SIXTH EDITION – JANUARY 2023

CALIFORNIA TAX FACTS

AN OVERVIEW OF THE GOLDEN STATE'S TAX STRUCTURE

CALIFORNIA TAX FOUNDATION

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Sacramento

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Chapter 1

CALIFORNIA'S TAX STRUCTURE

In California, a tax is defined in law as any levy, charge, or exaction that generates revenue to fund a general benefit for the public.

To increase an existing tax or impose a new state tax, a two-thirds vote of the Legislature is required. 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 STATE REVENUE	PROPOSALS IN THE LEGISLATURE	MEASURES ON THE STATE BALLOT
State Budget (excluding tax/bond provisions)	Majority	Not Applicable
Tax (including a tax contained in the budget)	2/3	Majority
Fee	Majority	Majority
Authorization for New/Expanded Local Taxes or Exemption from Sales Tax Cap	Majority	Not Applicable
General Obligation Bond (including school bonds)	2/3[1]	Majority
Revenue Bond	Majority	Not Applicable
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 REVENUE	PROPOSALS BEFORE CITY/ COUNTY GOVERNMENT	PROPOSALS ON THE LOCAL BALLOT
Municipal Budget (excluding tax/bond provisions)	Majority	Not Applicable
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[3]
Property Assessment or Property-Related Fee	Majority	Majority[4]
Fee (except property-related)	Majority	Majority[5]
General Obligation School Facilities Bond	2/3[1]	55%
General Obligation Bond	2/3[1]	2/3
Revenue Bond	Majority	Not Applicable

TABLE 1.1 VOTE REQUIREMENTS IN CALIFORNIA.

1. Also must 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. According to recent California appellate court decisions on the issue of the super-majority vote requirement for local special taxes, initiatives proposing local special tax increases require only a simple majority to pass. *City and County of San Francisco v. All Persons Interested in the Matter of Proposition C*, 51 Cal.App.5th 703 (2020), *City of Fresno v. Fresno Building Healthy Communities*, 58 Cal.App.5th 884 (2020), and *Howard Jarvis Taxpayers Association v. City and County of San Francisco*, Cal.App. 5th 227 (2021).
4. Requires a vote of property owners only.
5. A majority vote is required if a fee is placed on the ballot.

IS IT A TAX OR A FEE?

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.

CHARGE FOR BENEFIT OR PRIVILEGE	CHARGE FOR GOVERNMENT SERVICE OR PRODUCT	CHARGE TO COVER REASONABLE COSTS OF REGULATION	CHARGE TO ENTER OR USE 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” is a tax.

TABLE 1.2 NON-TAX REVENUE.

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 2022-23 budget is the personal income tax.

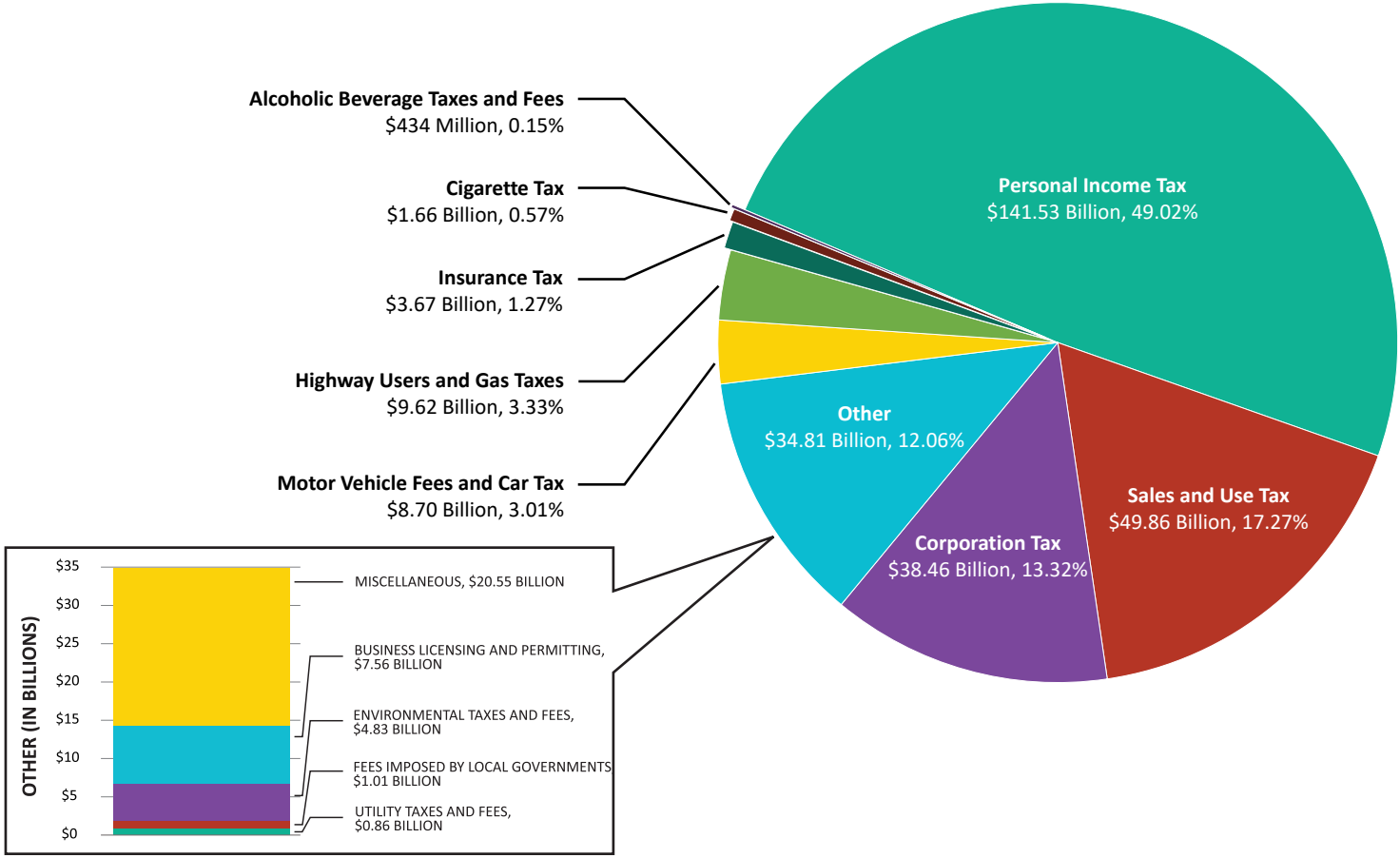


FIGURE 1.1 CALIFORNIA'S TAX AND FEE REVENUE. Enacted 2022-23 budget; figures are rounded and are projections based on collection assumptions for the fiscal year.
Sources: Department of Finance, Governor's Budget Summary 2022-23.

CALIFORNIA'S BUDGET PROCESS

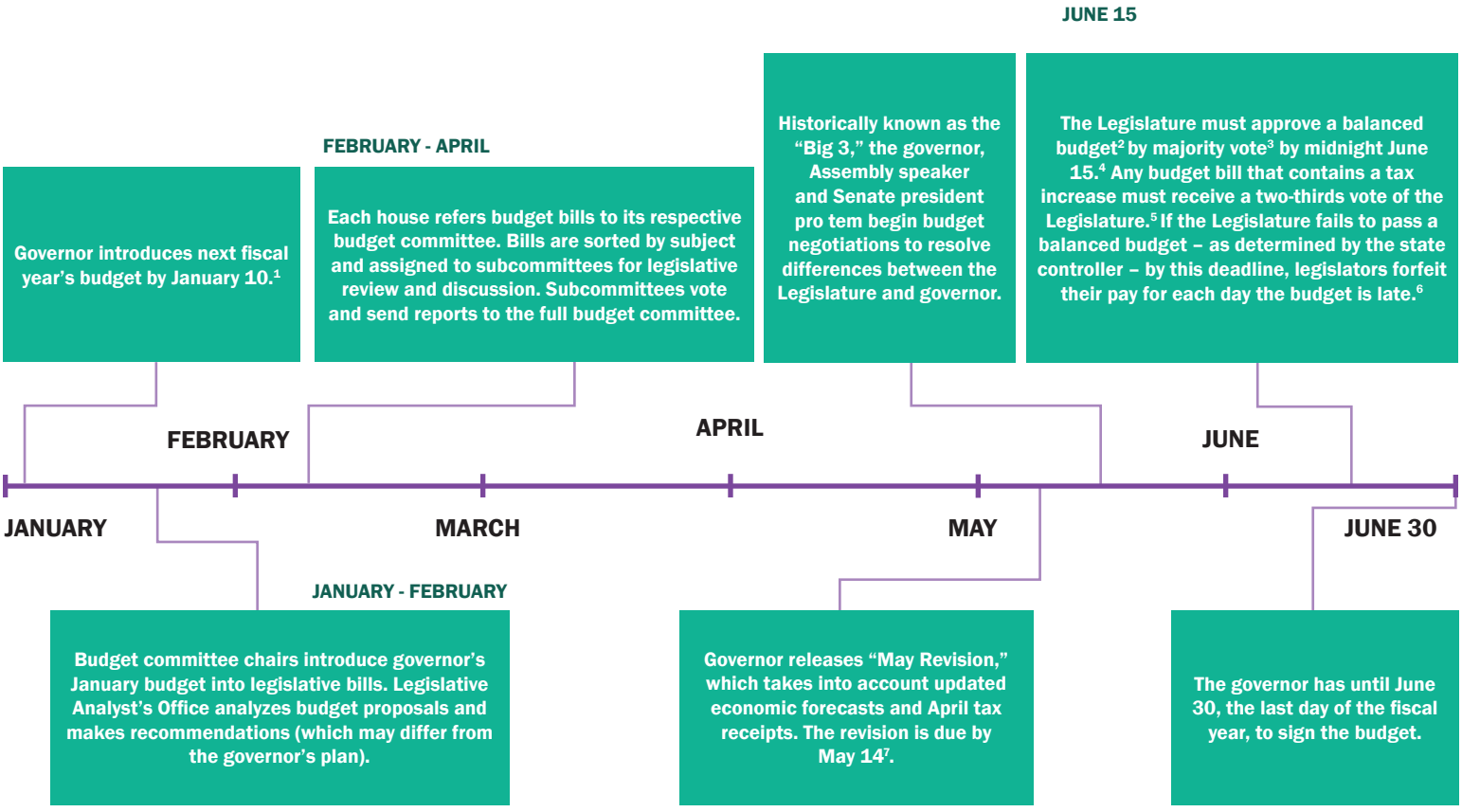


FIGURE 1.2 CALIFORNIA'S BUDGET PROCESS.

1. California Constitution Article IV, Section 12 (a).
2. California Constitution Article IV, Section 12 (g).
3. California Constitution Article IV, Section 12 (e)(1).
4. California Constitution Article IV, Section 12 (c)(3).
5. California Constitution Article XIII, Section 3 (a).
6. California Constitution Article IV, Section 12 (h).
7. California Government Code Section 13308 (e).

CALIFORNIA'S GENERAL FUND 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 personal income taxes on capital gains. A capital gain may occur when a person sells real estate, stocks, bonds, or other investments.

