible personal property within California. The combined state and local sales and use tax rate is 7.25 percent. A number of cities, counties and special districts impose additional transactions and use taxes. The combined state and local sales and use tax may be higher due to local add-ons (the highest rate is 10.25 percent in some localities). Retailers are responsible for paying sales tax on tangible personal property sold in California. The sales tax is based on the retail sales price of property for sale, and if retailers miscalculate the tax, they are liable for underpaid taxes, plus penalties and interest.

SALES AND USE TAX

Retailers typically seek reimbursement for the sales tax by passing the tax on to customers. It is presumed that the customer agrees to pay the tax if the retailer separately lists the tax on the customer's receipt, or a sign is posted on the business' premises stating that sales tax will apply to purchases. If a retailer collects excess sales tax from a customer, the retailer must return the amount to the customer or submit the excess to the CDTFA.

All businesses and individuals that regularly sell tangible personal property must obtain a seller's permit from the CDTFA. A seller's permit can be obtained at no cost to the retailer.

THE USE TAX

The use tax typically is imposed on consumers for purchases of tangible personal property from out-of-state retailers, for use in California. Generally, the sales tax and the use tax have the same base and exemptions.

Common consumer purchases subject to the use tax include purchases from out-of-state Internet sites, mail-order catalogs, and television shopping networks. Other activities subject to use tax include withdrawing taxable merchandise from a business' inventory for personal use, and purchasing a vehicle, mobile home, watercraft or aircraft from a

seller who doesn't have a seller's permit.

In certain cases, the use tax may be imposed on retailers, if it is determined that an out-of-state retailer is "engaged in business" in California. Business activity in California is determined based on several factors, including whether a business has a sales office, warehouse, or sales staff in California; receives rental income for equipment in California; or has some other form of physical presence in the state. (Changes to these factors are being debated in response to the U.S. Supreme Court's ruling in *South Dakota v. Wayfair*.)

BY THE NUMBERS

THE SALES & USE TAX

Total Taxable Sales Occurring in 2016:

\$649,079,371,005

Number of Taxpayers With a Seller's Permit in 2016-17:

1,224,954

Cost to Administer the Sales and Use Tax Compared to the Revenue Received:

0.88%

SOURCE: State Board of Equalization.

2019 SALES AND USE TAX RATES

TAX	HOW THE FUNDS ARE ALLOCATED	RATE	AUTHORITY
STATE SALES AND USE TAX	State General Fund	3.6875%	RTC §6051 and RTC §6201
	State General Fund	0.25%	RTC §6051.3 and RTC §6201.3
	Local Public Safety Fund	0.50%	California Constitution Article XIII, §35
	Local Revenue Fund (Health and Social Services)	0.50%	RTC §6051.15 and RTC §6201.15
	Local Revenue Fund (2011 Realignment)	1.0625%	RTC §6051.15 and RTC §6201.15
TOTAL STATE SALES AND USE TAX RATE		6.00%	
BRADLEY-BURNS LOCAL SALES TAX	County Transportation Budgets	0.25%	RTC §7203.1
	City/County General Operations	1.00%	RTC §7203.1
TOTAL LOCAL SALES AND USE TAX		1.25%	
CITY AND COUNTY TRANSACTIONS AND USE TAX	Voter-approved taxes imposed by cities, counties and special districts for general or special purposes. Rates vary by jurisdiction, but generally cannot exceed 2 percent. State law authorizes some jurisdictions to exceed the 2 percent cap for special purposes. Levies can be in increments as small as 0.125 percent.	Rate Varies	RTC §7261
COMBINED MINIMUM STATE AND LOCAL SALES AND USE TAX RATE:		7.25%	

SOURCE: California Department of Tax and Fee Administration.

SALES AND USE TAX EXEMPTIONS

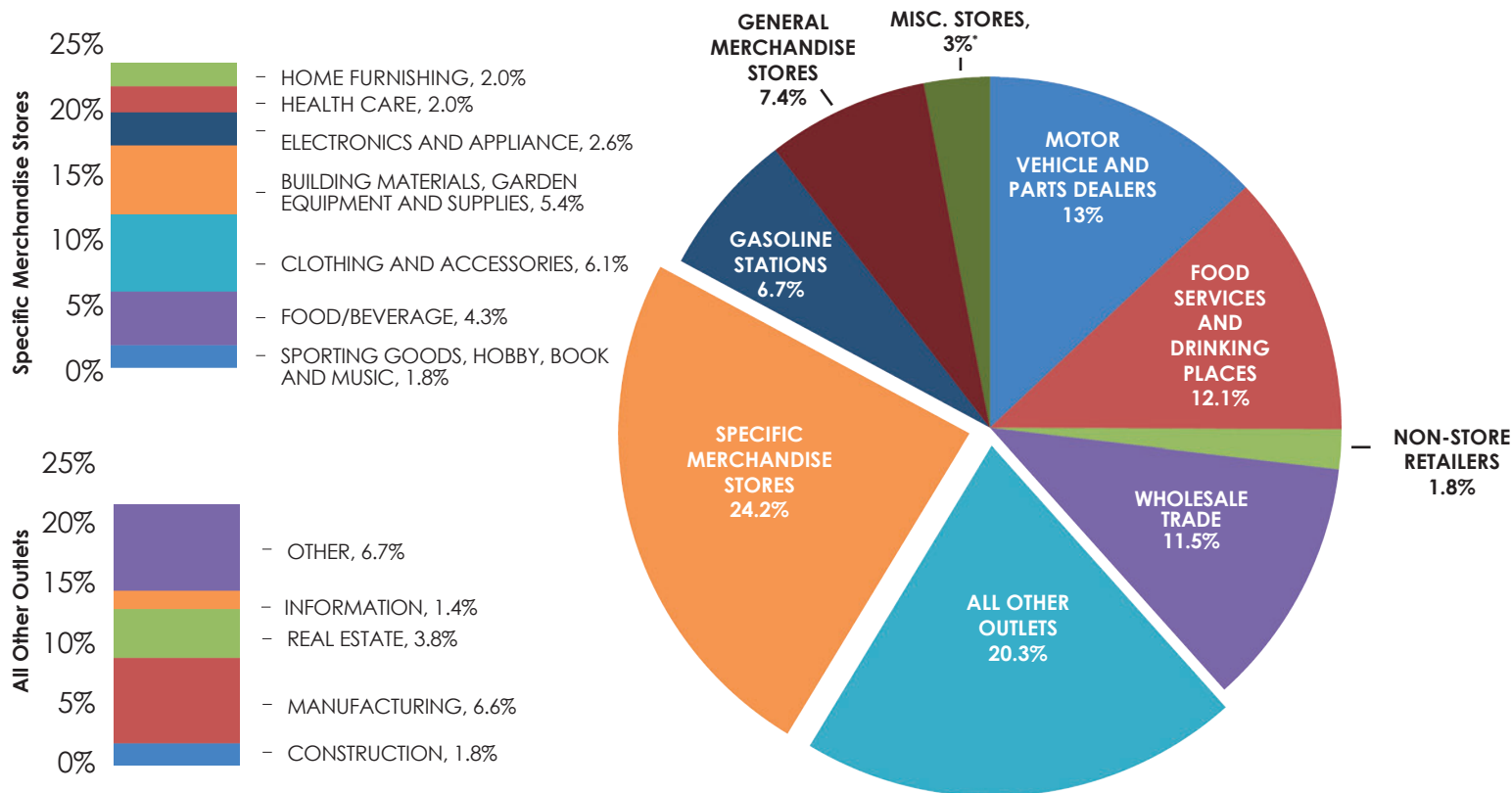
Exemptions and exclusions can serve as instruments to promote equity and to improve the economy. Purchases generally not subject to sales and use tax include:

Art for Public Benefit	Lapel Pins Commemorating Veterans
Bottled Water	Prescription Drugs
CalFresh Benefit Purchases	School Yearbooks
Candy	Snack Foods
Cold Food Products (Groceries)	Student Meals
Electricity Sold to Households	Telephone Poles and Lines
Endangered Animals	Vending Machine Food and Beverages
Gas Sold to Households	Water Sold to Households
Human Blood Storage Devices	Wheelchairs

SOURCE: State Board of Equalization.

WHAT SALES GENERATE THE MOST TAX REVENUE?

Sales at restaurants, bars, auto dealerships and maintenance providers, and wholesale trade, were the largest sources of sales tax revenue in 2016.



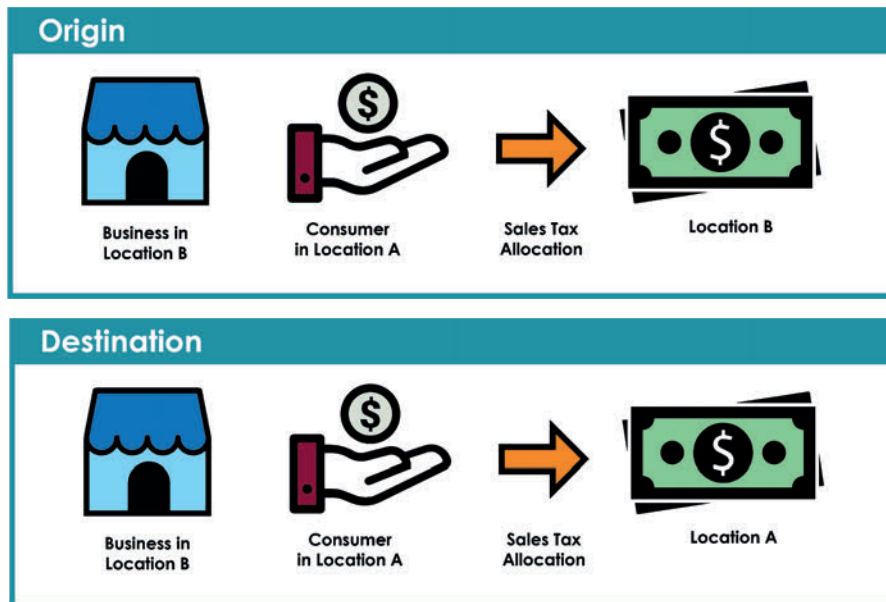
NOTES: *"Miscellaneous Stores" include all businesses under Code 453 of the North American Industry Classification System (NAICS), including florists, office supplies and used merchandise stores. SOURCE: California Department of Tax and Fee Administration.

DISTRIBUTION OF ONLINE SALES TAXES

California law allocates local sales and district taxes from online sales under a hybrid origin-and-destination structure.

Sales taxes collected under the Bradley-Burns Uniform Local Sales and Use Tax law are origin-based, meaning they are allocated to the local jurisdiction at the retailer's place of business. In the case of online purchases, generally the location from which a product is shipped receives the sales tax benefit.

On the other hand, local district transactions and use taxes (also known as "local add-ons") for online purchases generally are destination-based, meaning the jurisdiction to which the product is delivered receives the local sales tax revenue allocation.



2019 SALES AND USE TAX RATES

ALAMEDA CO., 9.25%	City of Pinole, 9.25%	City of Rio Dell, 8.75%	City of Cudahy, 10.25%
City of Alameda, 9.75%	City of Pittsburg, 8.75%	City of Trinidad, 8.50%	City of Culver City, 10.25%
City of Albany, 9.75%	City of Pleasant Hill, 8.75%	IMPERIAL CO., 7.75%	City of Downey, 10.00%
City of Hayward, 9.75%	City of Richmond, 9.25%	City of Calexico, 8.25%	City of El Monte, 10.00%
City of Newark, 9.75%	City of San Pablo, 9.00%	City of El Centro, 8.25%	City of Glendale, 10.25%
City of San Leandro, 9.75%	DEL NORTE CO., 7.50%	INYO CO., 7.75%	City of Hawthorne, 10.25%
City of Union City, 9.75%	EL DORADO CO., 7.25%	KERN CO., 7.25%	City of Huntington Park, 10.25%
ALPINE CO., 7.25%	City of Placerville, 8.25%	City of Arvin, 8.25%	City of Inglewood, 10.00%
AMADOR CO., 7.75%	City of So. Lake Tahoe, 7.75%	City of Bakersfield, 8.25%	City of Long Beach, 10.25%
BUTTE CO., 7.25%	FRESNO CO., 7.975%	City of Delano, 8.25%	City of La Mirada, 10.25%
City of Oroville, 8.25%	City of Coalinga, 8.975%	City of Ridgecrest, 8.25%	City of La Puente, 10.00%
Town of Paradise, 7.75%	City of Fowler, 8.975%	City of Wasco, 8.25%	City of Lawndale, 10.25%
CALAVERAS CO., 7.25%	City of Huron, 8.975%	KINGS CO., 7.25%	City of Lynwood, 10.25%
City of Angels Camp, 7.75%	City of Kerman, 8.975%	City of Corcoran, 8.25%	City of Pasadena, 10.25%
COLUSA CO., 7.25%	City of Kingsburg, 8.975%	LAKE CO., 7.25%	City of Pico Rivera, 10.25%
City of Williams, 7.75%	City of Reedley, 8.475%	City of Clearlake, 8.75%	City of Pomona, 10.25%
CONTRA COSTA CO., 8.25%	City of Sanger, 8.725%	City of Lakeport, 8.75%	City of San Fernando, 10.00%
City of Antioch, 9.25%	City of Selma, 8.475%	LASSEN CO., 7.25%	City of Santa Fe Springs, 10.50%
City of Concord, 8.75%	GLENN CO., 7.25%	LOS ANGELES CO., 9.50%	City of Santa Monica, 10.25%
City of El Cerrito, 9.75%	City of Orland, 7.75%	City of Avalon, 10.00%	City of South El Monte, 10.00%
City of Hercules, 8.75%	HUMBOLDT CO., 7.75%	City of Burbank, 10.25%	City of South Gate, 10.25%
City of Martinez, 9.25%	City of Arcata, 8.50%	City of Commerce, 10.00%	MADERA CO., 7.75%
Town of Moraga, 9.25%	City of Eureka, 8.50%	City of Compton, 10.25%	City of Chowchilla, 8.75%
City of Orinda, 8.75%	City of Fortuna, 8.50%	City of Covina, 10.25%	City of Madera, 8.25%