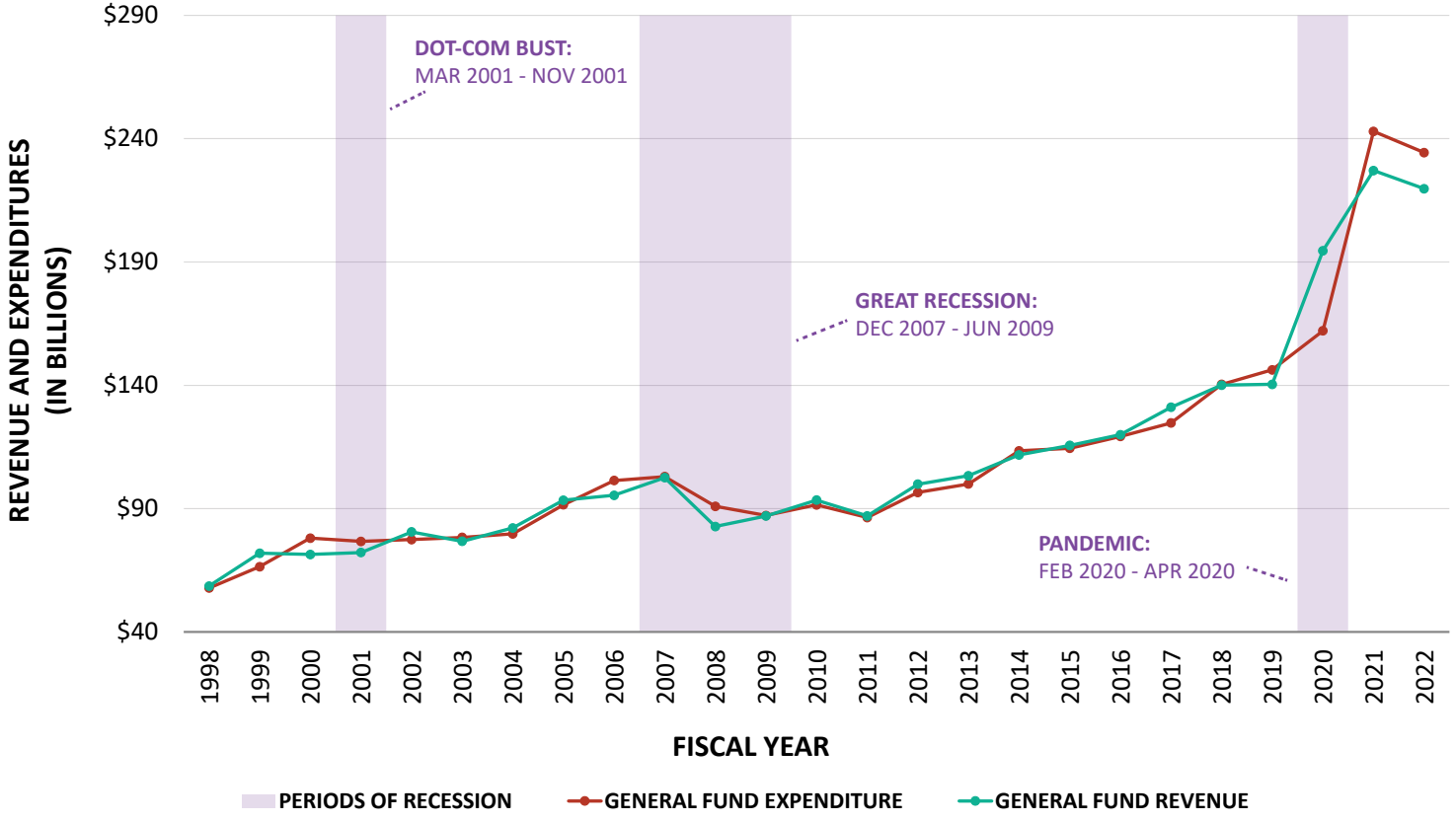


FIGURE 1.3 CALIFORNIA'S BUDGET. Revenue includes revenue and transfers, but excludes prior-year balance. 2022-23 numbers are considered preliminary until the next budget is approved.
Sources: Department of Finance, National Bureau of Economic Research.

VOLATILITY OF CAPITAL GAINS

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

FIGURE 1.4 CAPITAL GAINS AND LOSSES.
Sources: Franchise Tax Board, National Bureau of Economic Research.

WHERE OUR TAX DOLLARS GO

California's general and special fund budget expenditures total more than $307.9 billion in fiscal year 2022-23.

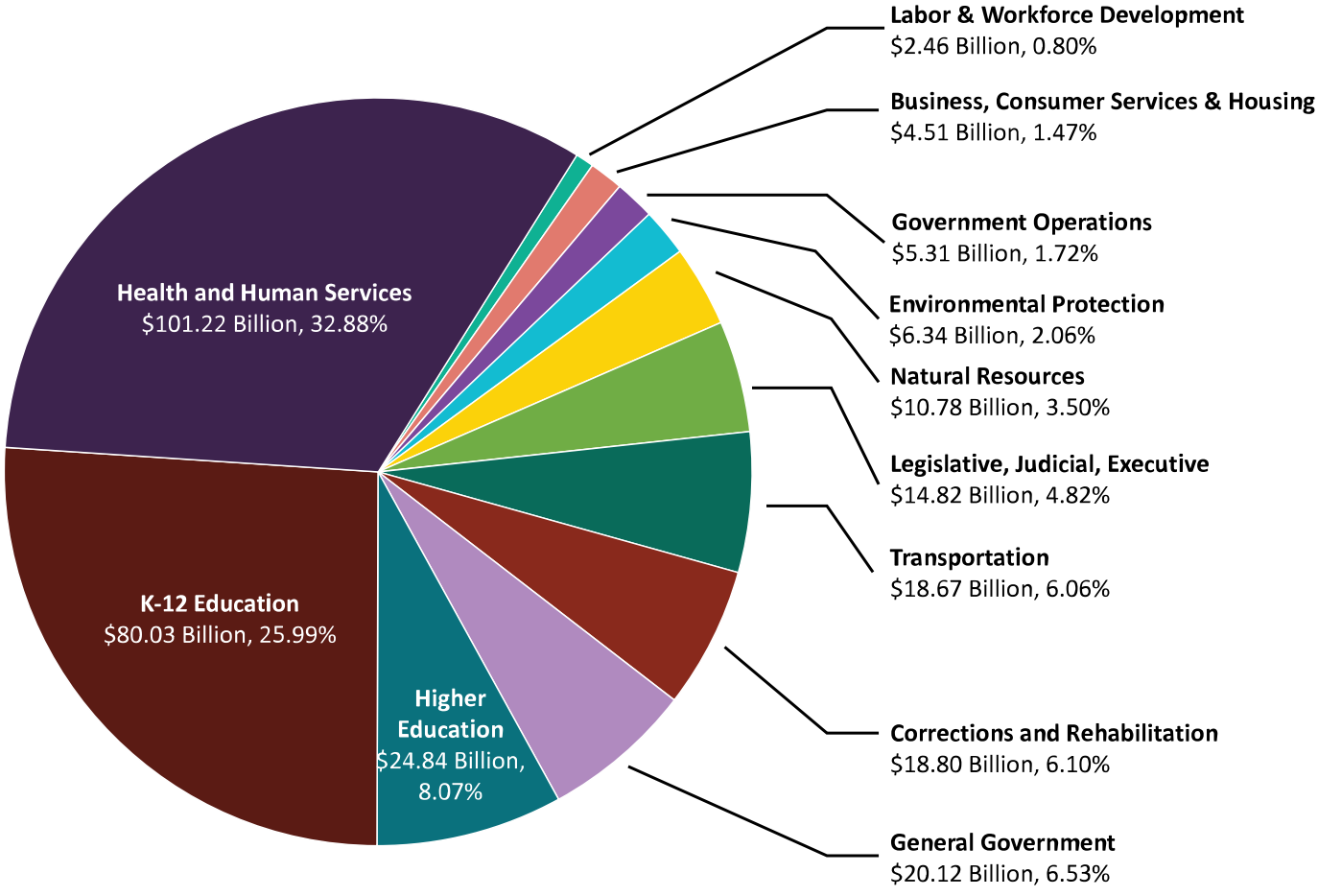


FIGURE 1.5 CALIFORNIA'S GENERAL FUND BUDGET EXPENDITURES. Expenditures are subject to change through June 2023.
Sources: Department of Finance, California's Enacted 2022-23 Budget.

CALIFORNIA'S RESERVE FUNDS

California's state government has five specific 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 fund (the Budget Stabilization Account, or BSA).

In 2018, the Legislature passed AB 1830 (Chapter 42, Statutes of 2018) to create two additional reserve funds that essentially forestall a mandatory sales tax reduction in the event 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).

The final two reserve funds are the Reserve for Liquidation of Encumbrances (RLE) and the Special Fund for Economic Uncertainties (SFEU).

The RLE saves funds for the procurement of goods or services the state has not yet received. Under state law, encumbrances may not be counted as general fund expenditures until the goods or services are received.

The SFEU ensures the ability of the state to meet general fund obligations in the event of declining revenue or unanticipated expenditures.

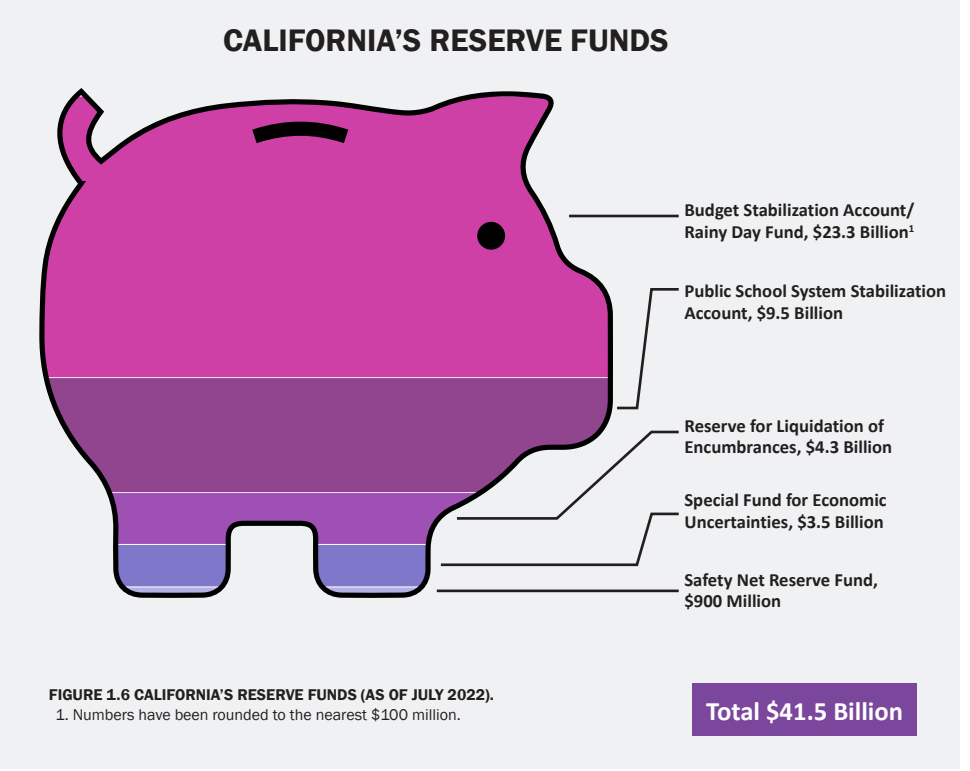


FIGURE 1.6 CALIFORNIA'S RESERVE FUNDS (AS OF JULY 2022).
1. Numbers have been rounded to the nearest $100 million.