2019 SALES AND USE TAX RATES

MARIN CO., 8.25%

Town of Corte Madera, 9.00%
Town of Fairfax, 9.00%
City of Larkspur, 9.00%
City of Novato, 8.50%
Town of San Anselmo, 8.75%
City of San Rafael, 9.00%
City of Sausalito, 8.75%

MARIPOSA CO., 7.75%

MENDOCINO CO., 7.875%

City of Fort Bragg, 8.875%
City of Point Arena, 8.375%
City of Ukiah, 8.375%
City of Willits, 8.375%

MERCED CO., 7.75%

City of Atwater, 8.25%
City of Gustine, 8.25%
City of Los Banos, 8.75%
City of Merced, 8.25%

MODOC CO., 7.25%

MONO CO., 7.25%

Town of Mammoth Lakes, 7.75%

MONTEREY CO., 7.75%

City of Carmel-by-the-Sea, 8.75%

City of Del Rey Oaks, 9.25%

City of Gonzales, 8.25%

City of Greenfield, 9.50%

City of King City, 8.75%

City of Marina, 9.25%

City of Monterey, 8.75%

City of Pacific Grove, 8.75%

City of Salinas, 9.25%

City of Sand City, 8.75%

City of Seaside, 9.25%

City of Soledad, 8.75%

NAPA CO., 7.75%

City of St. Helena, 8.25%

NEVADA CO., 7.5%

City of Grass Valley, 8.50%

City of Nevada City, 8.375%

Town of Truckee, 8.25%

ORANGE CO., 7.75%

City of La Habra, 8.25%

City of Fountain Valley, 8.75%

City of Garden Grove, 8.75%

City of La Palma, 8.75%

City of Placentia, 8.75%

City of Santa Ana, 9.25%

City of Seal Beach, 8.75%

City of Stanton, 8.75%

City of Westminster, 8.75%

PLACER CO., 7.25%

Town of Loomis, 7.50%

City of Roseville, 7.75%

PLUMAS CO., 7.25%

RIVERSIDE CO., 7.75%

City of Cathedral City, 8.75%

City of Coachella, 8.75%

City of Hemet, 8.75%

City of Indio, 8.75%

City of La Quinta, 8.75%

City of Menifee, 8.75%

City of Murrieta, 8.75%

City of Norco, 8.75%

City of Palm Springs, 9.25%

City of Riverside, 8.75%

City of Temecula, 8.75%

City of Wildomar, 8.75%

SACRAMENTO CO., 7.75%

City of Galt, 8.25%

City of Isleton, 8.75%

City of Rancho Cordova, 8.25%

City of Sacramento, 8.75%

SAN BENITO CO., 8.25%

City of Hollister, 9.25%

City of San Juan Bautista, 9.00%

SAN BERNARDINO CO., 7.75%

City of Barstow, 8.75%

City of Montclair, 8.00%

City of San Bernardino, 8.00%

Town of Yucca Valley, 8.75%

SAN DIEGO CO., 7.75%

City of Chula Vista, 8.75%

City of Del Mar, 8.75%

City of El Cajon, 8.25%

City of La Mesa, 8.50%

City of National City, 8.75%

City of Oceanside, 8.25%

City of Vista, 8.25%

SAN FRANCISCO CO., 8.50%

SAN JOAQUIN CO., 7.75%

City of Lathrop, 8.75%

City of Lodi, 8.25%

City of Manteca, 8.25%

City of Stockton, 9.00%

City of Tracy, 8.25%

2019 SALES AND USE TAX RATES

SAN LUIS OBISPO CO., 7.25%	SANTA CLARA CO., 9.00%	City of Rio Vista, 8.125%	City of Dinuba, 8.50%
City of Arroyo Grande, 7.75%	City of Campbell, 9.25%	City of Suisun City, 8.375%	City of Farmersville, 8.75%
City of Atascadero, 7.75%	City of Los Gatos, 9.125%	City of Vacaville, 8.125%	City of Lindsay, 8.75%
City of Grover Beach, 7.75%	City of San Jose, 9.25%	City of Vallejo, 8.375%	City of Porterville, 9.25%
City of Morro Bay, 7.75%	SANTA CRUZ CO., 9.00%	SONOMA CO., 8.25%	City of Tulare, 8.25%
City of Paso Robles, 7.75%	City of Capitola, 9.00%	City of Cotati, 9.25%	City of Visalia, 8.50%
City of Pismo Beach, 7.75%	City of Santa Cruz, 9.25%	City of Healdsburg, 8.75%	City of Woodlake, 8.75%
City of San Luis Obispo, 7.75%	City of Scotts Valley, 9.00%	City of Rohnert Park, 8.75%	TUOLUMNE CO., 7.25%
SAN MATEO CO., 8.75%	City of Watsonville, 9.25%	City of Santa Rosa, 9.00%	City of Sonora, 7.75%
City of Belmont, 9.25%	SHASTA CO., 7.25%	City of Sebastopol, 9.00%	VENTURA CO., 7.25%
City of Burlingame, 9.00%	City of Anderson, 7.75%	City of Sonoma, 8.75%	City of Oxnard, 7.75%
City of Redwood City, 9.25%	SIERRA CO., 7.25%	STANISLAUS CO., 7.875%	City of Port Hueneme, 8.75%
City of San Mateo, 9.00%	SISKIYOU CO., 7.25%	City of Ceres, 8.375%	City of San Buenaventura, 7.75%
City of South San Francisco, 9.25%	City of Dunsmuir, 7.75%	City of Oakdale, 8.375%	City of Santa Paula, 8.25%
City of East Palo Alto, 9.25%	City of Mount Shasta, 7.50%	SUTTER CO., 7.25%	YOLO CO., 7.25%
SANTA BARBARA CO., 7.75%	City of Weed, 7.50%	TEHAMA CO., 7.25%	City of Davis, 8.25%
City of Carpinteria, 9.00%	City of Yreka, 7.75%	City of Corning, 7.75%	City of West Sacramento, 8.25%
City of Guadalupe, 8.00%	SOLANO CO., 7.375%	City of Red Bluff, 7.50%	City of Woodland, 8.00%
City of Santa Barbara, 8.75%	City of Benicia, 8.375%	TRINITY CO., 7.25%	YUBA CO. 8.25%
City of Santa Maria, 8.75%	City of Fairfield, 8.375%	TULARE CO., 7.75%	City of Marysville, 8.25%
			City of Wheatland, 7.75%

NOTE: Rates are effective beginning April 1, 2019. SOURCES: Compiled by CalTax, California Department of Tax and Fee Administration.



Chapter 6

BONDS

Bonds are a form of debt financing that governments commonly use to finance projects such as the construction of roads, bridges, dams and schools. Governments typically sell bonds to investors to receive capital funding up-front, then repay those investors with interest during a specified repayment period.

Reasonable use of bonds allows governments to finance the costs of large projects where it can be difficult to pay for the project all at once, and allows current and future taxpayers to share the burden of repayment of projects that would provide benefits over many years.

TYPES OF BONDS

Type of Bond	Definition	Requires Voter Approval	Vote Threshold	Repaid
State General Obligation	A bond issued by the state to finance a particular project.	Yes	Majority of the state electorate	These bonds are guaranteed by and repaid from the state's general fund.
Local General Obligation	Local bonds issued and repaid by taxpayers in the local jurisdiction.	Yes	Two-thirds	Local property taxes
Revenue	Bonds that finance an income-producing project and are repaid via a specified revenue source.	No	N/A	Users of the project, such as drivers who pay bridge tolls.
Lease-Revenue	Bonds that are paid off from lease payments (primarily from the general fund) by state agencies using facilities.	Yes	N/A	Lease payments primarily through the state's general fund, but not guaranteed by the state's general taxing power.
Local Mello-Roos	Bonds issued by a community facilities district (CFD) to finance projects within the district's boundaries.	Yes	Two-thirds of voters within the CFD boundaries.	Special property tax that sunsets once the bonds have been repaid.
Local School	Bonds issued by local school districts to finance projects within the school district.	Yes	55 percent*	Local property taxes

NOTE: * Voters approved Proposition 39 in 2000 to lower the vote threshold for school bonds to 55 percent from two-thirds, as long as specified conditions are met.

HOW MUCH DOES A BOND COST?

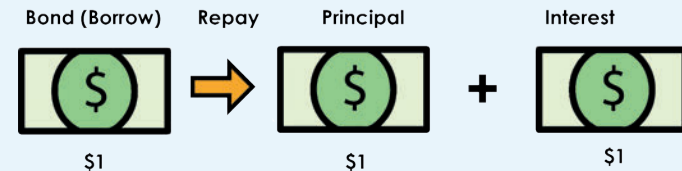
The cost of repaying a bond depends upon a variety of factors including time-period of repayment, interest rates, risk and the state's credit rating.

According to the Legislative Analyst's Office (LAO), assuming normal circumstances, the state typically pays back investors over a 30-year period with a 5 percent interest rate. Typically, for every \$1 borrowed, it costs \$2 to repay: \$1 for the principal and \$1 dollar in interest. While total borrowing cost varies with interest rates, borrowing period and the state's credit rating, the LAO estimates under a traditional 30-year period and average 5 percent interest rate the state pays about \$1.40 for every dollar borrowed after adjusting for inflation.

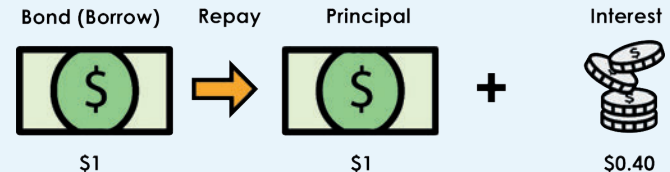
Since 2000, voters have approved \$138.7 billion in general obligation bonds, with the most common being education bonds at \$44.7 billion. According to a June 2018 LAO report, California at that time had \$83 billion of outstanding general obligation bonds. The LAO estimates the state is currently spending \$6 billion annually in bond-debt repayments.

HOW BONDS ARE REPAYED

TYPICAL REPAYMENT



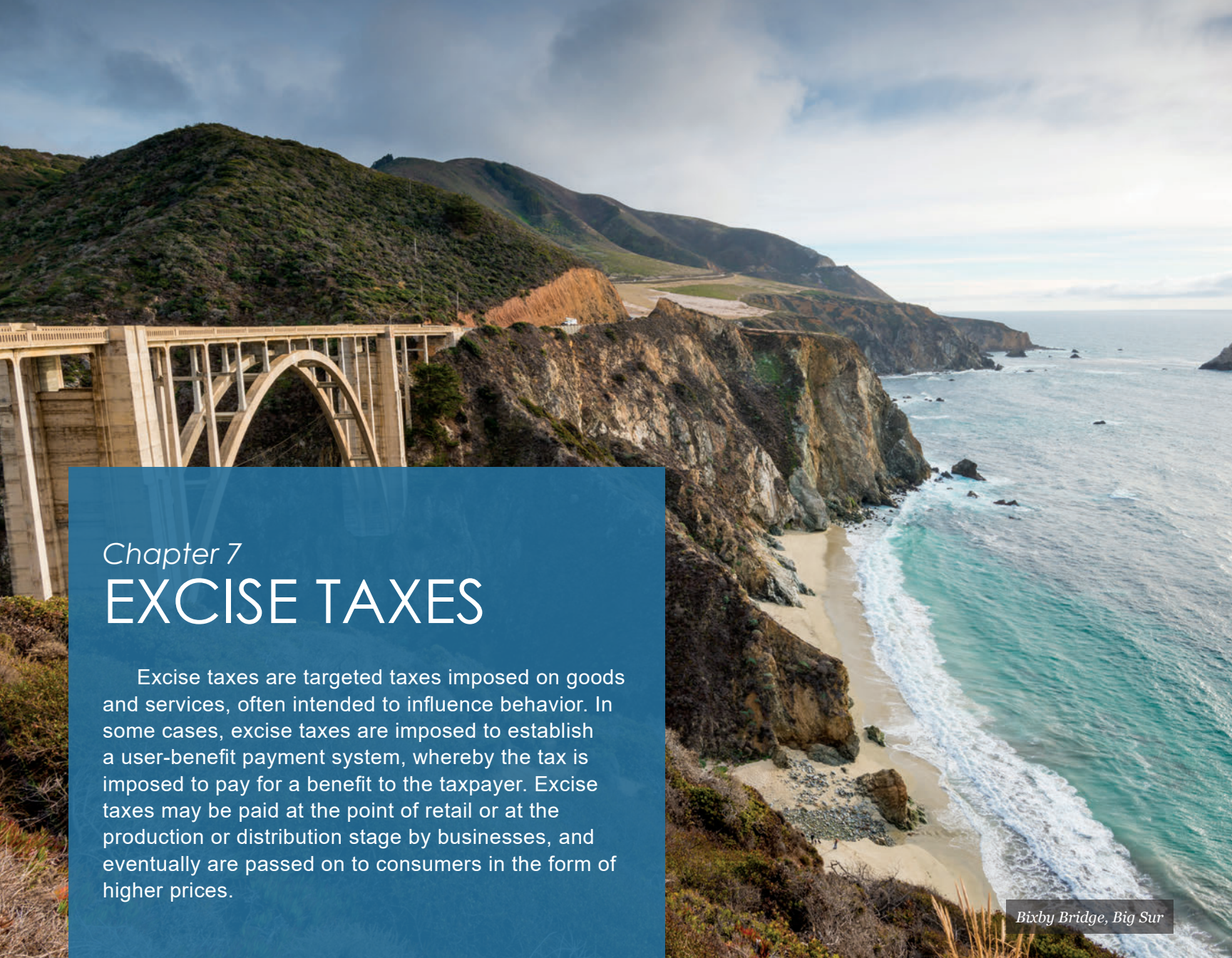
OVER A 30-YEAR PERIOD AND ADJUSTED FOR INFLATION



PRINCIPLES OF SOUND BOND POLICY

Bonds are an appropriate mechanism that can be used to finance projects at the state and local levels of government. Bonds should be consistent with the following criteria:

- **Build, Not Maintain** – The project to be financed is a capital facility or infrastructure project, and the bond funding will pay for land acquisition and capital costs, not for operations, non-construction salaries or wages, or ongoing costs.
- **Prioritize Funds** – Bonds should be used only when non-bond financing is not a reasonable option. If debt must be issued, a general obligation bond is the preferable option over other types of bonds, since general obligation bonds require voter approval and have lower interest rates.
- **Longevity and Equity** – The project costs are appropriately shared by future taxpayers because the project will have a useful life at least as long as the term of the bonds, and future taxpayers will benefit from the facility that is built with the bond proceeds.
- **Broad Benefits** – For state bonds, projects funded are of state-level concern and importance. State bonds should not pay for local projects that do not have significant extra-territorial impact.
- **Reasonable Debt Service** – Interest rates for indebtedness are not abnormally high, and the overall debt level will not be excessive.



Chapter 7 EXCISE TAXES

Excise taxes are targeted taxes imposed on goods and services, often intended to influence behavior. In some cases, excise taxes are imposed to establish a user-benefit payment system, whereby the tax is imposed to pay for a benefit to the taxpayer. Excise taxes may be paid at the point of retail or at the production or distribution stage by businesses, and eventually are passed on to consumers in the form of higher prices.

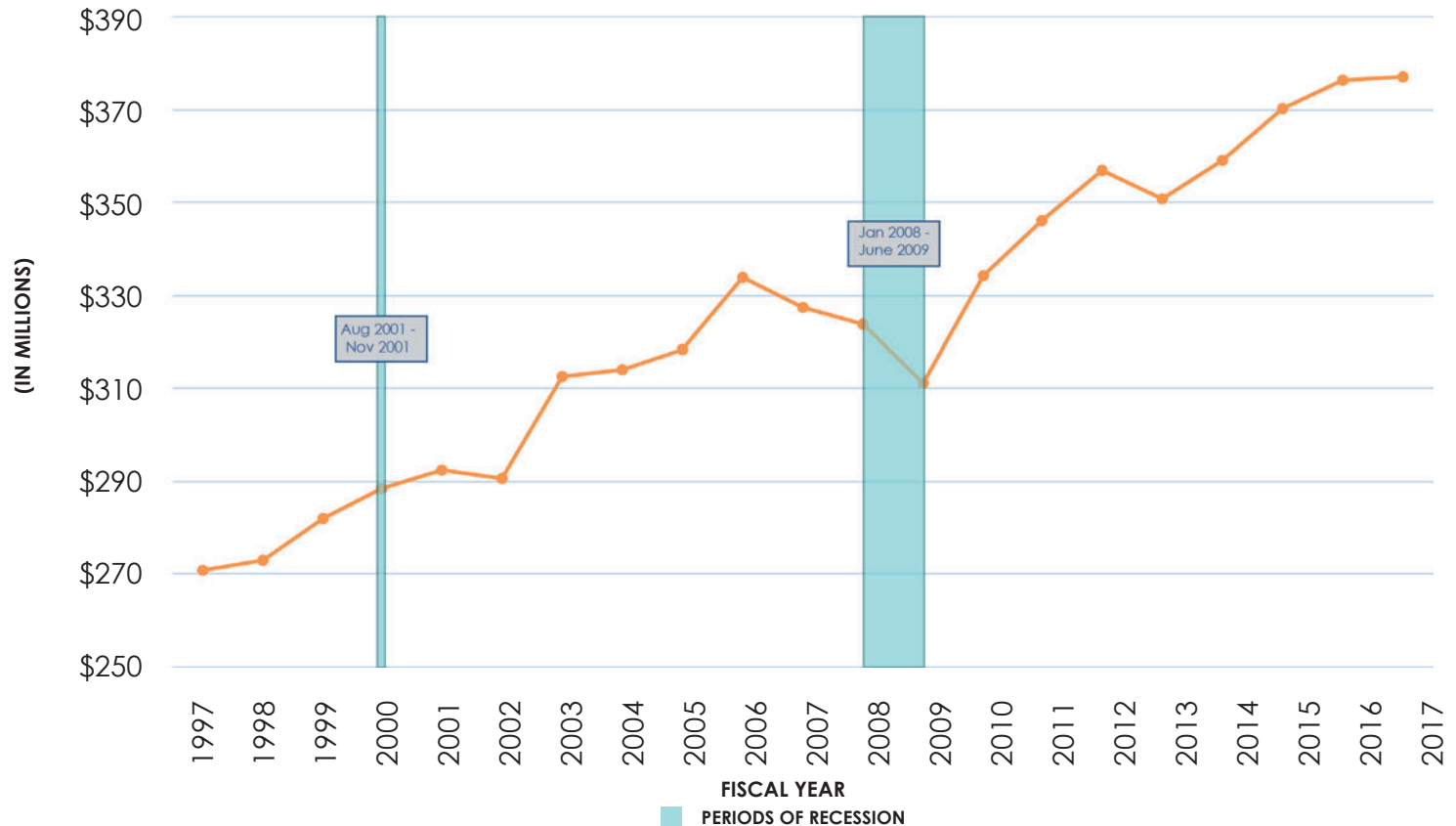
2019 ALCOHOL TAX RATES

	BEER	HARD CIDER	SPARKLING WINE ¹	WINE ²	DISTILLED SPIRITS (100 Proof or less)	DISTILLED SPIRITS (More than 100 Proof)
						
STATE EXCISE TAX PER GALLON	\$0.20	\$0.20	\$0.30	\$0.20	\$3.30	\$6.60
FEDERAL TAX ³	\$18 per barrel	\$0.226 per wine gallon	\$3.40 per wine gallon for naturally sparkling wine	Per-gallon rates by alcohol content: \$1.07	\$13.50 per gallon	\$13.50 per gallon (or more depending on alcohol content).
STATE AND FEDERAL TAX RATE	\$0.78 per gallon ⁴	\$0.43 per gallon ⁴	\$3.70 per gallon	\$1.27 per gallon	\$16.80 per gallon ⁴	\$20.10 per gallon

NOTES: Excise taxes are calculated on a per wine gallon basis. 1. Includes champagne. 2. California's tax treatment of wine varies depending on the amount of alcohol. Most wines contain 14 percent or less alcohol, while dessert wines contain a higher alcohol content. Wine with more than 14 percent alcohol content is taxed at a higher rate. At the federal-level, the percentage is 16 percent. 3. Under the Tax Cuts and Jobs Act of 2017, the federal alcohol excise tax rates vary depending on a business' total alcohol production in a calendar year. The rates listed are the maximum allowable under current federal law. 4. Reduced federal rates may apply, depending on a producer's output, type of wine, and flavor content.

SOURCES: State Board of Equalization and U.S. Department of the Treasury.

STATE ALCOHOL TAX REVENUE



SOURCES: Department of Finance, National Bureau of Economic Research.

ALCOHOL CONSUMPTION

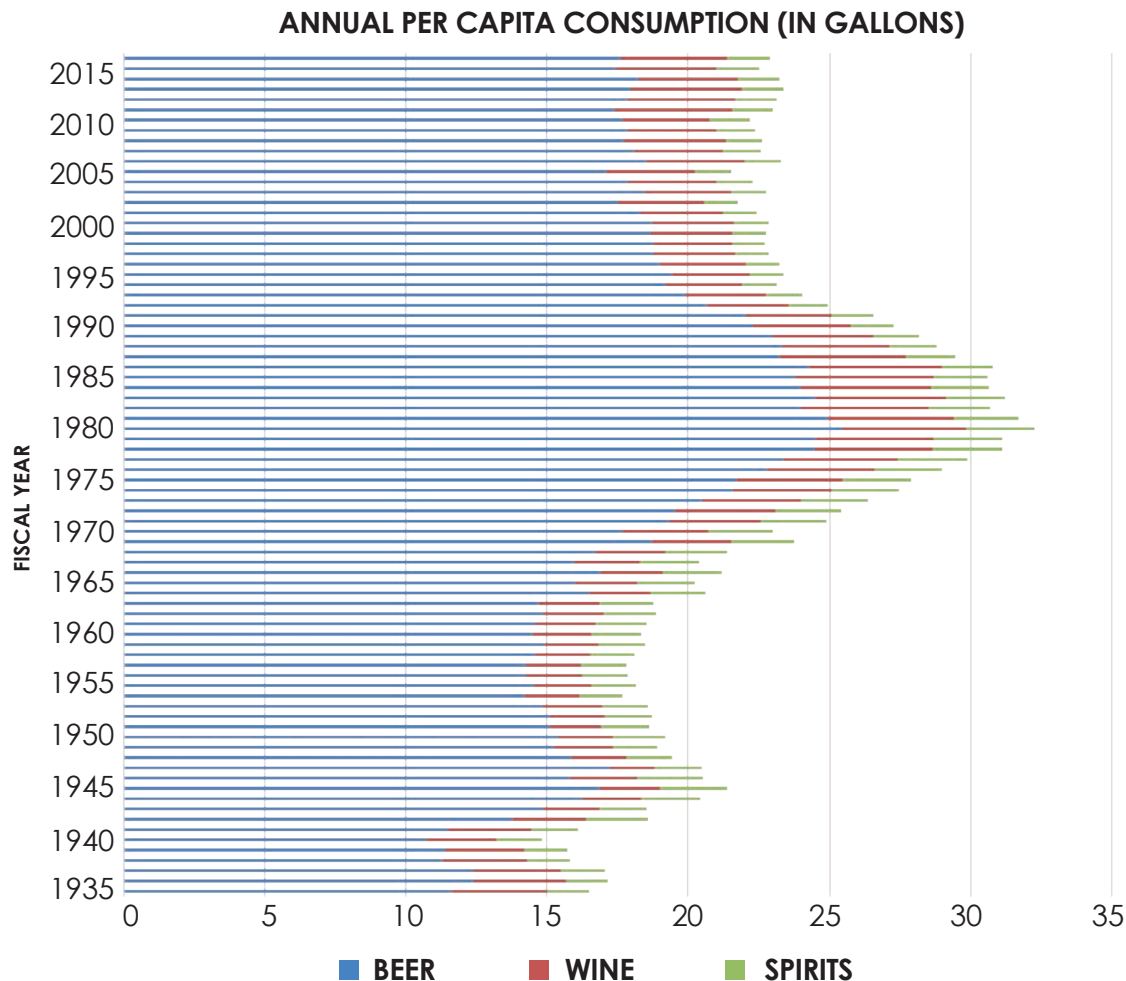
Since the end of Prohibition in 1933, California's per capita alcohol consumption has increased, reaching a peak in fiscal year 1980.

On a per capita basis, Californians consumed the following in 2016:

188.2
12-ounce bottles of beer

18.8
bottles of wine

132.3
cocktails



SOURCE: State Board of Equalization.

CANNABIS TAX

Proposition 64, approved by voters on November 8, 2016, legalized the use of recreational cannabis.

IMPORTANT DATES

- Use, possession and home growing of recreational cannabis became legal November 9, 2016.
- Medical cannabis became exempt from taxation November 9, 2016.
- Sales of recreational cannabis were allowed as of January 1, 2018.
- Taxes on recreational cannabis went into effect January 1, 2018.

CANNABIS TAX RATES

(Effective January 1, 2019)

MARIJUANA FLOWERS	\$9.25 per dry-weight oz.
MARIJUANA LEAVES	\$2.75 per dry-weight oz.
ADDITIONAL TAX	15% on purchases of cannabis products, plus the above rates

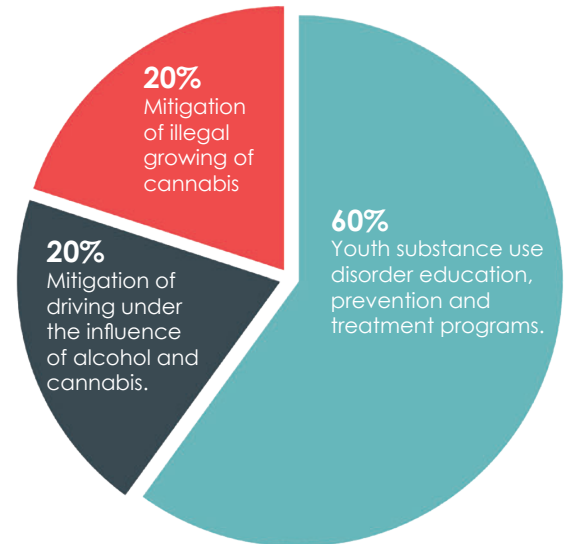
SOURCE: California Department of Tax and Fee Administration.

HOW CANNABIS TAXES WILL BE SPENT

Proposition 64 allocates funds as follows:

- Grants to communities affected by drug policies (\$10 million to \$50 million annually).
- Annual review of Proposition 64 (\$10 million through 2028-29).
- Development of cannabis DUI testing (\$3 million through 2022-23).
- Review of the risks/benefits of medical cannabis (\$2 million annually).