As of July of 2022, California's reserve funds totaled more than $41.5 billion to alleviate budget crises during economic downturns.

TAX BURDEN PER CAPITA

California's per capita tax burden has consistently grown, from $279.36 in 1970 to an estimated $5,861.90 in 2022.

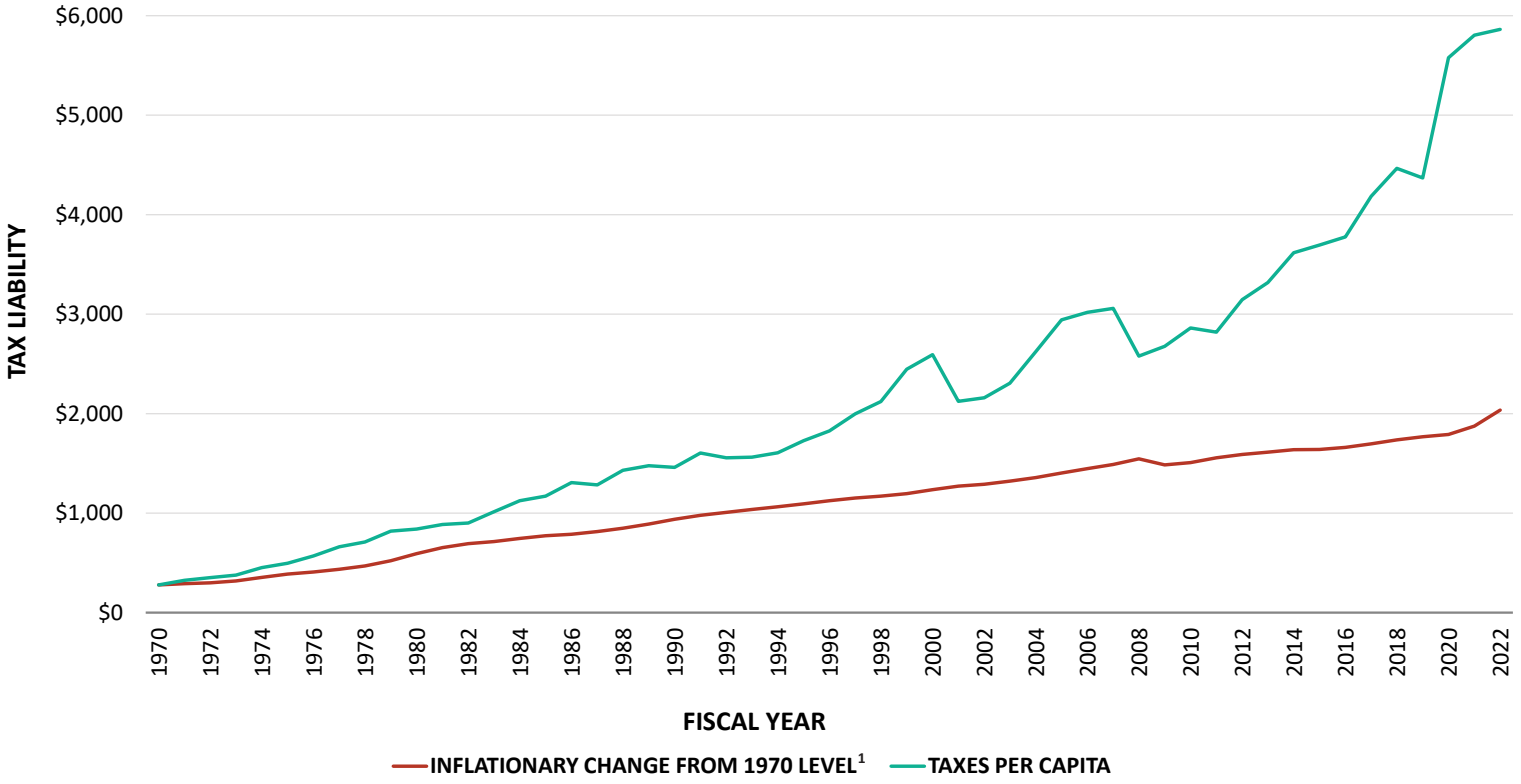


FIGURE 1.7 TAX BURDEN PER CAPITA. Per capita computations are based on July 1 population estimates, benchmarked on the 2010 Census. Data for 2021 and 2022 are estimated.
Sources: Department of Finance and Federal Reserve Bank of Minneapolis.
1. 2022 is estimate based on the change in the CPI from first quarter 2021 to first quarter 2022.

THE CALIFORNIA LEGISLATURE

The California State Legislature is a full-time body that convenes for two-year sessions commencing on the first Monday in December of even-numbered years.

The bicameral Legislature has 80 Assembly and 40 Senate districts. Legislation that increases taxes requires approval by at least two-thirds of each house (54 votes in the Assembly and 27 votes in the Senate – numbers that remain constant even when there are vacancies). The two-thirds vote threshold also applies to legislation that carries an urgency clause, legislation to put measures on the statewide ballot, and veto overrides.

There are no restrictions on what topics can be addressed in either year of the legislative session. At any time, the governor can call the Legislature into a special session to address specific subject matter. During a typical two-year session, several thousand bills, resolutions, and constitutional amendments are considered.

The Legislature has many standing committees specializing in specific policy areas. The two tax policy committees are the Assembly Revenue and Taxation Committee and the Senate Governance and Finance Committee. Bills that provide for a tax reduction or an increase in state spending are referred to the Appropriations Committee in each house.

Assembly and Senate districts are redrawn every 10 years to ensure that each lawmaker represents the same number of constituents as others in the same house. Districts are drawn by the independent California Citizens Redistricting Commission using U.S. Census data.

Assembly terms are two years and Senate terms are four years, staggered so 20 Senate districts are up for election every two years. An individual can serve no more than 12 years in the Legislature, in any combination of Assembly and Senate service.

KEY DATES	
January 10	Deadline for governor to propose a state budget for the next fiscal year.
May 14	Deadline for the governor to revise the proposed budget to reflect revenue and spending changes since the January proposal.
June 15	Deadline for Legislature to approve a budget bill or forfeit legislative salaries until a budget is approved. (Courts have ruled that this bill does not have to comprise a complete budget, so budget “trailer bills” often are approved after the June 15 deadline.)
July 1	The state’s new fiscal year begins.

TABLE 1.3 LEGISLATURE KEY DATES.

HOW A BILL BECOMES A LAW

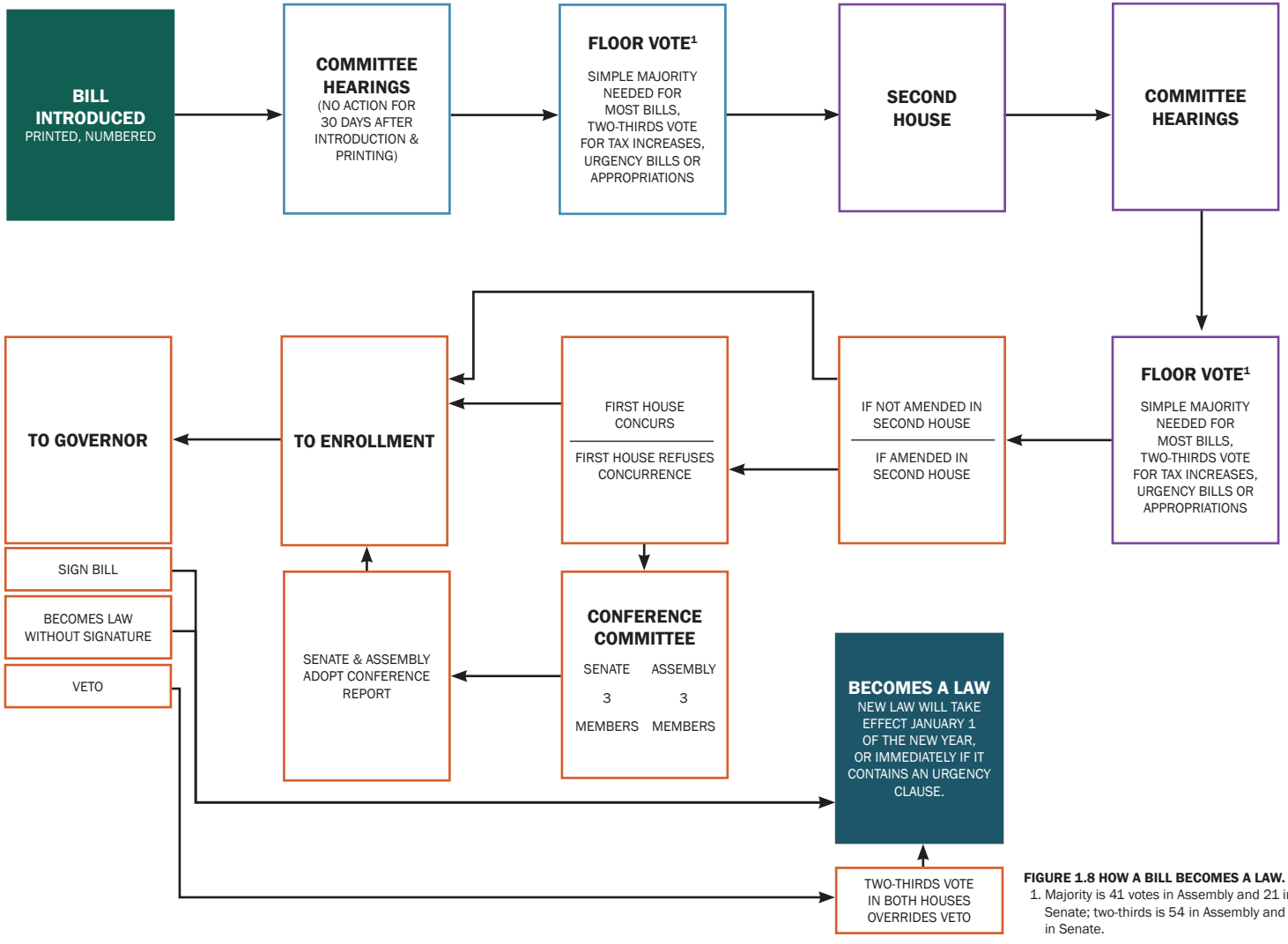


FIGURE 1.8 HOW A BILL BECOMES A LAW.
1. Majority is 41 votes in Assembly and 21 in Senate; two-thirds is 54 in Assembly and 27 in Senate.

Baldwin Beach, Lake Tahoe

Chapter 2

PERSONAL INCOME TAX

California's personal income tax, first imposed in 1935, is levied on individuals with income derived from California ("California-source income"). 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 (wherever earned), including but not limited to wages, salaries, interest, dividends, business income, and capital gains. 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.)