After these funds are appropriated, the following expenditures are made:



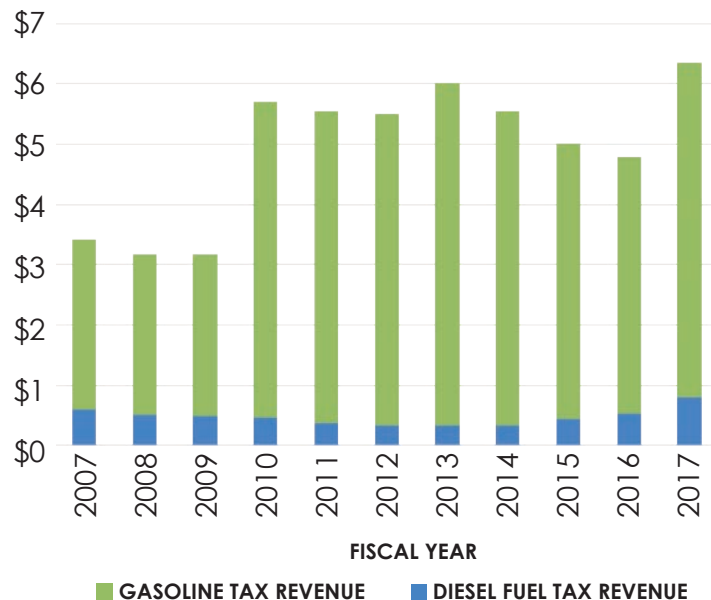
FUEL TAXES

Taxes on motor vehicle fuels generally are paid by motorists, and revenue generated by the tax historically has been deposited into the Highway Users' Account for transportation infrastructure. Fuel taxes are administered by the California Department of Tax and Fee Administration.

California levies several major fuel taxes that motorists pay at the pump:

- **Motor Vehicle Fuel Tax.** The so-called “gas tax” is imposed on fuel distributors on a per-gallon basis. The tax is imposed on the removal of motor vehicle fuel from a terminal, if the fuel is removed at the rack. The tax also may be imposed on the removal of fuel from any refinery, or entry of fuel into the state for consumption, use or warehousing.
- **Diesel Fuel Tax.** This tax is imposed on fuel distributors for the sale and delivery of diesel fuel, and is collected quarterly. California's tax rate is linked to the federal rate, so if the federal rate declines, California's rate automatically increases to maintain an overall rate that does not change.
- **Use Fuel Tax.** Imposed on each gallon of fuel used. The tax generally is levied on alternative fuels, such as compressed natural gas, liquefied petroleum gas, and ethanol. Rates are adjusted if federal rates change, similar to the Diesel Fuel Tax.

FUEL TAX REVENUE (IN BILLIONS)

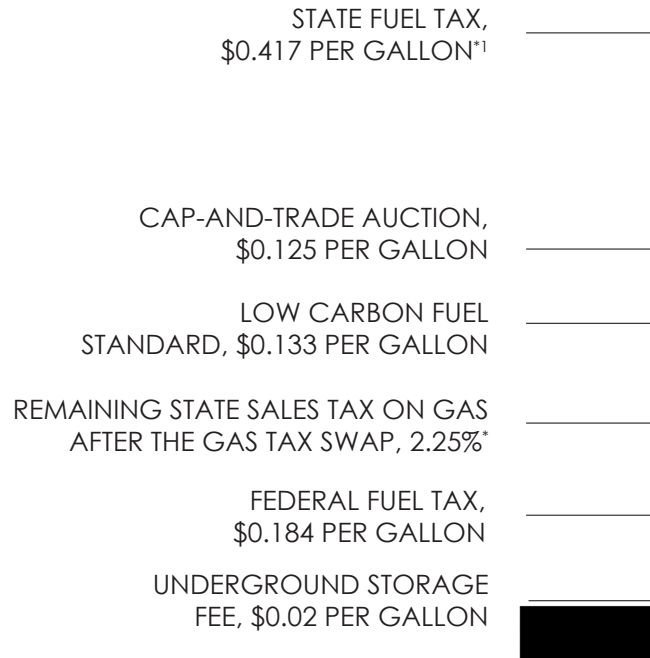
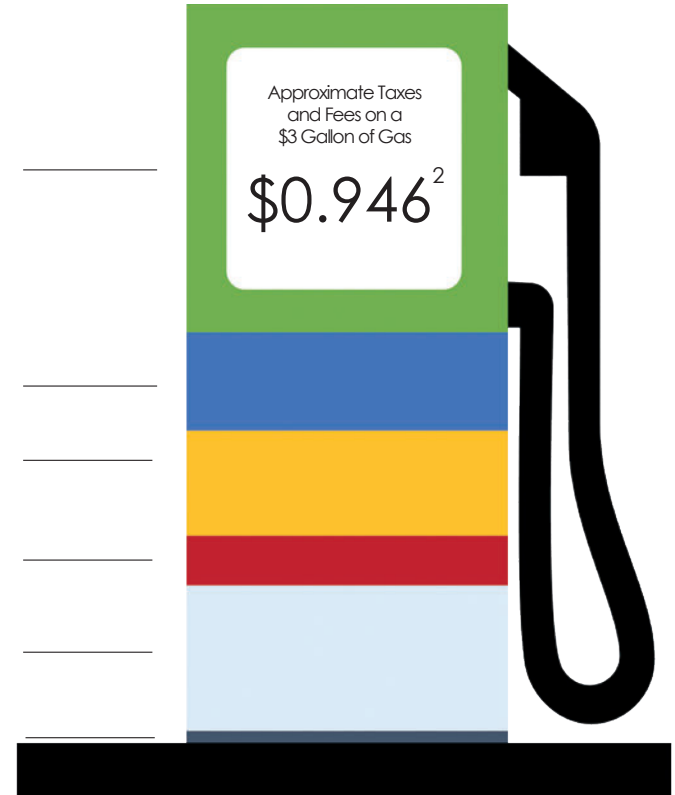


SOURCES: State Board of Equalization, Department of Finance.

Effective July 1, 2010, a “fuel tax swap” took effect, lowering the sales and use tax rate on gasoline (excluding aviation fuel), while raising the state excise tax on gasoline. For diesel fuel, the swap increased the sales tax rate while lowering the rate of the excise tax, beginning July 1, 2011. This swap was repealed effective July 2019 by legislation approved in 2017. That legislation also increased the gas tax in phases, and enacted an annual inflation adjustment starting in 2020.

TAXES INCLUDED IN THE PRICE OF GAS

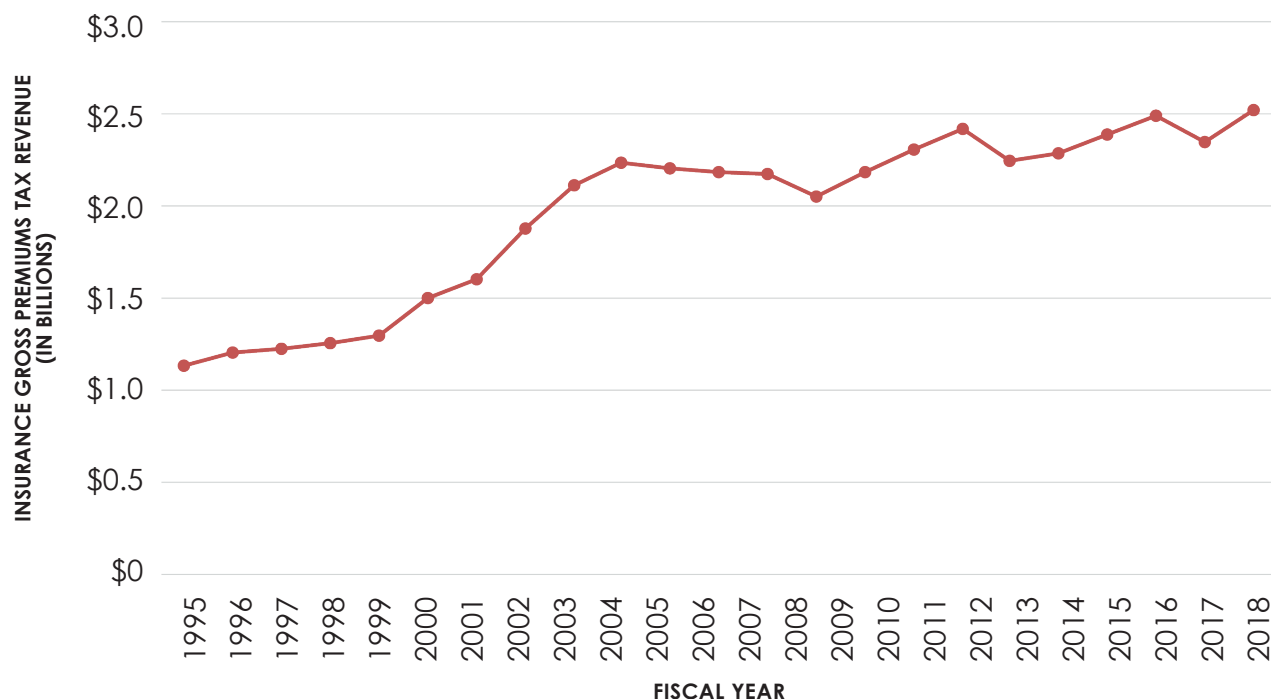
For motor vehicle fuel priced at \$3.00 per gallon, taxpayers pay \$0.946 in federal and state taxes and fees for each gallon purchased.



NOTES: *California partially exempts fuel from the sales and use tax under the state's gas tax swap. Under the swap, motor vehicle fuel is subject to a 2.25 percent state sales and use tax, plus applicable local sales and use tax rates. 1. Beginning July 1, 2019, the state fuel tax rate increases to 47.3 cents and the swap will no longer occur. Beginning July 1, 2020, the tax will be adjusted annually for inflation (under SB1 of 2017). 2. The number has been rounded. SOURCES: California Department of Tax and Fee Administration, California Energy Commission.

INSURANCE TAX

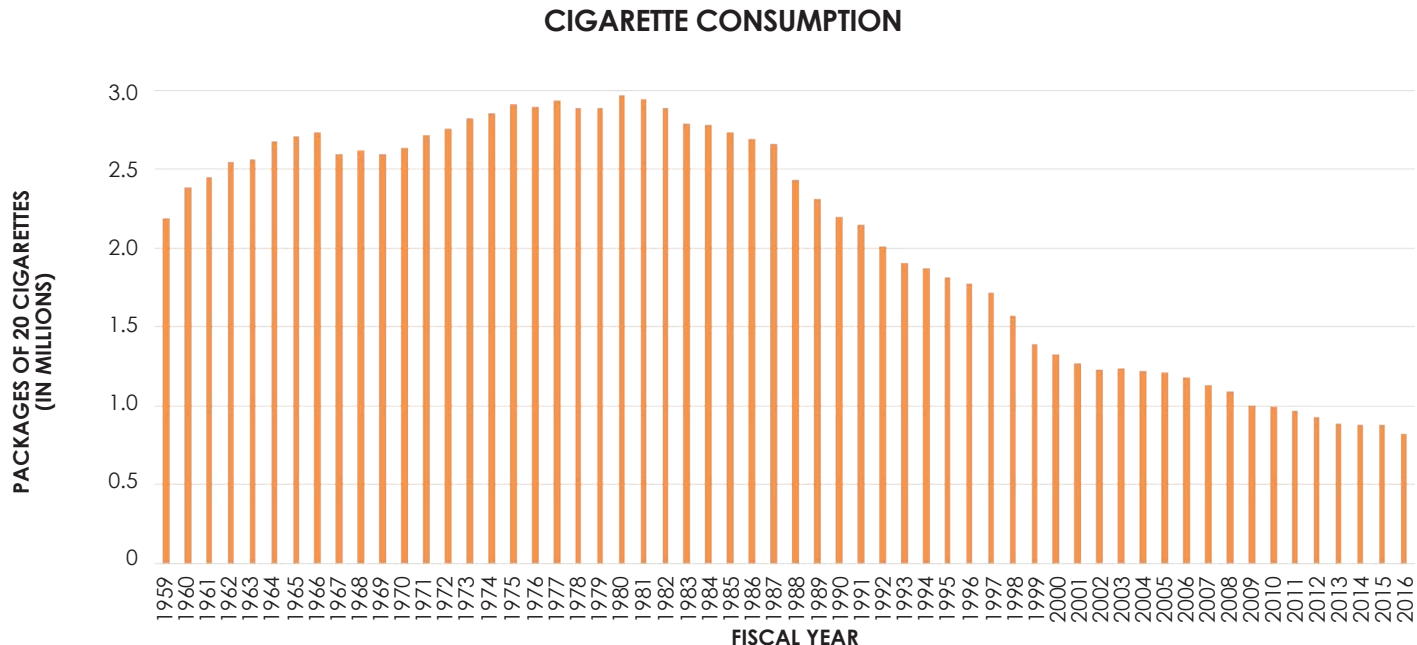
The gross premiums tax has undergone a number of voter-approved constitutional changes. Insurers generally are taxed at a rate of 2.35 percent of their gross premium income. Federally exempt pension and profit-sharing plans are taxed on the gross amount of premiums sold to policyholders in California. The tax is in lieu of all other state and local taxes and licenses, except property taxes and motor vehicle fees. The tax is administered by the Department of Insurance, the State Board of Equalization, and the State Controller's Office.



SOURCE: Department of Finance.

TOBACCO TAXES

Excise taxes on tobacco products are used for the general fund and various special fund programs. Cigarette taxes and the “other tobacco products” surtax are paid by distributors through tax stamps. The tax is imposed on a per-cigarette basis, but the rate is commonly described in terms of how it impacts the cost of a pack of 20 cigarettes. Cigars, smoking tobacco, chewing tobacco, snuff, and other products consisting of 50 percent or more tobacco, as well as electronic cigarettes, are subject to the “other products” surtax, which is set at a rate calculated annually by the California Department of Tax and Fee Administration.



SOURCE: State Board of Equalization.

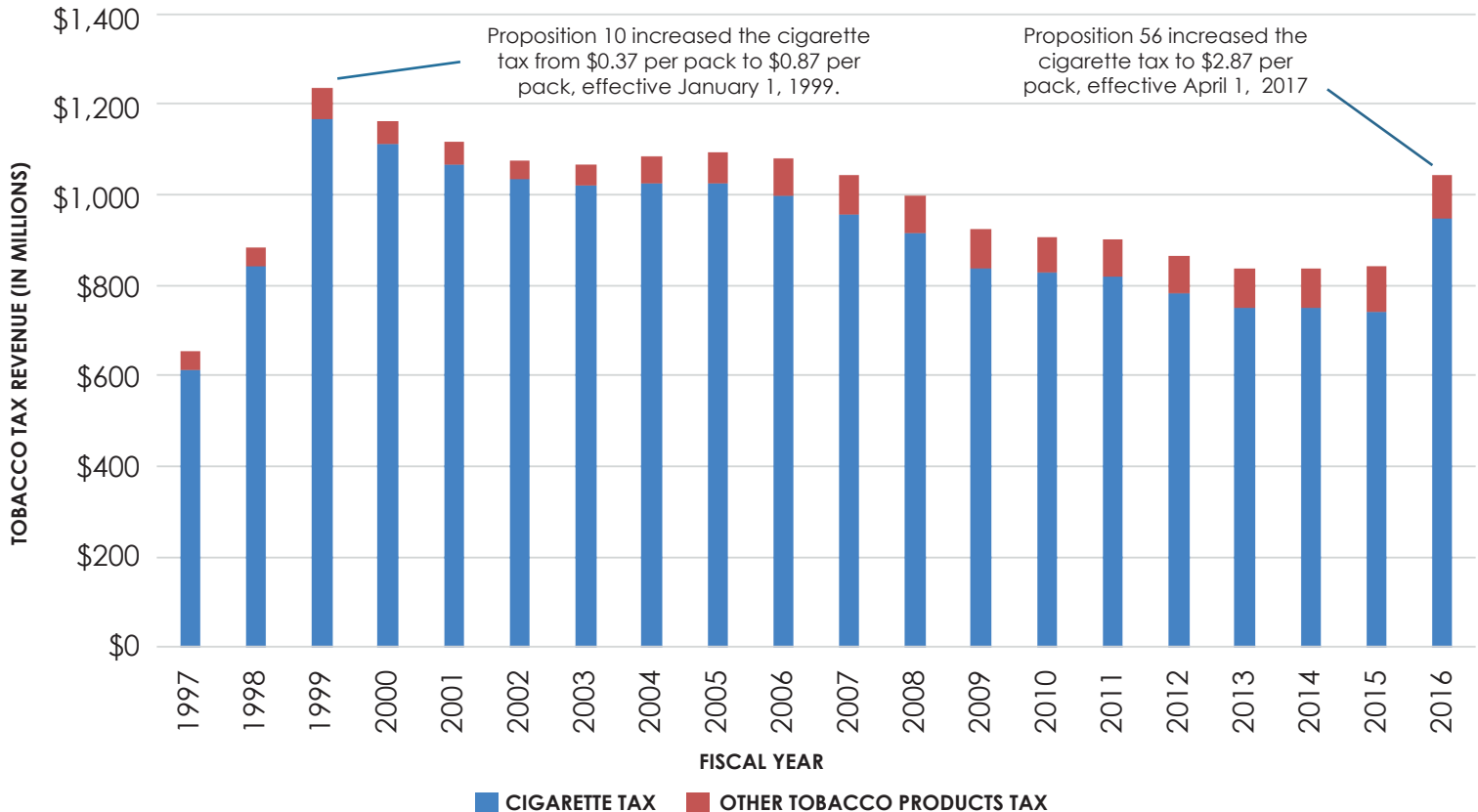
TOBACCO TAX RATES

PRODUCT	RATE	PURPOSE	AUTHORITY
CIGARETTES	\$0.10 per pack	Deposited into the state's general fund.	AB 1172 of 1958 and SB 556 of 1965 (RTC §30101)
	\$0.25 per pack	Funds childhood tobacco use prevention, hospital services, medical research for tobacco-related diseases, environmental protection programs, and state and local park and recreational programs.	Proposition 99 of 1988 (RTC §30121)
	\$0.02 per pack	Funds breast cancer research and treatment.	AB 478 of 1993 (RTC §30101)
	\$0.50 per pack	Funds anti-tobacco education, and early childhood development programs.	Proposition 10 of 1998 (RTC §30131)
	\$2.00 per pack	Funds government healthcare and research programs, anti-smoking education and law enforcement programs.	Proposition 56 of 2016 (RTC §30130.5)
	TOTAL STATE TAX ON CIGARETTES: \$2.87 PER PACK (ADD AN ADDITIONAL \$1.01 PER PACK FOR FEDERAL TAXES)		
OTHER PRODUCTS	62.78 percent of the product's wholesale cost.*	Taxes cigars, chewing tobacco, electronic cigarettes and other products. Deposited into the state's general fund. Rate is set annually by the California Department of Tax and Fee Administration.	RTC §30126

NOTES: *Other products rate applies to tax year 2019. SOURCE: California Department of Tax and Fee Administration.

TOBACCO TAXES

Tobacco tax revenue generally declines each year, as fewer Californians consume tobacco products. These declines make tobacco taxes an unstable funding source for long-term programs.



SOURCE: California Department of Tax and Fee Administration.

VEHICLE LEVIES

California imposes a vehicle license tax and registration fee. These levies and others for motorcycles and commercial vehicles are administered by the Department of Motor Vehicles. The vehicle license tax is based upon the purchase price of the vehicle or the value of the vehicle when it was acquired. The value of the vehicle decreases each year based on a depreciation schedule. The vehicle registration fee depends on the county in which the vehicle is registered, and is based on the type of vehicle.

MOTOR VEHICLE TAXES AND CHARGES	RATE	AUTHORITY
California Highway Patrol Fee. Provides funding to the Highway Patrol.	\$24 annually when registering or renewing registration for a vehicle, or \$40 per commercial vehicle with a gross weight of 10,001 lbs. or more.	VC §9250.8 VC §9250.13
Cargo Theft Interdiction Program Fee. Funds California Highway Patrol activities to combat theft from commercial trucking.	\$3 annual fee paid by owners of vehicles that also are liable for weight fees.	VC §9400.1
Motorcycle Safety Fee. Funds state program that promotes motorcycle safety programs throughout the state.	\$2 annually upon initial registration and renewal of registration.	VC §2935
Smog Abatement Fee. To administer and enforce California's Motor Vehicle Inspection Program to meet or exceed air quality standards.	Vehicles six or fewer years old pay \$12. Vehicles seven or eight years old pay \$25.	HSC §44060
Vehicle License Tax. Annual tax based on value. Funds primarily are transferred to local government.	0.65 percent of the value of the vehicle, plus \$125-\$175 based upon a vehicle's value.	RTC §10751 RTC §10755
Vehicle Registration Fee. Funds the registering of a vehicle with the Department of Motor Vehicles.	Varies depending on vehicle type and county of residence.	VC §4000
Abandoned Vehicle Tax. Local governments may impose this tax to fund abandoned vehicle cleanup programs. Requires voter approval.	\$1 annually at the time of registration; \$3 for commercial vehicles.	VC §9250.7

VEHICLE LEVIES

MOTOR VEHICLE TAXES AND CHARGES	RATE	AUTHORITY
Reflectorized Plate Fee. Funds reflectorization of license plates.	\$1 fee imposed at the time new license plates are obtained.	VC §4850
Commercial Vehicle Weight Fee. Funds transportation infrastructure and maintenance.	Annual fee based on a commercial vehicle's gross weight over 10,000 lbs., ranges from \$332 to \$2,064. For vehicles with an unladen weight under 10,000 lbs., the fee ranges from \$0-\$539, depending on the number of axles. Commercial electric vehicle weight fees range from \$87 to \$358.	VC §9400 VC §9400.1
Planned Non-Operation Fee. Covers costs of registering a non-operational vehicle.	\$20 annually at the time of registering a vehicle.	VC §4604
Transportation Improvement Fee. An annual fee imposed on drivers for the privilege of driving on a public highway, based upon the vehicle's market value.	Vehicle's value \$0-\$4,999: \$25 Vehicle's value \$5,000-\$24,999: \$50 Vehicle's value \$25,000-\$34,999: \$100 Vehicle's value \$35,000-\$59,999: \$150 Vehicle's value \$60,000+: \$175	RTC §11052
Zero-Emission Vehicle Registration Fee. An annual fee imposed on zero-emission vehicles model year 2020 or later for road repairs.	\$100 for zero-emission vehicles with a model year of 2020 or later.	VC §9250.6

SOURCE: Department of Motor Vehicles. Rates effective January 2019.



Chapter 8

EMPLOYMENT TAXES

California imposes three types of employment taxes: Unemployment Insurance (UI) and the Employment Training Tax (ETT), both paid by employers; and State Disability Insurance (SDI), paid by employees. All three are administered by the Employment Development Department.

2019 EMPLOYMENT TAX RATES

Employment taxes, as well as the personal income tax withholding program, are administered by the Employment Development Department.

TAX	PURPOSE	RATE	AUTHORITY
EMPLOYMENT TRAINING TAX	Funds employee training in targeted industries.	Employers pay 0.1% on the first \$7,000 in wages paid to each employee, with a maximum tax of \$7 per employee per year.	UIC §976.6
STATE DISABILITY INSURANCE TAX	Pays for short-term benefits to eligible workers who suffer a loss of wages when they are unable to work due to a non-work-related illness or injury, or due to pregnancy or childbirth.	Employees pay 1% on the first \$114,967 of wages, for a maximum tax of \$1,149.67 per year.	UIC §984
UNEMPLOYMENT INSURANCE	Provides partial wage replacement to unemployed Californians.	For the first 2-3 years of business, employers pay 3.4% on the first \$7,000 in wages paid to each employee. Thereafter, the rate may increase to as much as 6.2%, for a maximum tax of \$434 per employee per year.	UIC §976- §977, UIC §982

SOURCE: Employment Development Department.



Chapter 9

OTHER STATE LEVIES

In addition to the major taxes discussed in previous chapters, many other taxes, fees, charges, assessments and levies are imposed by the state government. At the state level, approximately \$19.8 billion is derived from revenue sources other than those already discussed. These sources include unclaimed property that is turned over to the state, taxes on horse racing, and other minor revenue sources.

OTHER STATE LEVIES

LEVY	PURPOSE	RATE AND IMPOSITION	AUTHORITY
California Tire Fee	Funds tire cleanup and recycling programs to reduce landfill disposal of used tires.	\$1.75 per tire, paid by owners of motor vehicles and motorized business equipment.	PRC §42885
Childhood Lead Poisoning Prevention Fee	Funds programs to establish care standards for children at risk of lead poisoning.	Tax on motor vehicle fuel, paint and lead releases paid by petroleum, paint and ambient air industries. Rate is re-established each reporting cycle.	HSC §105310
Electronic Waste Recycling Fee	Funds the recycling of video display devices that contain hazardous materials.	Imposed on retailers selling electronics with video displays: \$5 for products more than 4 inches, but less than 15 inches; \$6 for products at least 15 inches, but less than 35 inches; and \$7 for products 35 inches or more.	PRC §42464
Emergency Telephone Users and Prepaid Surcharge	Funds the operation of the state's 9-1-1 emergency system.	0.75 percent imposed on intrastate telecommunication services, paid by telephone users; and 0.75 percent applied to the sales price of prepaid mobile telephony products/services sold by a direct dealer.	RTC §41001-§41131
Energy Resources Surcharge	Ongoing energy programs and projects.	\$0.00030 per kilowatt hour, paid by electricity consumers and utilities.	RTC §40019-§40020, and §40045
Horse Racing Levies	Funds the state's general fund and various public horse racing grounds.	Various license fees apply, depending on the type of horse racing, wagers, and the location where the wager is placed.	BPC §19400-§19668
Lumber Products "Assessment"	Funds timber industry oversight.	1 percent of the sales price of lumber and engineered wood products, paid by consumers.	PRC §4629.5
Marine Invasive Species Fee	Funds the protection of state waters from non-indigenous aquatic species.	\$1,000 per marine vessel voyage, paid by owners or operators of marine vessels that arrive in California from outside the state.	RTC §44000 and §71200
Natural Gas Surcharge	Funds energy conservation and low-income assistance programs.	Applies to natural gas, but rate varies by property type and location. Paid by utilities and utility customers.	PUC §890-§900

OTHER STATE LEVIES

LEVY	PURPOSE	RATE AND IMPOSITION	AUTHORITY
Occupational Lead Poisoning Prevention Fee	Funds lead poisoning prevention program.	Paid by employers with a potential for occupational lead poisoning. Varies by number of employees and type of employer.	HSC §105190 and §105195
Water Rights Fee	Funds programs relating to water quality improvement.	Charged on permits to appropriate water, paid by water customers. Varies by project and permit.	WC §1525, §1530, and §13160.1
Hazardous Waste			
Environmental Fee	Funds the collection, disposal and recycling of hazardous waste.	Charged on use of materials that contain hazardous waste, and paid by any business that uses, generates, stores or conducts activities using hazardous waste. Up to \$16,177, depending on the number of employees.	HSC §25205.6
Generator Fee		Up to \$95,660 depending on the volume of waste generated, paid by businesses producing hazardous waste of five tons or more.	HSC §25174.7, §25205.2, and §25205.5
Disposal Fee		Up to \$296.64, depending on type of waste, paid by businesses that produce and dispose of hazardous waste.	HSC §25174.1-§25174.7
Facility Fee		Varies by size of facility, type of permit, and type of hazardous waste.	HSC §25205.2-§25205.4, and §25205.7
Activity Fee		Varies by size of facility and type of activity. Charge is applied to services provided by the Department of Toxic Substances Control, and is paid by any business that requests services from the department.	HSC §25153, §25205.7, §25205.18, and §25247
Integrated Waste Management Fee	Funds the reduction, recycling and reusing of solid waste.	Applied to disposal of solid waste at landfills by disposal facility operators. Fees for solid waste are \$1.40 per ton, and for non-hazardous waste are \$0.75 per ton.	RTC §45001; PRC §48000

SOURCE: California Department of Tax and Fee Administration.