California defines a resident as every individual who is in California for other than a temporary or transitory purpose, or every individual domiciled in California who is outside California for a temporary or transitory purpose. In residency disputes, the Franchise Tax Board investigates where a person votes, banks, makes medical appointments, etc., and taxpayers bear the legal burden of showing error in the tax agency's determinations.

Personal income taxes are withheld from a taxpayer's pay based on the employee's withholding allowance Federal Form W-4 or State Form 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:
$1,412,083,371,401

Returns Filed:
18,481,998

Sole Proprietorships Filing a Return:
2,502,535

Highest Aggregate Tax Liability for a Single ZIP Code:
$1,395,857,321 (94301 – Palo Alto)

Filers Claiming Student Loan Deduction:
1,063,771

Filers Claiming a Dependent:
11,089,701

Filers With Income of $1 Million or More:
96,322

TABLE 2.1 PERSONAL INCOME TAX. All figures are for tax year 2020.
Source: Franchise Tax Board.

Taxpayers subject to California's personal income tax first must compute their federal "adjusted gross income" (AGI). Federal AGI is total gross income, reduced by allowable deductions, including alimony and deductible contributions to an individual retirement account (IRA). Taxpayers then subtract any itemized deductions (home mortgage interest, charitable contributions, etc.) 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 California's selective conformity with federal tax law (discussed on page 15), differences exist between federal and state income and deduction determinations and credits.

California voters have approved various changes to the tax, including surcharges. Passage of Proposition 30 in 2012 added three additional brackets, bringing the top effective tax rate to 13.3 percent (which includes a mental health surcharge approved in 2004). These tax increases originally were set to expire in 2018, but voters approved Proposition 55 in 2016 to extend them 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.

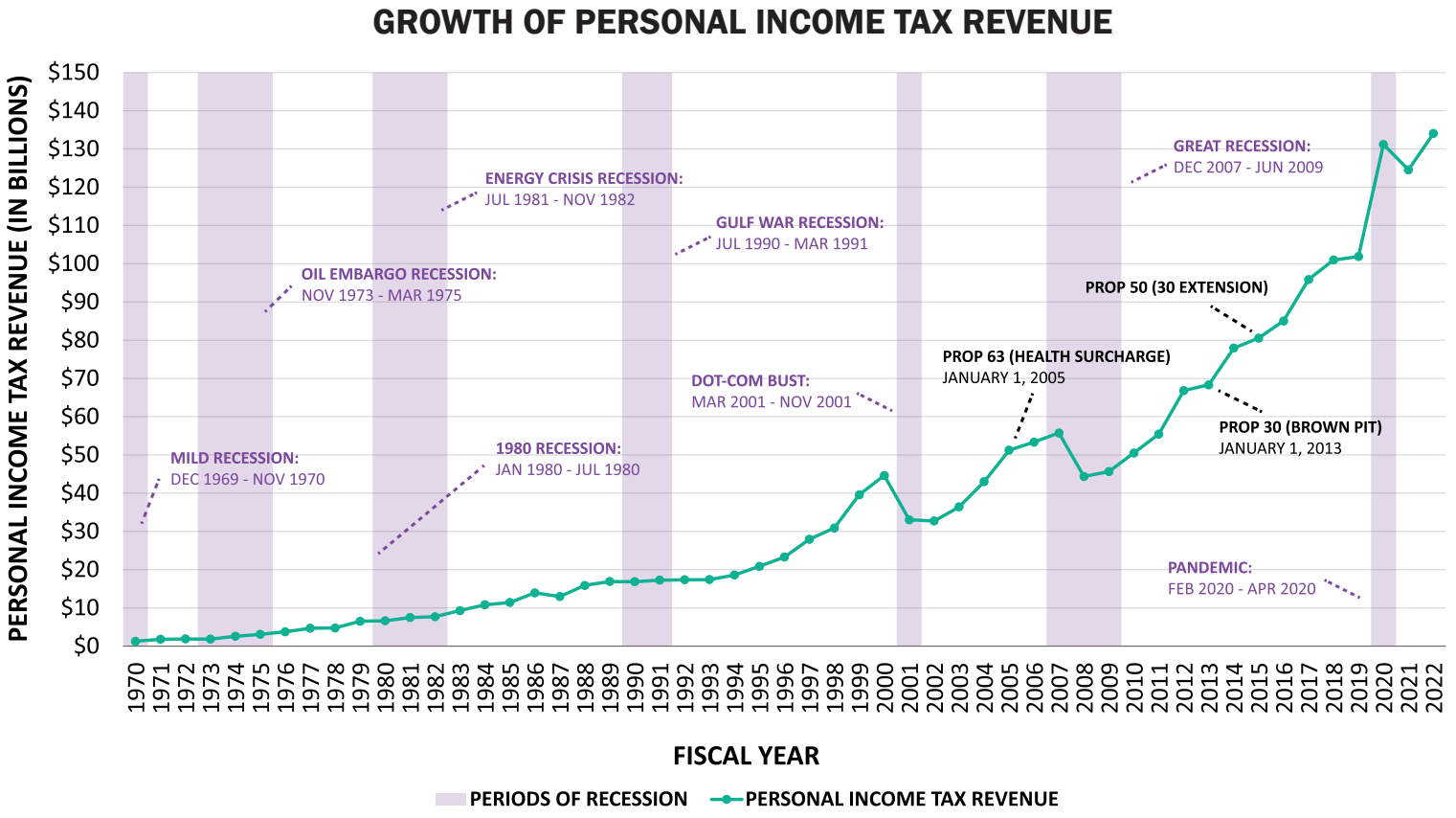
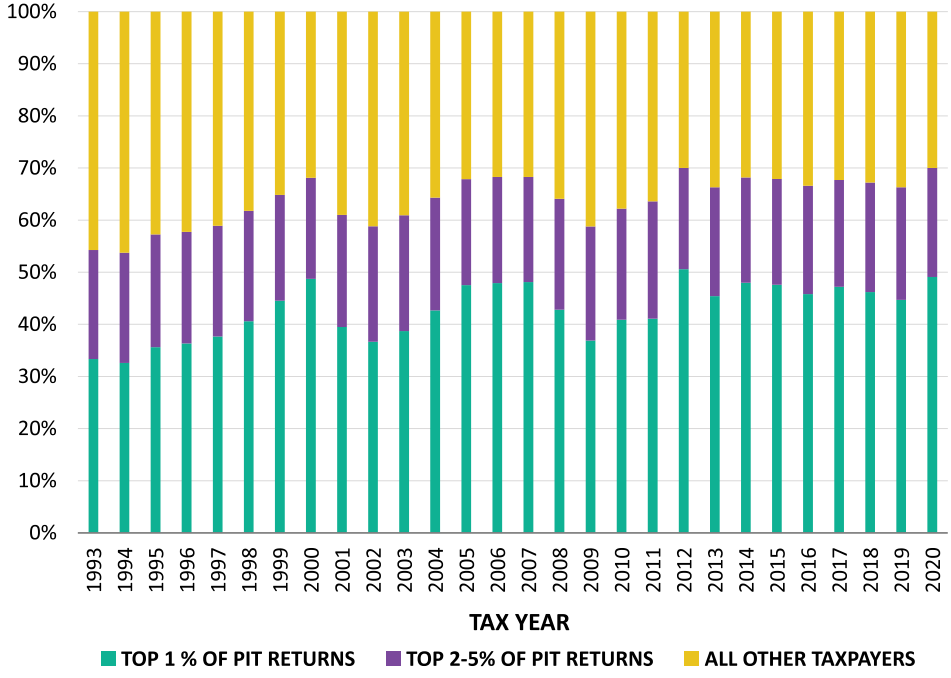


FIGURE 2.1 GROWTH OF PERSONAL INCOME TAX REVENUE. Figure represents fiscal-year revenue.
Sources: Department of Finance, National Bureau of Economic Research.

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 2020, the most recent year for which the data is available, the top 5 percent of earners paid 70 percent of the personal income tax.

INCOME DISTRIBUTION AMONG PERSONAL INCOME TAX FILERS



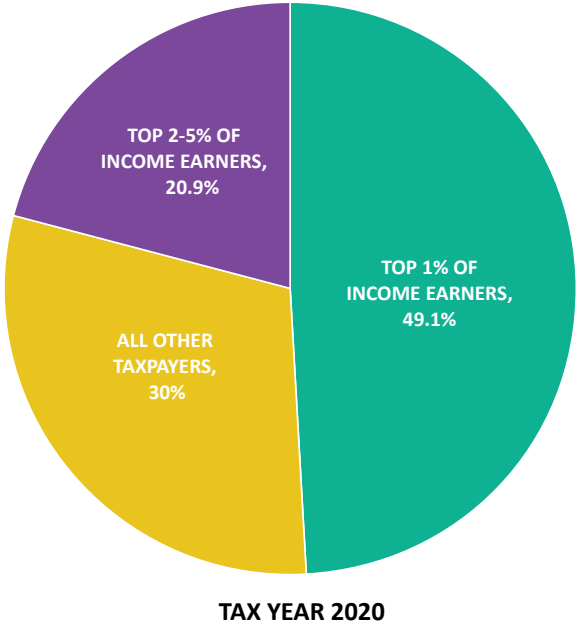


FIGURE 2.2 INCOME DISTRIBUTION AMONG PERSONAL INCOME TAX FILERS.
Source: Franchise Tax Board.

DEDUCTING STUDENT LOAN INTEREST

Approximately half of the individuals born between 1980 and the early 2000s have student loan debt. State and federal laws allow these taxpayers to deduct interest accrued on the loans. Since the FTB began reporting on the deduction in 1998, the number of taxpayers claiming the deduction has more than doubled.

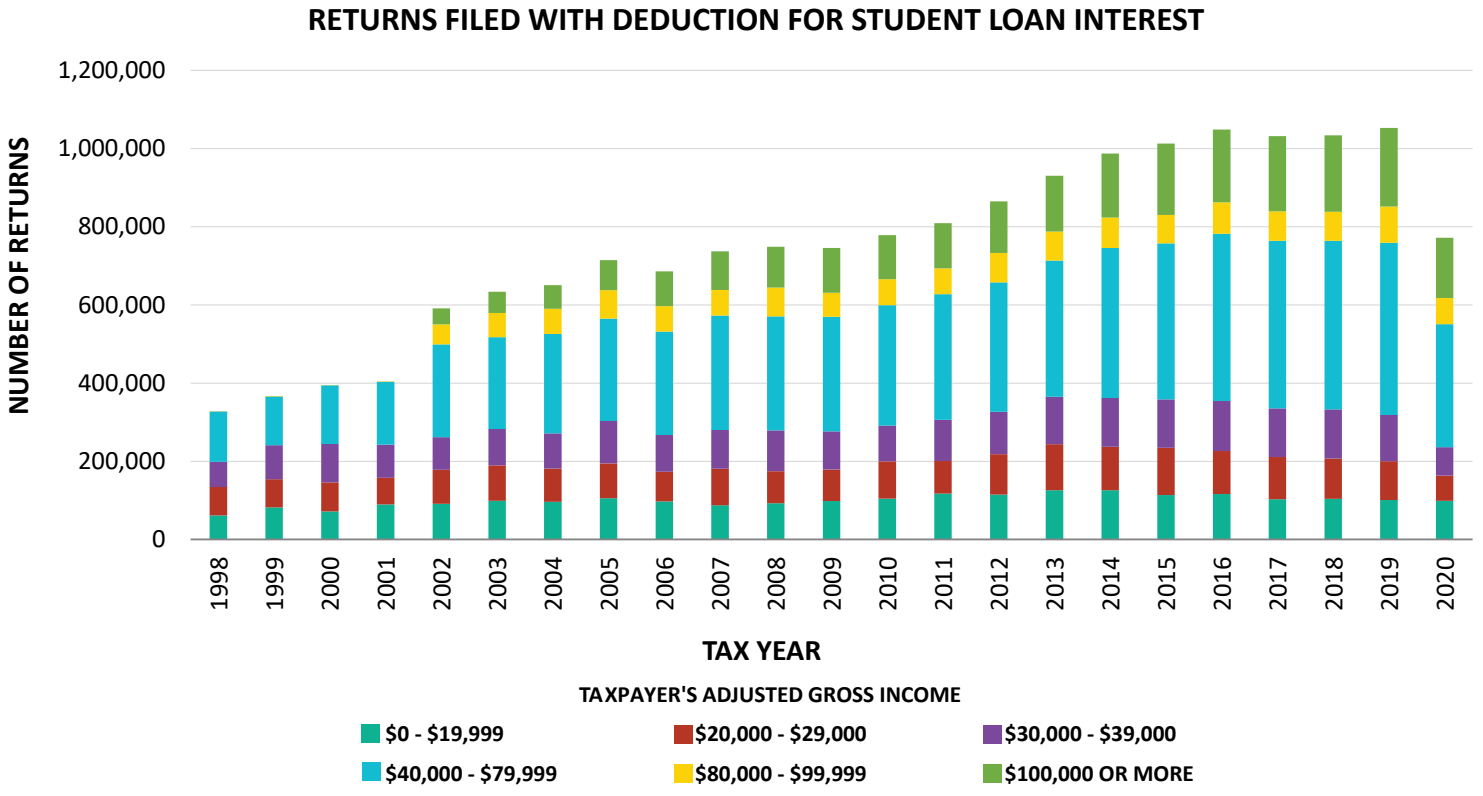


FIGURE 2.3 NUMBER OF RETURNS FILED WITH DEDUCTION FOR STUDENT LOAN INTEREST.
SOURCE: Franchise Tax Board.

THE TAX ON MILLIONAIRES

In 2004, voters approved Proposition 63, which added a 1 percent surcharge to the personal income tax on income over $1 million (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.

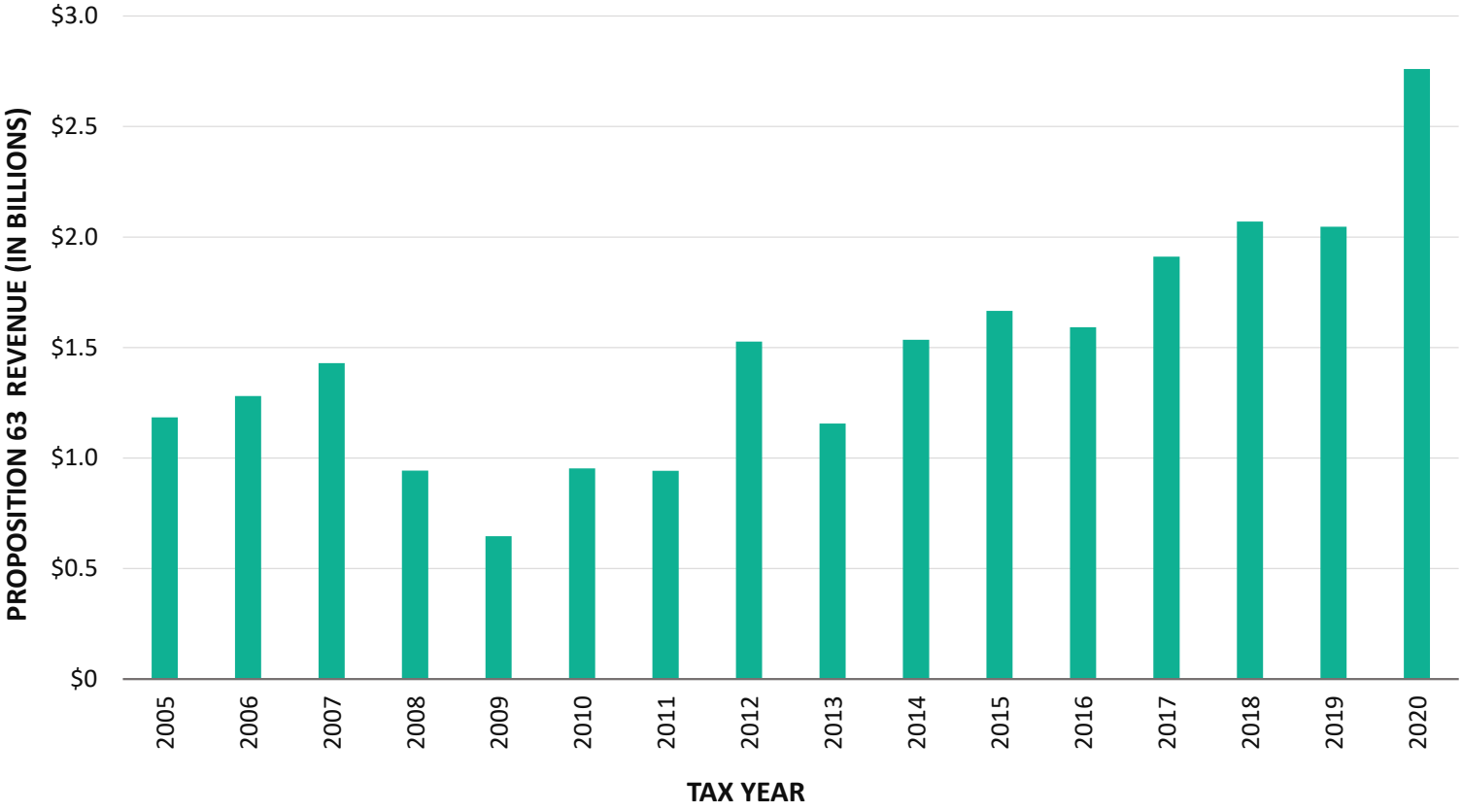


FIGURE 2.4 PROPOSITION 63 REVENUE.
Source: Franchise Tax Board.

PERSONAL INCOME TAX RATES FOR TAX YEAR 2022

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	$ 10,099	$ 0	+	1%	$ 0
	$ 10,099	$ 23,942	$ 100.99	+	2%	$ 10,099
	$ 23,942	$ 37,788	$ 377.85	+	4%	$ 23,942
	$ 37,788	$ 52,455	$ 931.69	+	6%	$ 37,788
	$ 52,455	$ 66,295	$ 1,811.71	+	8%	$ 52,455
	$ 66,295	$ 338,639	$ 2,918.91	+	9.3%	$ 66,295
	$ 338,639	$ 406,364	$ 28,246.90	+	10.3%	$ 338,639
	$ 406,364	$ 677,275	$ 35,222.58	+	11.3%	$ 406,364
	$ 677,275	and over	$ 50,516.97	+	12.3%	$ 677,275
MARRIED FILING JOINTLY AND QUALIFYING WIDOW(ER)	$ 0	$ 20,198	$ 0	+	1%	$ 0
	$ 20,198	$ 47,884	$ 201.98	+	2%	$ 20,198
	$ 47,884	$ 75,576	$ 755.70	+	4%	$ 47,884
	$ 75,576	$ 104,910	$ 1,863.38	+	6%	$ 75,576
	$ 104,910	$ 132,590	$ 3,623.42	+	8%	$ 104,910
	$ 132,590	$ 677,278	$ 5,837.82	+	9.3%	$ 132,590
	$ 677,278	$ 812,728	$ 56,493.80	+	10.3%	$ 677,278
	$ 812,728	$ 1,354,550	$ 70,445.15	+	11.3%	$ 812,728
	$ 1,354,550	and over	$ 131,671.04	+	12.3%	$ 1,354,550
HEAD OF HOUSEHOLD	$ 0	$ 20,212	$ 0	+	1%	$ 0
	$ 20,212	$ 47,887	$ 202.12	+	2%	$ 20,212
	$ 47,887	$ 61,730	$ 755.62	+	4%	$ 47,887
	$ 61,730	$ 76,397	$ 1,309.34	+	6%	$ 61,730
	$ 76,397	$ 90,240	$ 2,189.36	+	8%	$ 76,397
	$ 90,240	$ 460,547	$ 3,296.80	+	9.3%	$ 90,240
	$ 460,547	$ 552,658	$ 37,735.35	+	10.3%	$ 460,547
	$ 552,658	$ 921,095	$ 47,222.78	+	11.3%	$ 552,658
	$ 921,095	and over	$ 88,856.16	+	12.3%	$ 921,095

TABLE 2.2 PERSONAL INCOME TAX RATES FOR 2022. 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.

	OLIVER	GEOFF & CAITLIN	SUE	SEBASTIAN & SABRINA	JAYLEE
	Single	Married Filing Jointly	Head of Household	Married Filing Jointly	Single
TAXABLE INCOME	$77,000	$77,000	$77,000	$2,500,000	$2,500,000
BASE AMOUNT DUE	$2,918.91	$1,863.38	$2,189.36	$131,671.04	$50,516.97
2022 CALIFORNIA TAX RATE	plus 9.3% of the amount of income over $66,295	plus 6% of the amount of income over $75,576	plus 8% of the amount of income over $76,397	plus 12.3% of the amount of income over $1,354,550	plus 12.3% of the amount of income over $677,275
CALIFORNIA INCOME TAX LIABILITY	$3,914.48	$1,948.82	$2,237.60	$272,561.39	$274,712.15
MENTAL HEALTH SURCHARGE	$0	$0	$0	$15,000.00	$15,000.00
TOTAL TAX	**$3,914.48**	**$1,948.82**	**$2,237.60**	**$287,561.39**	**$289,712.15**

TABLE 2.3 PERSONAL INCOME TAX APPLIED.
Source: Franchise Tax Board, based on California Tax Foundation calculations.

Chapter 3

CORPORATE AND FRANCHISE TAX

California's corporate franchise and income tax, administered by the Franchise Tax Board, 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 taxed on income from sources in California. Nonprofit organizations, including 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 businesses are required to determine tax liability by using the "single sales factor" apportionment formula, which estimates their California income based on the percentage of their worldwide sales that occur within the state (see page 23).

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.

Bodie State Historic Park

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. California partially conforms to the federal Tax Cuts and Jobs Act of 2017.

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%

TABLE 3.1 CORPORATE TAX RATES.
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.

FIGURE 3.1 SINGLE SALES EQUATION.

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.

FIGURE 3.2 THREE-FACTOR EQUATION.

1. Use market sourcing for services and other intangible sales.
2. 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

Most real property in California subject to the property tax is taxed locally, under Proposition 13.