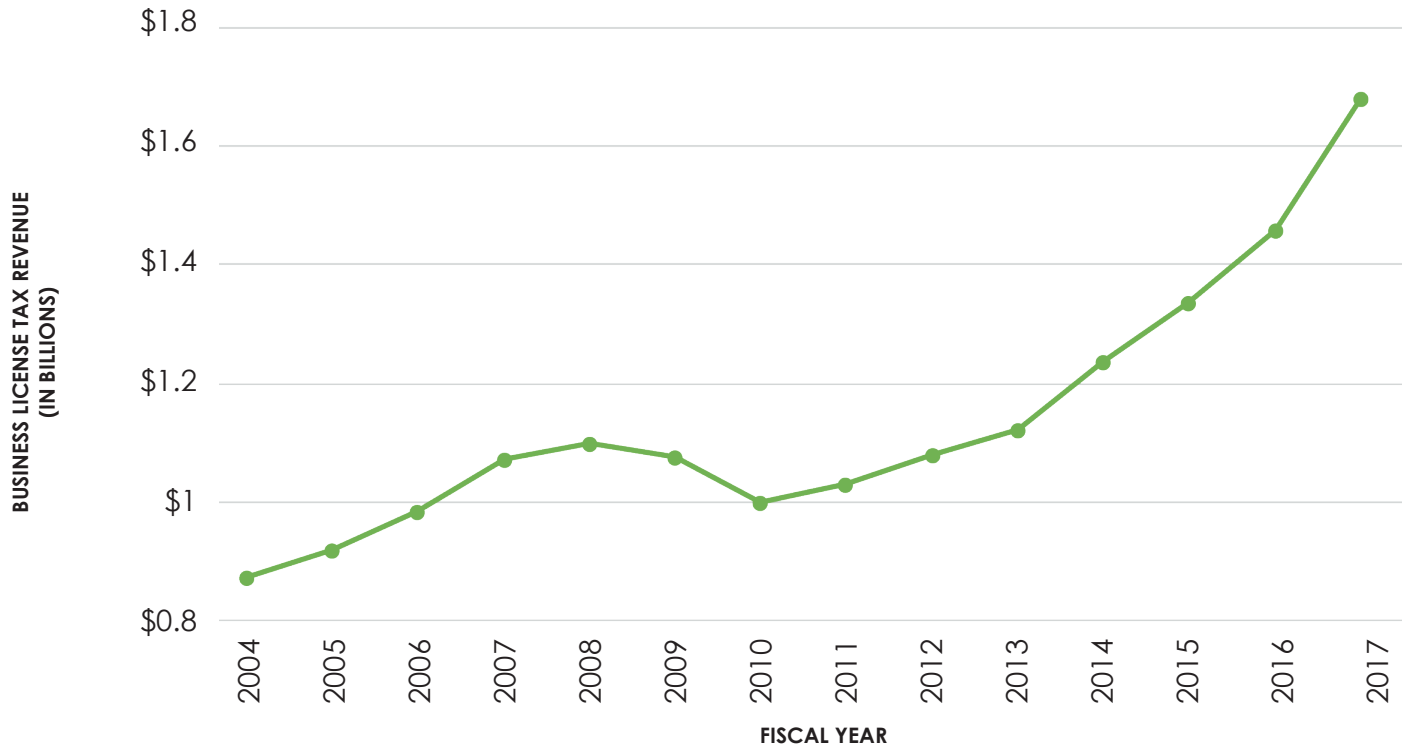
Chapter 10

OTHER LOCAL LEVIES

In addition to the major taxes discussed in previous chapters, many other taxes, fees, charges, assessments and levies are imposed by California's more than 4,000 local jurisdictions. The business license tax, hotel tax, and utility users tax are major sources of local revenue.

BUSINESS LICENSE TAX

More than 450 cities require businesses to purchase an annual license for the privilege of doing business in the city. Certain county ordinances also require a license if business is conducted within unincorporated areas. Doing business in a city or county without a license can result in penalties and legal action. Business license tax rates vary by jurisdiction, with some imposed at a flat rate, and others based on gross receipts, payroll and other factors.



SOURCE: State Controller's Office.

GROSS RECEIPTS TAX

Gross receipts taxes are imposed on all business sales of a company, regardless of the income source. Gross receipts taxes are levied at the local level and require a majority vote for general gross receipts taxes or two-thirds vote if revenue is designated for specific purposes. Gross receipts and sales taxes are similar, but gross receipts are intermediary since they are levied on the seller of goods or service consumers, whereas sales taxes are imposed upon the final point of sale and are listed on consumers' receipts.

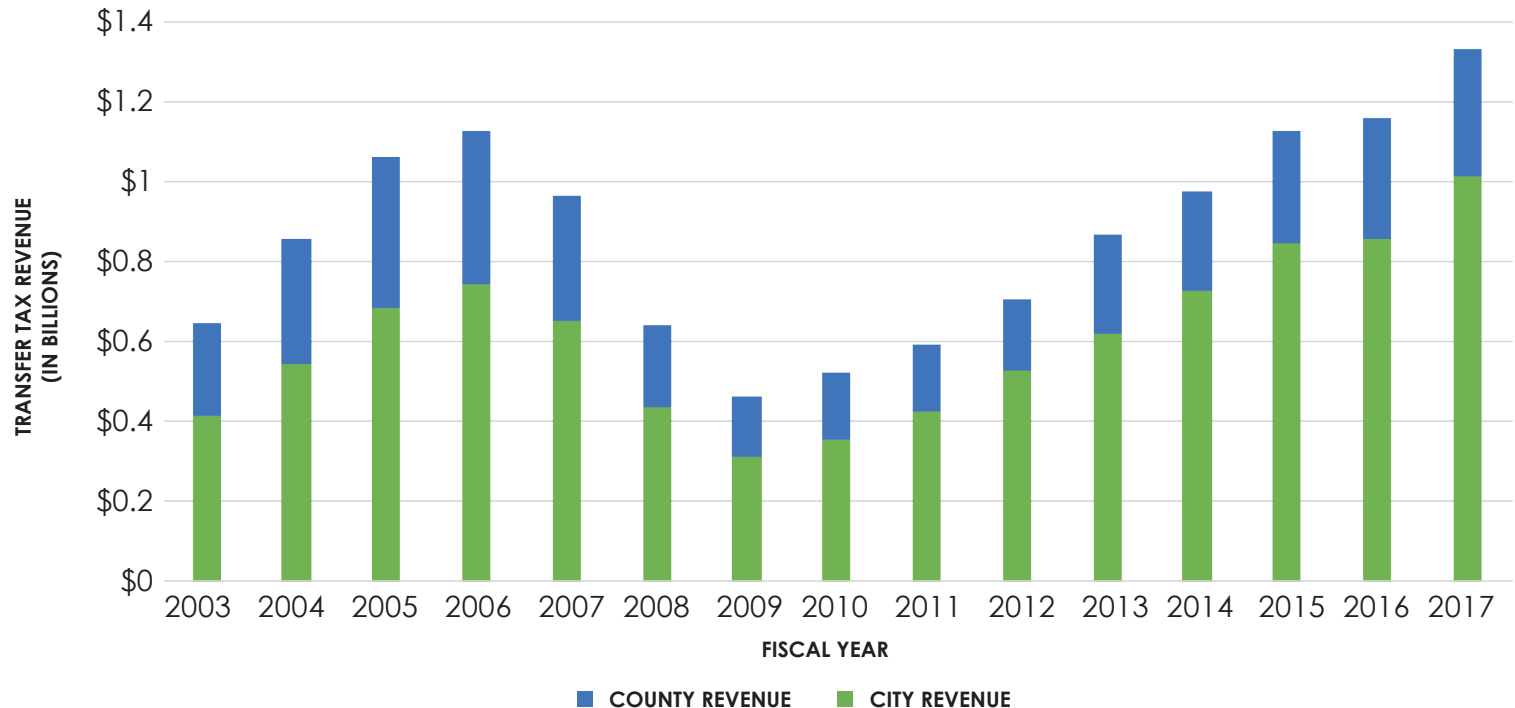
A major drawback is this tax results in tax pyramiding — a tax imposed upon another tax. A gross receipts tax is imposed upon intermediary business transactions, which compound across the production of a good. The pyramiding results in market distortions, as vertically integrated businesses are not subject to as many layers of taxation as a non-vertically integrated business. As a result, consumers pay a higher price for goods than if a traditional sales tax is imposed, and there is much less transparency.

JURISDICTIONS WITH A GROSS RECEIPTS TAX*
City of Antioch
City of Artesia
City of Berkeley
City of Brisbane
City of Carmel-by-the-Sea
City of Carson
City of Cudahy City
City of East Palo Alto
City of Emeryville
City of Foster City
City of Guadalupe
City of Hermosa Beach
City of Isleton
City of Marina
City of Monterey
City of Rolling Hill Estates
City and County of San Francisco
City of San Leandro
City of Sausalito
City of South Lake Tahoe
County of Los Angeles
County of San Mateo

NOTE: *List may not be inclusive of all jurisdictions.

DOCUMENTARY TRANSFER TAX

Cities and counties impose a property documentary transfer tax when the title of real property is transferred from one person or entity to another within the city or county. Transfer taxes often are based on a property's sale price, and are paid by either the buyer or seller, or both. Transfer tax revenue increases and declines with California's real estate market.



SOURCE: State Controller's Office.

DOCUMENTARY TRANSFER TAX RATES

Unless property is located in one of the incorporated areas listed below, property owners in California pay \$1.10 per \$1,000 of property value when transferring the title of a property. Typically, \$0.55 is levied by the county and another \$0.55 is levied by the city.

DOCUMENTARY TRANSFER TAX RATES PER \$1,000 OF VALUE

ALAMEDA COUNTY	
Alameda, \$13.10	
Albany, \$12.60	
Berkeley, \$16.10	
Hayward, \$8.50	
Oakland, \$16.10	
Piedmont, \$14.10	
San Leandro, \$7.10	
LOS ANGELES COUNTY	
Culver City, \$5.60	
Los Angeles, \$5.60	
Pomona, \$3.30	
Redondo Beach, \$3.30	
Santa Monica, \$4.10	
MARIN COUNTY	
San Rafael, \$3.10	
RIVERSIDE COUNTY	
Riverside, \$2.20	
SACRAMENTO COUNTY	
Sacramento, \$3.85	
SAN FRANCISCO COUNTY	
Property Value	Rate
\$100,000 to \$250,000	0.50%
\$250,000 to \$1 Million	0.68%
\$1 Million to \$5 Million	0.75%
\$5 Million to \$10 Million	2.25%
\$10 Million to \$25 Million	2.75%
\$25 Million or More	3.00%
SAN MATEO COUNTY	
San Mateo, \$6.10	
SANTA CLARA COUNTY	
Mountain View, \$4.40	
Palo Alto, \$4.40	
San Jose, \$4.40	
SOLANO COUNTY	
Vallejo, \$4.40	
SONOMA COUNTY	
Petaluma, \$3.10	
Santa Rosa, \$3.10	
YOLO COUNTY	
Woodland, \$2.20	

HOTEL TAX

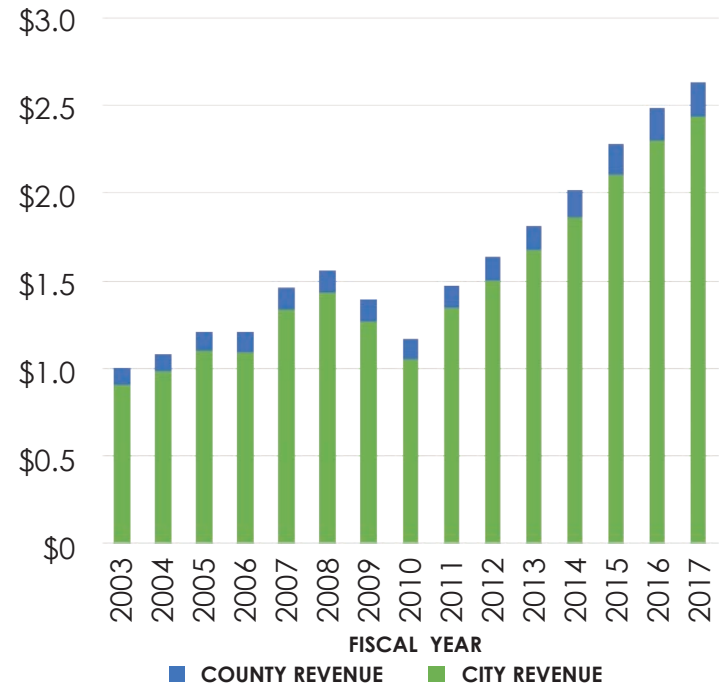
Transient occupancy taxes (commonly referred to as hotel taxes) are imposed on occupants of rooms or living spaces at hotels, inns, rental tourist houses, homes, motels, camp sites, or other spaces at campgrounds or recreational vehicle parks. Cities and counties may impose hotel taxes for stays lasting 31 days or less, with taxes based on the cost of the room. Owners of time-share units and members of co-owner campground sites are exempt from the tax. Authority to levy a hotel tax is specified in Revenue and Taxation Code Section 7280.

ONLINE LODGING PLATFORMS

When a taxpayer reserves lodging through an online platform, such as AirBnB or Expedia, usually the owner/operator of the lodging pays the hotel taxes. A number of local governments have begun requiring online platforms to collect and remit hotel taxes from lodging guests. On December 12, 2016, the California Supreme Court ruled that only the owner/operator is liable for remittance of hotel taxes.

Calaveras Co., 12%	Palo Alto, 15.5%
El Dorado Co., 10%	Los Altos, 14%
Calistoga, 13%	Tustin, 13%
Napa (City), 13%	Yountville, 13%
Sonoma (City), 12%	St. Helena, 13%
Napa Co., 13%	San Clemente, 12.5%
Sebastopol, 12%	Blue Lake, 10%
Capitola, 12%	Milpitas, 14%

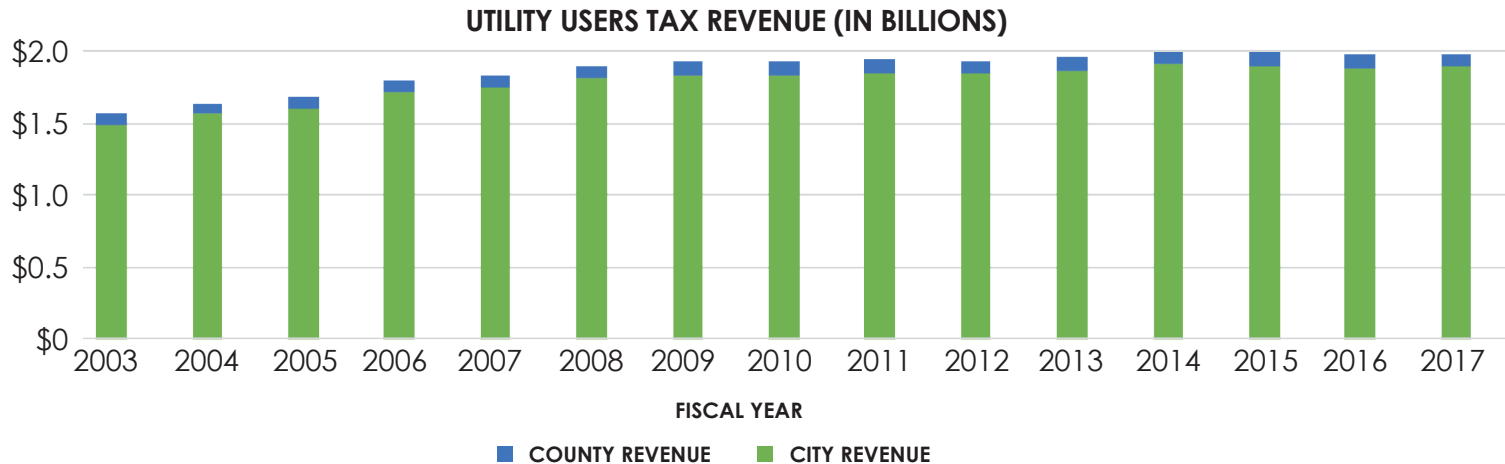
HOTEL TAX REVENUE (IN BILLIONS)



SOURCE: State Controller's Office.

UTILITY USERS TAX

The utility users tax is imposed on many utility services. A new, altered or expanded utility users tax requires voter approval – a majority vote in most cases, or a two-thirds vote if it is a special tax with revenue earmarked for a specific purpose. The tax is levied at the city or county level, is collected by the utility as part of its billing process, and later is remitted to the city or county.



SOURCE: State Controller's Office.

UTILITY SERVICES COMMONLY TAXED BY LOCAL GOVERNMENT		
Cable Television	Pay-Per-View Television	Sewage Service
Cell Phones	Land Line Telephones	Trash Service
Electric Service	Gas Service	Wireless Telecommunications

UTILITY USERS TAX RATES

LOCAL GOVERNMENT	LAND-LINE TELEPHONE	CELL PHONE	OTHER PRIVATE TELECOM	VIDEO	ELECTRIC	GAS	WATER	SEWER	TRASH
Alameda	7.50%	7.50%		7.50%	7.50%	7.50%			
Albany	6.50%	6.50%	6.50%	6.50%	7.00%	7.00%			
Alhambra	5.00%*	5.00%		5.00%	5.00% ^{NR}	5.00% ^{NR}	5.00% ^{NR}		
Arcadia	5.00%	5.00%			7.00%	7.00%	7.00%		
Arcata	3.00%	3.00%		3.00%	3.00%	3.00%	3.00%	3.00%	
Azusa					4.00% ^R 8.00% ^{NR}	4.00% ^R 8.00% ^{NR}	4.00% ^R 8.00% ^{NR}		
Baldwin Park	3.00%*	3.00%		3.00%	3.00%	3.00%	3.00%		
Beaumont	3.00%**	3.00%		3.00%	3.00%	3.00%			
Bell	10.00%**	10.00%			10.00%	10.00%	10.00%		
Bellflower	5.00%	5.00%	5.00%		5.00%	5.00%			
Benicia	3.50%	3.50%	3.50%	3.50%	4.00%	4.00%			
Berkeley	7.50%	7.50%		7.50%	7.50%	7.50%			
Brawley	4.00%**			4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Buena Park					3.00%	3.00%			
Burbank	7.00%	7.00%	7.00%		7.00%	7.00%			
Calabasas	5.00%	5.00%			5.00%	5.00%			
Cathedral City	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%			3.00%
Canyon Lake	3.95%	3.95%			3.95%	3.95%	3.95%	3.95%	3.95%
Ceres	3.00%	3.00%		3.00%	3.00%	3.00%			
Chico	5.00%**				5.00%	5.00%	5.00%		
Chula Vista	4.75%**	4.75%			.0025/kwh	.00919/ therm			
Citrus Heights	2.50%			2.50%	2.50%	2.50%		2.50%	
Claremont	5.50%	5.50%		5.50%	5.50%	5.50%	5.50%		

UTILITY USERS TAX RATES

LOCAL GOVERNMENT	LAND-LINE TELEPHONE	CELL PHONE	OTHER PRIVATE TELECOM	VIDEO	ELECTRIC	GAS	WATER	SEWER	TRASH
Cloverdale	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%			
Coachella	5.00%	5.00%	5.00%		5.00%	5.00%	5.00%	5.00%	5.00%
Compton	8.50%	8.50%	8.50%		10.00%	10.00%	10.00%		
Covina	6.00%*	6.00%			6.00%	6.00%	6.00%		
Cudahy	3.75% ^R 8.00% ^{NR}	3.75% ^R 8.00% ^{NR}	3.75% ^R 8.00% ^{NR}		4.00% ^R 8.00% ^{NR}	4.00% ^R 8.00% ^{NR}	4.00% ^R 8.00% ^{NR}		4.00% ^R 8.00% ^{NR}
Culver City	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%		
Cupertino	2.40%	2.40%			2.40%	2.40%			
Daly City	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%			
Desert Hot Springs	7.00%	7.00%		7.00%	7.00%	7.00%	7.00%		
Dinuba	7.00%	7.00%			7.00%	7.00%			
Downey	4.80%	4.80%	4.80%		5.00%	5.00%			
East Palo Alto	5.00%	5.00%		5.00%	5.00%	5.00%	5.00%		
El Cerrito	8.00%	8.00%		8.00%	8.00%	8.00%	8.00%		8.00%
El Monte	6.50%	6.50%	6.50%		7.00%	7.00%			
El Segundo	2.00% ^{NR}	2.00% ^{NR}	2.00% ^{NR}		3.00% ^{NR}	3.00% ^{NR}	3.00% ^{NR}		
Elk Grove	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%		2.25%	
Emeryville	5.50%	5.50%	5.50%		5.50%	5.50%			
Exeter	5.00%**			5.00%	5.00%	5.00%			
Fairfax	4.00%**				4.00%	4.00%			
Fairfield	2.00%	2.00%		2.00%	2.00%	2.00%			
Firebaugh	10.00%**	10.00%			10.00%	10.00%			
Fowler	5.00%**				5.00% ^R 3.00% ^{NR}	5.00% ^R 3.00% ^{NR}			
Gardena	5.00%**	5.00%			5.00%	5.00%	5.00%		

UTILITY USERS TAX RATES

LOCAL GOVERNMENT	LAND-LINE TELEPHONE	CELL PHONE	OTHER PRIVATE TELECOM	VIDEO	ELECTRIC	GAS	WATER	SEWER	TRASH
Gilroy	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%			
Glendale	6.50%	6.50%	6.50%	6.50%	7.00%	7.00%	7.00%		
Gonzales	4.00%	4.00%			4.00% ^R 2.00% ^{NR}	4.00% ^R 2.00% ^{NR}			
Greenfield	3.00%**	3.00%		3.00%	3.00%	3.00%			
Grover Beach	1.00%**			1.00%	1.00%	1.00%	1.00%		
Guadalupe	5.00%**				5.00%	5.00%	5.00%		
Gustine	2.50%*	2.50%		2.50%	2.50%	2.50%	2.50%		
Hawthorne	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%		
Hayward	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%			
Hercules	8.00%	8.00%		8.00%	8.00%	8.00%	8.00%		
Hermosa Beach	5.50%	5.50%	5.50%	5.50%	6.00%	6.00%	6.00%		
Holtville	5.00%**	5.00%		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Huntington Beach	4.90%	4.90%	4.90%	4.90%	5.00%	5.00%	5.00%		
Huntington Park	9.25%	9.25%	9.25%		9.75%	9.75%	9.75%		
Huron	4.00%**				4.00%	4.00%			
Indio	6.00%	6.00%	6.00%	6.00% ^{NR} 3.00%	6.00%	6.00%	6.00%		
Inglewood	8.00%	8.00%	8.00%	8.00%	10.00%	10.00%	10.00%		
Irvine	1.5%** ^{NR}				1.50% ^{NR}	1.50% ^{NR}			
Irwindale	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%		
Isla Vista CSD					8.00%	8.00%	8.00%	8.00%	8.00%
King City	2.00%**			2.00%	2.00%	2.00%	2.00%		
La Palma	5.00%	5.00%		5.00%	5.00%	5.00%			
La Verne	5.75%	5.75%	5.75%		6.00%	6.00%			

UTILITY USERS TAX RATES

LOCAL GOVERNMENT	LAND-LINE TELEPHONE	CELL PHONE	OTHER PRIVATE TELECOM	VIDEO	ELECTRIC	GAS	WATER	SEWER	TRASH
Lakewood	3.00%	3.00%	3.00%		3.00%	3.00%	3.00%		
Lawndale	5.50%	5.50%		5.50%	5.50%	5.50%	5.50%		
Lindsay	6.00%			6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Long Beach	5.00%	5.00%	5.00%		5.00%	5.00%	5.00%		
Los Alamitos	5.00%	5.00%			6.00%	6.00%	6.00%		
Los Altos	3.20%	3.20%	3.20%	3.20%	3.50%	3.50%	3.50%		
Los Angeles	9.00%	9.00%	9.00%		10.00%	10.00%			
Lynwood	9.00%	9.00%	9.00%		9.00%	9.00%	9.00%		
Malibu	4.50%	4.50%	4.50%		5.00%	5.00%			
Mammoth Lakes	2.50%**	2.50%			2.50%	2.50%			
Maywood	4.00% ^R 7.00% ^{NR}	4.00% ^R 7.00% ^{NR}			4.00% ^R 7.00% ^{NR}	4.00% ^R 7.00% ^{NR}	4.00% ^R 7.00% ^{NR}		
Menlo Park	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%		
Modesto	5.80%	5.80%	5.80%	3.00%	6.00%	6.00%	6.00%		
Montclair	3.89%				3.89%	3.89%	3.89%		
Monterey	2.00% ^R 5.00% ^{NR}	2.00% ^R 5.00% ^{NR}	2.00% ^R 5.00% ^{NR}		2.00% ^R 5.00% ^{NR}	2.00% ^R 5.00% ^{NR}	2.00% ^R 5.00% ^{NR}		
Monterey Park	3.00%* ^R 5.50%* ^{NR}	3.00% ^R 5.50% ^{NR}			3.00% ^R 5.50% ^{NR}	3.00% ^R 5.50% ^{NR}			
Moreno Valley	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	
Mountain View	3.00%**	3.00%			3.00%	3.00%			
Newark	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%			
Norwalk	5.50%	5.50%			5.50%	5.50%			
Oakland	7.50%	7.50%		7.50%	7.50%	7.50%			
Orange Cove	7.00%**	7.00%			7.00%	7.00%			
Oroville	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%	5.00%		

UTILITY USERS TAX RATES

LOCAL GOVERNMENT	LAND-LINE TELEPHONE	CELL PHONE	OTHER PRIVATE TELECOM	VIDEO	ELECTRIC	GAS	WATER	SEWER	TRASH
Pacifica					6.50%	6.50%			
Pacific Grove	5.00%**	5.00%		5.00%	5.00%	5.00%	5.00%		
Palm Springs	4.50%	4.50%			5.00%	5.00%			
Palo Alto	4.75%	4.75%	4.75%		5.00%	5.00%	5.00%		
Paramount	5.50%	5.50%	5.50%		5.50%	5.50%			
Pasadena	8.28%	8.28%	8.28%	9.40%	7.67%	7.90%	7.67%		
Pico Rivera	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%			
Piedmont	7.50%**				7.50%	7.50%	\$1/mo.		
Pinole	8.00%**	8.00%			8.00%	8.00%			
Placentia	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%			
Pleasant Hill	1.00%**								
Pomona	9.00%	9.00%	9.00%		9.00%	9.00%	9.00%		
Port Hueneme	3.75%**	3.75%		4.00%	4.00%	4.00%	4.00%		
Porterville	6.00%**	6.00%		6.00%	6.00%	6.00%	6.00%		
Portola Valley	6.50%**				6.50%	6.50%	6.50%		
Rancho Cordova	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		2.50%	
Rancho Palos Verdes	3.00%	3.00%			3.00%	3.00%	3.00%		
Redondo Beach	4.75%	4.75%		4.75%	4.75%	4.75%	4.75%		
Redwood City	4.00%	4.00%	4.00%	4.00%	5.00%	5.00%			
Rialto	8.00%	8.00%		8.00%	8.00%	8.00%	8.00%		
Richmond	9.50%	9.50%	9.50%	9.50%	10.00%	10.00%			
Riverside	6.50%**			6.50%	6.50%	6.50%	6.50%		
Sacramento	7.00%	7.00%	7.00%	7.50%	7.50%	7.50%			