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

Generally, Proposition 13 limits the taxable value of locally assessed real property. The value is based on the lower of current market value or the "adjusted base-year" value. The base-year value is its value at acquisition – usually the purchase price – and this is adjusted to add the value of any new construction, and is indexed each year by an inflation factor. For properties acquired before 1976, the value generally will be based on the lower of current market value or its 1975 fair market value plus the added value of any new construction, indexed annually by the inflation factor. To keep property taxes from growing beyond owners' ability to pay, Proposition 13 limits the annual inflation increase to 2 percent or the change in the Consumer Price Index, whichever is lower.

Voters have approved several exceptions to the reassessment provisions, including measures to prevent tax increases based on the addition of solar panels, fire-suppression equipment, seismic retrofitting, or construction to make a residence more accessible to severely disabled people.

Garrapata State Park

PROPERTY TAX

Government property and property used exclusively for religious or charitable purposes is exempt from property tax. Household personal property also is exempt (but certain business property, including office furniture, computers, etc., is taxed as "business personal property"). 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", 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 help 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.

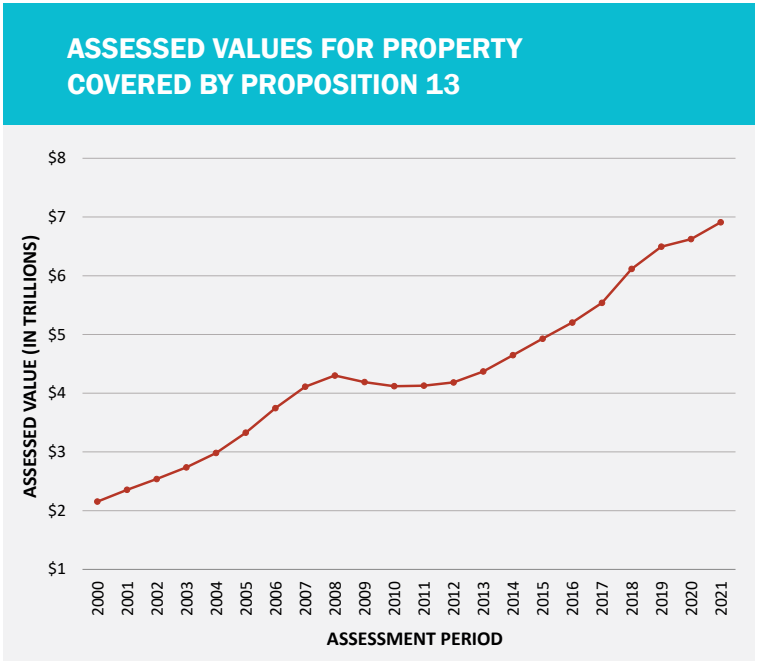


FIGURE 4.1 ASSESSED VALUES FOR PROPERTY COVERED BY PROPOSITION 13.
Source: State Board of Equalization.

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, although limits on this exclusion were approved by the voters in 2020 via Proposition 19 (see page 29).

ASSESSMENT LIMITS

When real property prices and inflation rise, Proposition 13 allows a maximum 2 percent annual increase in the property's taxable value.

Under Proposition 8 of 1978, properties assessed under Proposition 13 may obtain a temporary reduction in assessed value if 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 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.

TABLE 4.1 PROVISIONS OF PROPOSITION 13.

SPLITTING THE PROPERTY TAX ROLL

When properties on a county's assessment roll are not all 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" property tax system, 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 (i.e. business property). This is because apartments, duplexes, single-family residential rentals, commercial, industrial, and other business properties are used for business or investment purposes. Data from the State Board of Equalization from 1979-80 through 2021-22 shows that assessed valuations 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

TABLE 4.2 IS IT "NEW CONSTRUCTION"?
Source: State Board of Equalization.

PROPERTY REASSESSMENT EXCLUSIONS

Since the passage of Proposition 13 in 1978, voters have approved reassessment exclusions relating to post-disaster reconstruction or replacement (Proposition 8 of November 1978 and Proposition 171 of 1993), new construction to add solar power systems (Proposition 7 of 1980), eminent domain (Proposition 3 of 1982), seismic retrofitting (Proposition 23 of 1984 and Proposition 13 of 2010), fire-extinguishing systems (Proposition 31 of 1984), accessibility for disabled people (Proposition 177 of 1994), and environmentally damaged property (Proposition 1 of 1998). Additionally, votes approved six measures relating to ownership changes and transfers:

- **Proposition 58** (November 1986) provides a change-in-ownership exclusion for transfers of real property between spouses, and parents and children. For the original owner's principal residence, there is no limit on the value of the property. There is a limit of $1 million in taxable value on transfers of non-principal residence property. Transfers between legal entities owned by parents or children do not qualify.

- **Proposition 60** (November 1986) provides a change-in-ownership exclusion by allowing homeowners age 55 or older to transfer the base-year value of their existing home to a replacement property of equal or lesser value in the same county.

- **Proposition 90** (November 1988) provides a change-in-ownership exclusion by allowing homeowners age 55 or older to transfer the base-year value of their existing home to a replacement property of equal or lesser value in another county, if the destination county agrees to accept such transfers.

- **Proposition 110** (June 1990) allows severely disabled homeowners to transfer the value of their existing home to a replacement home, and excludes from reassessment any improvements made to make the home accessible for disabled persons.

- **Proposition 193** (March 1996) provides a change-in-ownership exclusion for transfers of real property from grandparents to grandchildren, provided that all the parents of the grandchildren are deceased as of the date of transfer. For the grandparent's principal residence, there is no limit on the value of the property. There is a limit of $1 million in taxable value on transfers of non-principal residence property. Transfers between legal entities owned by grandparents or children do not qualify. Grandchildren are not eligible for the exclusion if they previously benefited from a purchase or transfer that was similarly excluded from reassessment.

- **Proposition 19** (November 2020) makes several major changes to the provisions above. The major provisions:

- **Allows More Base-Year Value Transfers.** Homeowners who are either age 55 years or older, severely disabled, or whose homes suffered wildfire or natural disaster damage are allowed to transfer the current base-year value of their principal residence to a new principal residence of any value, located in any county. If the replacement property has a greater value, the taxable value is calculated by adding the difference between the full cash value of the original property and the full cash value of the replacement property to the taxable value of the original property.

- **Taxes Parent-Child and Grandparent-Grandchild Property Transfers.** Proposition 19 repeals the existing parent-child and grandparent-grandchild change-in-ownership exclusion and creates a more limited exclusion. The revised exclusion is allowed only if the real property is a family home (or family farm) of the transferor, and it continues to be used as the family home (or family farm) of the transferee. The provisions also limit the amount of the exclusion to the first $1 million of value that would be added upon reassessment of a family home (or family farm). Proposition 19 effectively eliminates the exclusion for all other transfers of real property between parents and children and grandparents and grandchildren, including rental property, second homes, and commercial property.

- **Creates One-Year Deadline to Qualify for Exclusion.** Proposition 19 allows the transferee to receive the property tax benefit of the exclusion by claiming the homeowners' exemption or disabled veterans' exemption at the time of the purchase or transfer of the family home (or family farm) or within one year of the purchase or transfer.

- **Limits Number of Transfers.** This measure puts a three-transfer cap on the number of times homeowners over 55 years or disabled can transfer their base-year value.

- **Earmarks Revenue.** Any revenue attributed to these changes goes to the California Fire Response Fund and the County Revenue Protection Fund, for fire-suppression staff and reimbursement for local agencies that incur a net revenue loss related to the property tax provisions.

THE PROPERTY TAX BURDEN

Since passage of Proposition 13, 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 almost 9.5 percent.

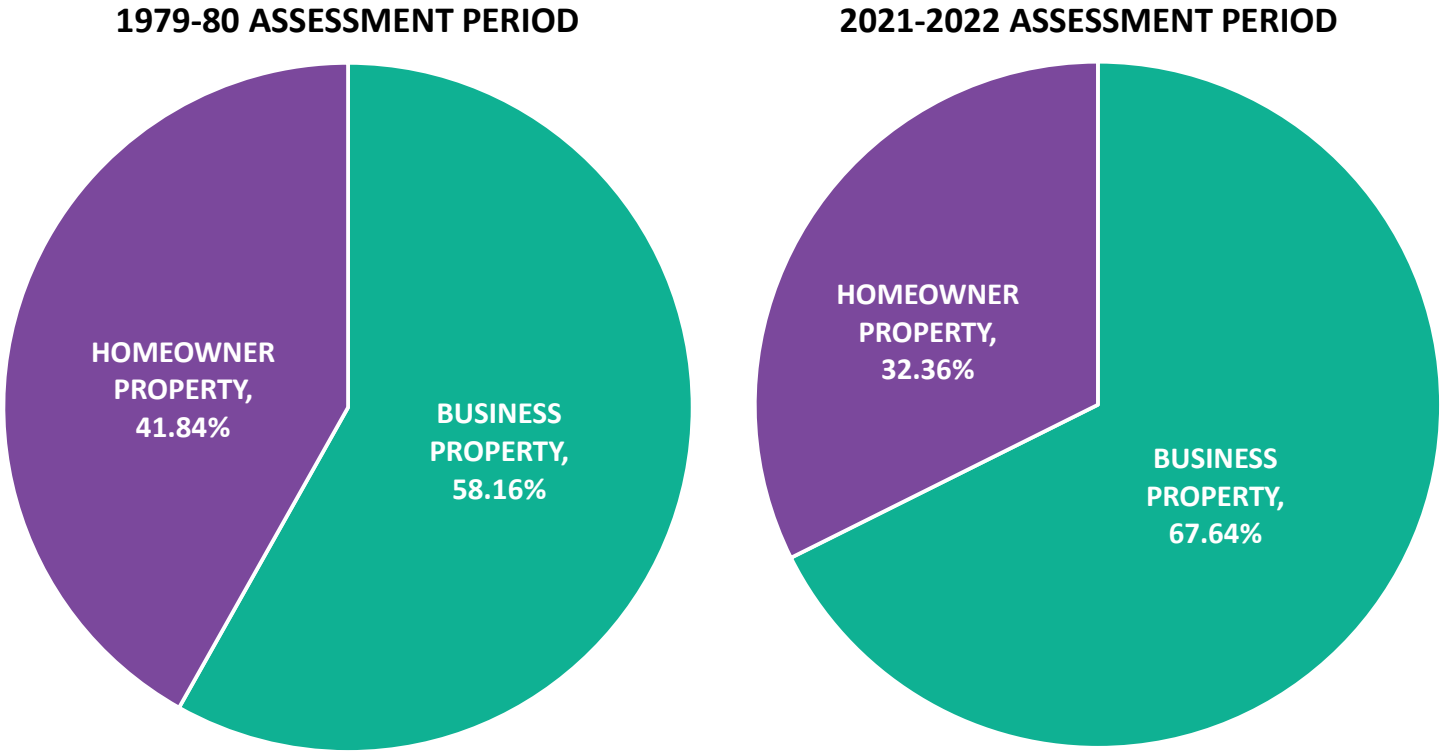


FIGURE 4.2 BUSINESS PROPERTY VS. HOMEOWNER PROPERTY: 1979-80 ASSESSMENT PERIOD AND 2021-22 ASSESSMENT PERIOD. Business property includes all locally assessed non-homeowner-occupied property (including commercial, industrial and residential investment property) subject to Proposition 13 assessments; homeowner property is locally assessed property owned and occupied as a principal residence, and for which the owners claim the homeowners' exemption.
Source: State Board of Equalization.

BUSINESS PERSONAL PROPERTY TAX

California businesses pay an annual tax on their "business personal property," defined as all property owned or leased by a business except real property. This includes office furniture, computers, machinery, aircraft, boats, and much more, but does not include inventory that is held for sale or lease in the normal course of business. Unlike real property, business personal property is not subject to Proposition 13 protections and is assessed at market value every January 1. Although real property and business personal property are assessed using different methods, the tax rate is the same for both.

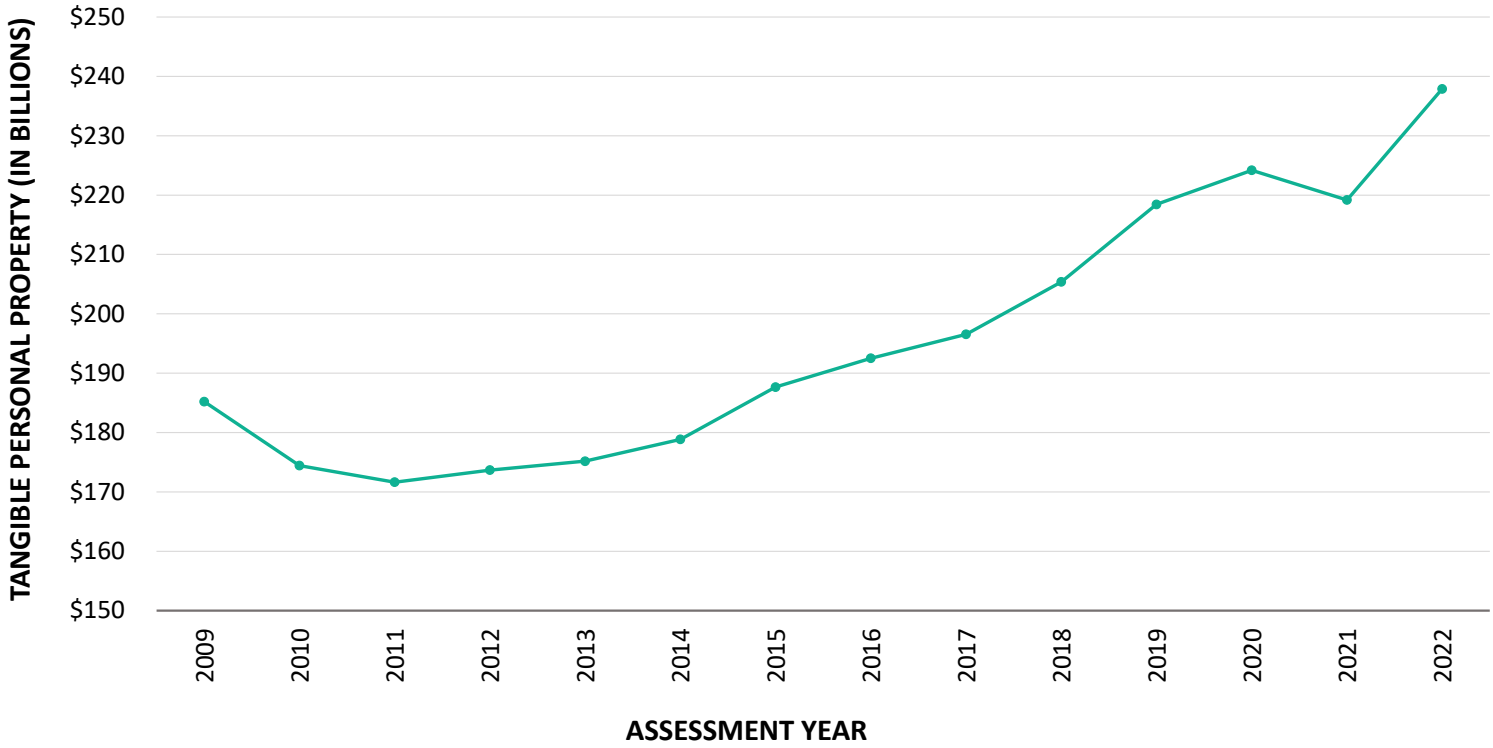


FIGURE 4.3 TANGIBLE PERSONAL PROPERTY.
Source: State Board of Equalization.

AVERAGE PROPERTY TAX RATES

10 COUNTIES WITH THE HIGHEST PROPERTY TAX RATES (Assessment Year 2020-21)
Kern, 1.253%
Alameda, 1.237%
San Benito, 1.235%
Santa Clara, 1.210%
Imperial, 1.209%
Fresno, 1.206%
San Francisco, 1.200%
Solano, 1.182%
Los Angeles, 1.179%
Riverside, 1.177%

TABLE 4.3 COUNTIES WITH THE HIGHEST PROPERTY TAX RATES.
Source: State Board of Equalization.

Proposition 13 caps the property tax rate at 1 percent of a property's assessed value, but allows the rate to exceed this cap to pay off voter-approved bonds.

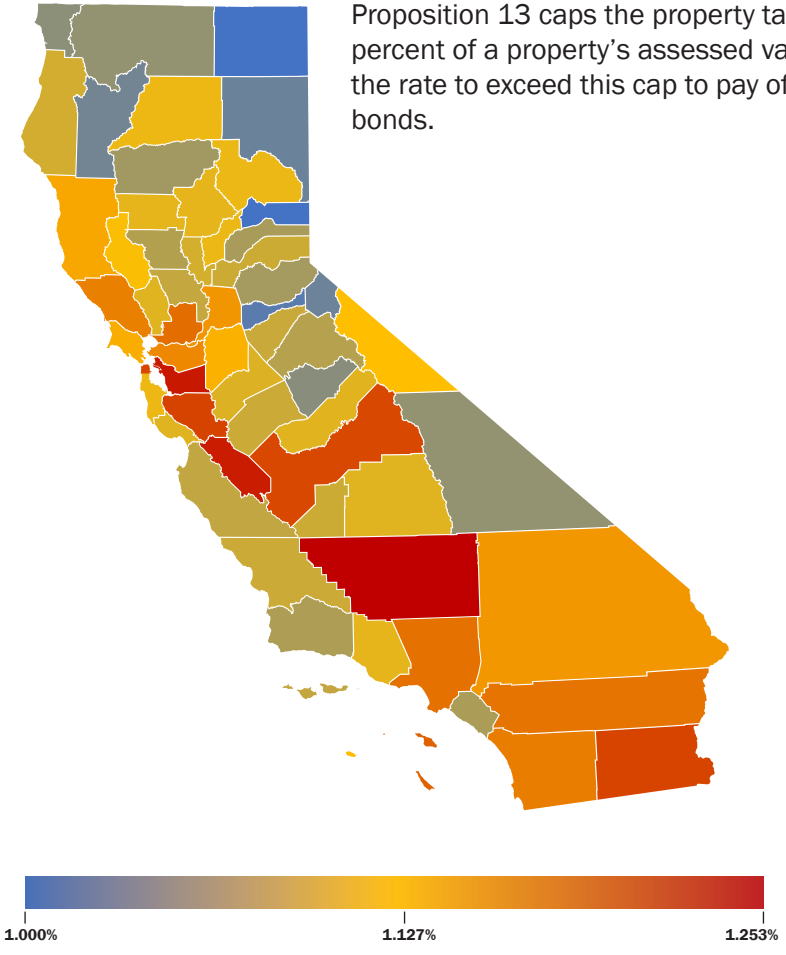


FIGURE 4.4 CALIFORNIA PROPERTY TAX RATES MAP.
Source: State Board of Equalization.

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 — an amount that has not changed since 1974. This exemption, which saves the homeowner $70 a year in property tax, 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 2022, the homeowners' exemption was claimed by 4,763,313 property owners.

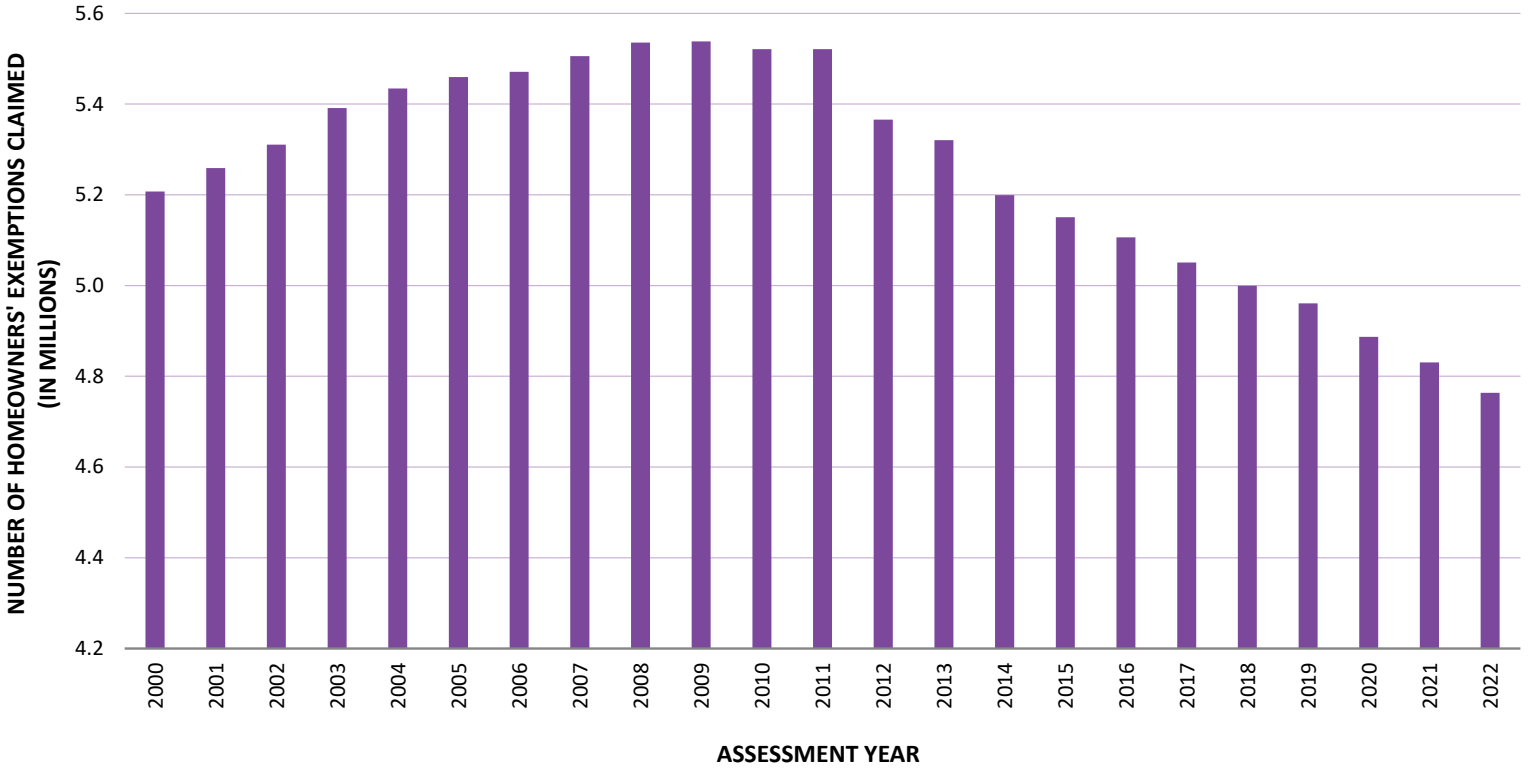


FIGURE 4.5 HOMEOWNERS' EXEMPTIONS CLAIMED.
Source: State Board of Equalization.