UTILITY USERS TAX RATES

LOCAL GOVERNMENT	LAND-LINE TELEPHONE	CELL PHONE	OTHER PRIVATE TELECOM	VIDEO	ELECTRIC	GAS	WATER	SEWER	TRASH
Salinas	5.00%	5.00%	5.00%	5.00%	6.00%	6.00%	6.00%		
San Bernardino	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%			
San Francisco	7.50% ^{NR}	7.50%	7.50% ^{NR}		7.50% ^{NR}	7.50% ^{NR}	7.50% ^{NR}		
San Gabriel	8.00%	8.00%	8.00%		8.00%	8.00%	8.00%		
San Jose	4.50%	4.50%	4.50%		5.00%	5.00%	5.00%		
San Leandro	5.70%	5.70%	5.70%	5.70%	6.00%	6.00%			
San Luis Obispo	4.80%	4.80%	4.80%	4.80%	5.00%	5.00%	5.00%		
San Marino	5.00%	5.00%		5.00%	5.00%	5.00%	5.00%		
San Pablo	7.00%	7.00%		7.00%	7.00%	7.00%	7.00%		
Sand City					5.00%	5.00%			
Sanger	5.00%**	5.00%		5.00%	5.00%	5.00%	5.00%		
Santa Ana	5.50%	5.50%			5.50%	5.50%	5.50%		
Santa Barbara	5.75%	5.75%	5.75%	5.75%	6.00%	6.00%	6.00%		6.00%
Santa Cruz	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
Santa Fe Springs	5.00%	5.00%	5.00%		5.00%	5.00%			
Santa Monica	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%		
Santa Rosa	5.00%**			5.00%	5.00%	5.00%			
Scotts Valley					4.00%	4.00%			
Seal Beach	10.00%	10.00%			10.00%	10.00%			
Seaside	6.00%**			6.00%	6.00%	6.00%	6.00%		
Sebastopol	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%			3.75%
Sierra Madre	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	9.00%	9.00%	10.00%
Soledad	5.00%	5.00%		5.00%	5.00%	5.00%			

UTILITY USERS TAX RATES

LOCAL GOVERNMENT	LAND-LINE TELEPHONE	CELL PHONE	OTHER PRIVATE TELECOM	VIDEO	ELECTRIC	GAS	WATER	SEWER	TRASH
South Pasadena	7.50%**	7.50%		7.50%	7.50%	7.50%	7.50%		
Stanton	5.00%	5.00%			5.00%	5.00%	5.00%		
Stockton	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%		
Sunnyvale	2.00%**				2.00%	2.00%			
Torrance	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.00%		
Tulare	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%		
Vallejo	7.30%	7.30%	7.30%	7.30%	7.50%	7.50%			
Vernon	6.00% ^{NR}	6.00% ^{NR}	6.00% ^{NR}	6.00% ^{NR}	6.00% ^{NR}	6.00% ^{NR}	6.00% ^{NR}		
Ventura	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%			
Waterford	6.00%**				6.00%	6.00%	6.00%		
Watsonville	5.50%	5.50%	5.50%	5.50%	6.00%	6.00%	6.00%		
Westminster	4.00%	4.00%		4.00%	4.00%	4.00%	4.00%		
Whittier	5.00%	5.00%		5.00%	5.00%	5.00%	5.00%		
Winters	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%			
Woodlake	6.00%**			6.00%	6.00%	6.00%			
Alameda County	6.50%	6.50%			6.50%	6.50%			
Los Angeles County	4.50%	4.50%	4.50%		4.50%	4.50%			
Sacramento County	2.50%			2.50%	2.50%	2.50%		2.50%	
San Francisco City/County	7.50% ^{NR}	7.50%	7.50% ^{NR}		7.50% ^{NR}	7.50% ^{NR}	7.50% ^{NR}		

NOTES: "R" = residential UUT rates. "NR" = non-residential UUT rates. *UUT is charged on intrastate and interstate calls, but not on international calls.

**UUT is charged on intrastate calls, but not on interstate or international calls.

OTHER LOCAL LEVIES

California's local governments obtain revenue from many different sources, as seen below.

1915 Act Assessments	Community Service District Special Tax	Library Facility and Services Special Tax
1982 Act Assessments	County Airport Special Tax	Library Facility and Services Mello-Roos Tax
Abandoned Vehicle Fee	County Service Area Special Tax	Lighting and Landscaping Assessment
Abatement District Assessments	Criminal Justice Services	Lighting Mello-Roos Tax
Admissions Tax	Mello-Roos Tax	Marijuana Tax
Airport Special Tax	Death Certificate Fee	Marriage License Fee
Ambulance/Paramedic Mello-Roos Tax	Drug Abuse/Crime Prevention Tax	Marks-Roos Bond Act Assessment
Birth Certificate Fee	Fire Protection/Prevention Special Tax	Mello-Roos Act Tax
Business Improvement District Assessment	Flood and Storm Water Special Tax	Memorial Halls, Buildings, and Meeting Places Special Tax
Business Gross Receipts Tax	Geological Hazard Abatement Assessment	Mosquito Abatement Tax
Card Room Tax	Graffiti Prevention Tax	Municipal Affairs Special Tax
Cemetery Special Tax	Harbor Improvement and/or Development Special Tax	Museum and Cultural Facilities, Operation and Maintenance Special Tax
Child Care Facility Special Tax	Hazardous Substance Cleanup Services Special Tax	Municipal Utilities Special Tax
Child Care Facility Insurance Special Tax	Health Care Special Tax	Musical Performances
Community College District Special Tax	Hospital Special Tax	
	Library Contract Special Tax	

OTHER LOCAL LEVIES

Special Tax

Oil Production Tax

Paramedic Special Tax

Parks and Recreation
Special Tax

Parks, Parkways, and
Open Space Facilities and
Maintenance Mello-Roos Tax

Pest Abatement Special Tax

Police Protection Special Tax

Port Operation and Maintenance
Special Tax

Public Employee Pension
Special Tax

Regional Parks and Open Space
Preservation Special Tax

Resort Improvement
Special Tax

Resource Conservation

Special Tax

Road Maintenance Special Tax

Sanitation and Health
Special Tax

School Special Tax

School Facilities
Mello-Roos Tax

Seismic Safety Mello-Roos Tax

Sidewalk Installation Tax

Single-Use Carry-Out Bag Charge

Snow Plowing Mello-Roos Tax

Soil Deterioration Repair and
Abatement Special Tax

Standby Charges

Street Improvement Assessment

Street and Road Maintenance
Mello-Roos Tax

Trade, Commerce and

Immigration Special Tax

Trail-Riding Tax

Tourism and Commerce
Special Tax

Utility Undergrounding
Mello-Roos Tax

Vector Control Special Tax

Veteran Buildings, Memorial, and
Cemeteries Special Tax

Veteran Homes Special Tax

Water Special Tax

Zoo Facilities Mello-Roos Tax

A scenic photograph of Joshua Tree National Park. In the foreground, several Joshua trees with their characteristic spiky leaves and branching forms are visible. Behind them, large, rounded, tan-colored rock formations rise against a clear blue sky with wispy white clouds. The lighting suggests a bright, sunny day.

Chapter 11

TAX ADMINISTRATION

Following the 2017 tax administration restructuring by the Legislature and governor, California has five agencies responsible for administering, enforcing and adjudicating the state's tax laws – the Franchise Tax Board, the State Board of Equalization, the California Department of Tax and Fee Administration, the Office of Tax Appeals, and the Employment Development Department.

Other state departments, most notably the Department of Motor Vehicles, administer various fee and regulatory programs that also affect taxpayers. Local governments are responsible for administering and enforcing local laws. County assessors and tax collectors, county assessment appeals boards, and some special districts, are responsible for additional tax administration.

For taxpayers with questions on state tax issues, the state tax agencies have partnered to form the California Tax Service Center to answer questions at www.taxes.ca.gov.

CALIFORNIA'S TAX STRUCTURE

	State Board of Equalization (BOE)	Administration and adjudication of state-assessed property taxes, alcohol excise taxes, and insurance gross premium taxes.
	California Department of Tax and Fee Administration (CDTFA)	Administration of sales and use taxes, fuel taxes, tobacco taxes, 911 surcharge, and other tax and fee programs.
	Franchise Tax Board (FTB)	Administration of personal income taxes, corporate income taxes, and collection of delinquent child-support payments on behalf of the counties.
	Office of Tax Appeals (OTA)	Adjudication of income, sales/use, and other tax appeals not under the jurisdiction of the BOE.
	Employment Development Department (EDD)	Administration and adjudication of payroll taxes, including unemployment and disability insurance taxes.



STATE CONTROLLER'S OFFICE

The state controller is the chief fiscal officer of California, and sits on the Franchise Tax Board and the State Board of Equalization. The controller acts as the accountant and bookkeeper for all state funds, and administers the Uniform State Payroll System and unclaimed property laws. The controller also is responsible for auditing state and local government programs, as well as providing information to the public on the fiscal status of the state.



STATE TREASURER'S OFFICE

The State Treasurer's Office was created in 1849. The office's main responsibilities are to manage the state's Pooled Money Investment Account, finance public works projects and act as the state's banker. The treasurer also is responsible for managing state debt and issuing bonds.



DEPARTMENT OF FINANCE

The Department of Finance serves as the governor's chief fiscal policy office, creating and administering the state's annual financial plan, and analyzing budgetary aspects of proposed laws. The director of finance, who heads the department, is appointed by the governor and sits on the Franchise Tax Board.



DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles registers and records ownership of vehicles in California and issues drivers' licenses, identification cards and vehicle licenses. The DMV collects the vehicle registration fee, the vehicle license tax, some automotive sales and use taxes, and other charges.



GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's Office of Business and Economic Development (GO-Biz) administers the California Competes Tax Credit, an income tax credit available to businesses that want to locate or expand in California. The tax credit is negotiated by GO-Biz and the California Competes Tax Credit Committee, which consists of the state treasurer, director of finance, the director of GO-Biz, and one appointee each from the speaker of the Assembly and the Senate Rules Committee.



CALIFORNIA AIR RESOURCES BOARD

The California Air Resources Board administers various regulations and fees, including the state's cap-and-trade auction.



COUNTY ASSESSORS

Each of California's 58 counties has a locally elected assessor who administers property taxes within the county, and is responsible for decline-in-value assessments, determining when a change in ownership occurs, and assessing new construction.

PRINCIPLES OF SOUND TAX POLICY

- **Certainty** – Changes within a tax structure should be kept to a minimum. Frequent changes in rates, arbitrary application of taxes, or changes in tax bases disrupt taxpayers' behavior and their ability to make long-range investment and business decisions.
- **Neutrality** – Market distortions should be minimized or avoided altogether. Neutrality ensures that taxes do not discriminate against certain industries, activities or products.
- **Stability** – Governments should strive toward a revenue and spending system that is balanced and not prone to unpredictable fluctuations.
- **Equity and Fairness** – Equity is measured by a taxpayer's ability to pay a particular tax. Tax fairness can be evaluated by comparing tax burdens of taxpayers in similar circumstances and by the distribution of tax burdens for taxpayers in different circumstances.
- **Transparency** – Taxpayers should understand how taxes are assessed and collected, and be able to identify the tax associated with a purchase or transaction. Open government meetings also are important, so taxpayers can be part of the legislative and regulatory processes.
- **Simplicity** – Layer upon layer of taxes, multiple tax forms and intricate filing requirements make a tax structure complex, and compliance difficult. Simplified tax systems reduce the cost of compliance for taxpayers, and reduce the need for enforcement tools for government. State governments can improve simplicity by developing more uniform state and local tax policies.
- **Broad Bases and Low Rates** – A revenue structure with broad bases and low rates can mitigate volatility. Low rates minimize the impact of the tax on taxpayers' behavior, and improve economic competitiveness. However, in some cases, narrowing a tax base through exemptions, or expanding the base may create market distortions.

- 
- A photograph of a desert landscape featuring a massive, layered red rock cliff face under a clear blue sky. The foreground is a sandy desert floor with scattered rocks and small green shrubs.
- **Sufficient Revenue** – A stable tax structure should be able to generate a revenue stream to support effective and efficient government.
  - **Complementary Tax Bases** – A tax structure should address the relationships between state and local governments. By understanding the division of power between state and local governments, policymakers can limit or expand taxing authority for local government. Taxes levied by federal, state and local governments should share similar bases and application to the greatest extent possible.
  - **No Retroactivity** – There should be no retroactive tax increases. Retroactive taxes can create financial hardship for taxpayers, and hinder investment planning, savings and economic growth by introducing changes that were not accounted for in taxpayers' budgets or planning.



ABOUT THE CALIFORNIA TAX FOUNDATION

The California Tax Foundation is dedicated to serving the public through education and research. Founded in 1980 by the California Taxpayers Association (CalTax), the Foundation seeks to improve public policy through thoughtful and independent nonpartisan research. The Foundation has won several national research awards, and has been recognized for its research excellence. The Foundation is a 501(c)3 not-for-profit organization funded through grants and donations from taxpayers. While established by CalTax, it is a separate entity. It does not take or support positions on any ballot measures or on any local, state, or federal legislation, nor does it endorse, support, or oppose any political parties or candidates for public office.

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