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.

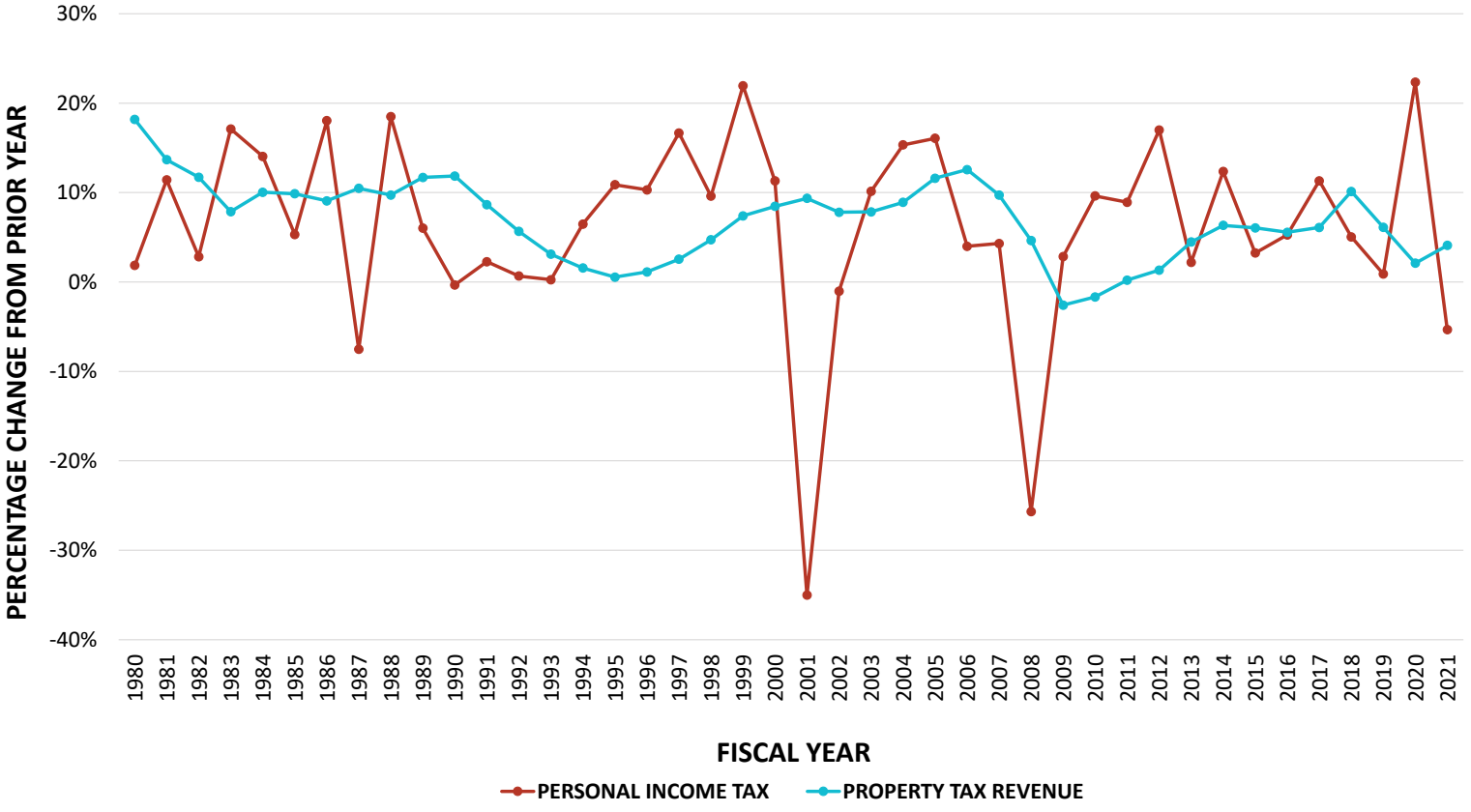


FIGURE 4.6 REVENUE STABILITY UNDER PROPOSITION 13.
Sources: State Board of Equalization, Legislative Analyst's Office.

CALIFORNIA'S OTHER PROPERTY TAX – THE PARCEL TAX

WHAT IS A PARCEL TAX?

A parcel tax is a local add-on tax on a parcel of land. Parcel taxes can be imposed by a city, county, school district, fire district, or other local government entity if approved by at least two-thirds of the voters in the district where the tax will be imposed. Some properties may be subject to parcel taxes imposed by several different jurisdictions, and some properties are comprised of more than one parcel.

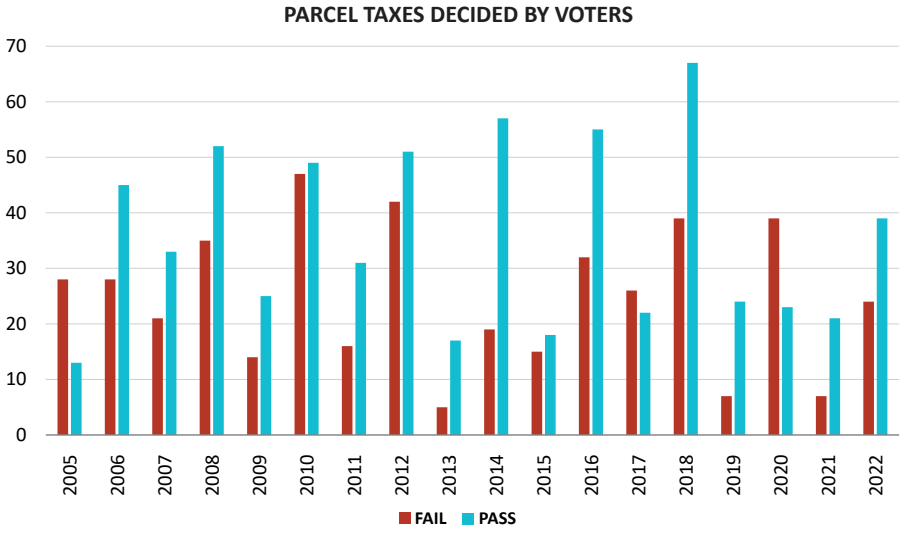


FIGURE 4.7 PARCEL TAXES DECIDED BY VOTERS.
Source: California Taxpayers Association.

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 footage, 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.

TABLE 4.4 TYPES OF PARCEL TAXES.

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
- FLOOD
- LANDSCAPING
- MOSQUITO ABATEMENT
- SIDEWALKS
- STORM DRAIN
- STREET IMPROVEMENT
- STREET LIGHTING
- TRASH
- VECTOR CONTROL
- WATER
- WEED ABATEMENT

$252.8 MILLION

Property owners in cities paid more than $252.8 million in benefit assessments for lighting service in fiscal year 2020.

$4.8 BILLION

Property owners in cities paid more than $4.8 billion in sewer service assessments in fiscal year 2020.

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.

TABLE 4.5 EXAMPLES OF LOCAL SERVICES COVERED BY ASSESSMENTS.

Highway 680, Fremont

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 transactions and use tax 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 rate has reached 10.75 percent in some areas). 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.

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.

If it is determined that an out-of-state retailer is engaged in business in California, the retailer is required to register with the CDTFA and collect use tax from its California customers. The tax is considered a use tax because the merchandise is shipped from outside California with title passing outside California, and delivered to the customer in California. An out-of-state retailer is considered to be engaged in business in California if it has sales representatives operating in the state or has a sales office or warehouse in California. (See the *Wayfair* decision section below for additional information regarding use tax collection obligations.)

THE *WAYFAIR* DECISION

On April 25, 2019, California passed Assembly Bill 147 (Chapter 5, Statutes of 2019), as a result of the June 21, 2018, U.S. Supreme Court ruling in *South Dakota v. Wayfair*. In that decision, the court ruled that a state can mandate businesses without a physical presence in that state to collect sales tax on all sales made into the state, based on the seller's level of economic activity in the state. The *Wayfair* decision overturned a longstanding U.S. Supreme Court precedent, established in *Quill Corp. v. North Dakota* (1992), that precluded states from imposing an obligation to collect sales or use tax on a seller unless the seller had a physical presence in the state.

AB 147 requires sellers located outside California to register with the CDTFA and collect use tax if, during the preceding or current calendar year, the total combined sales of tangible personal property (TPP) for delivery in California by the retailer and all persons related to the retailer exceed $500,000. A person is related to a retailer if they have a relationship with the retailer described in section 267(b) of title 26 of the United States Code and the related regulations. The new use tax collection requirement for remote sellers became effective April 1, 2019.

AB 147 also requires all retailers, whether located inside

or outside California, to collect district use tax on all sales made for delivery in any district that imposes a district tax if, during the preceding or current calendar year, the total combined sales of TPP in California or for delivery in California by the retailer and all persons related to the retailer exceed $500,000.

Through October 31, 2022, 15,800 taxpayers registered for a California permit as a result of the *Wayfair* decision and AB 147 economic nexus provisions. These same taxpayers have reported $3.1 billion in tax due.

MARKETPLACE FACILITATOR ACT

Responding to the growing popularity of online sales, AB 147 also added the Marketplace Facilitator Act (MFA), operative October 1, 2019, to address sales of tangible personal property through online marketplaces. The MFA includes definitions for the terms "marketplace," "marketplace facilitator," "marketplace seller" and "delivery network company." Some key provisions of the MFA include:

- A marketplace facilitator is considered to be the seller and retailer for each sale facilitated through its marketplace on behalf of a marketplace seller.

- The marketplace facilitator is required to register with the CDTFA for either a seller's permit or a "Certificate of Registration – Use Tax," depending on its specific facts.

- A marketplace facilitator that is registered or required to be registered with the CDTFA and facilitates a retail sale of TPP on behalf of a marketplace seller is the retailer making the sale of the TPP sold through its marketplace and is required to pay any sales taxes and collect any use taxes due. The marketplace seller is not responsible for collecting and reporting the tax on sales made through a marketplace facilitator. However, if the seller also makes sales of TPP to California customers on its own, it may be required to collect and report sales or use taxes if it has a physical or economic nexus.

The economic nexus provisions discussed in the *Wayfair* section above apply to marketplace facilitators and sellers.

See California Sales and Use Tax Regulation 1684.5, "Marketplace Sales," for a list of definitions, specific details and a handful of examples regarding the MFA.

2023 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 §6051.2 and RTC §6201.2
	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 §7202
	City/County General Operations	1.00%	RTC §7203
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%**	

TABLE 5.1 SALES AND USE TAX RATES.
Source: California Department of Tax and Fee Administration.

JURISDICTIONS THAT MAY EXCEED 2 PERCENT SALES TAX CAP

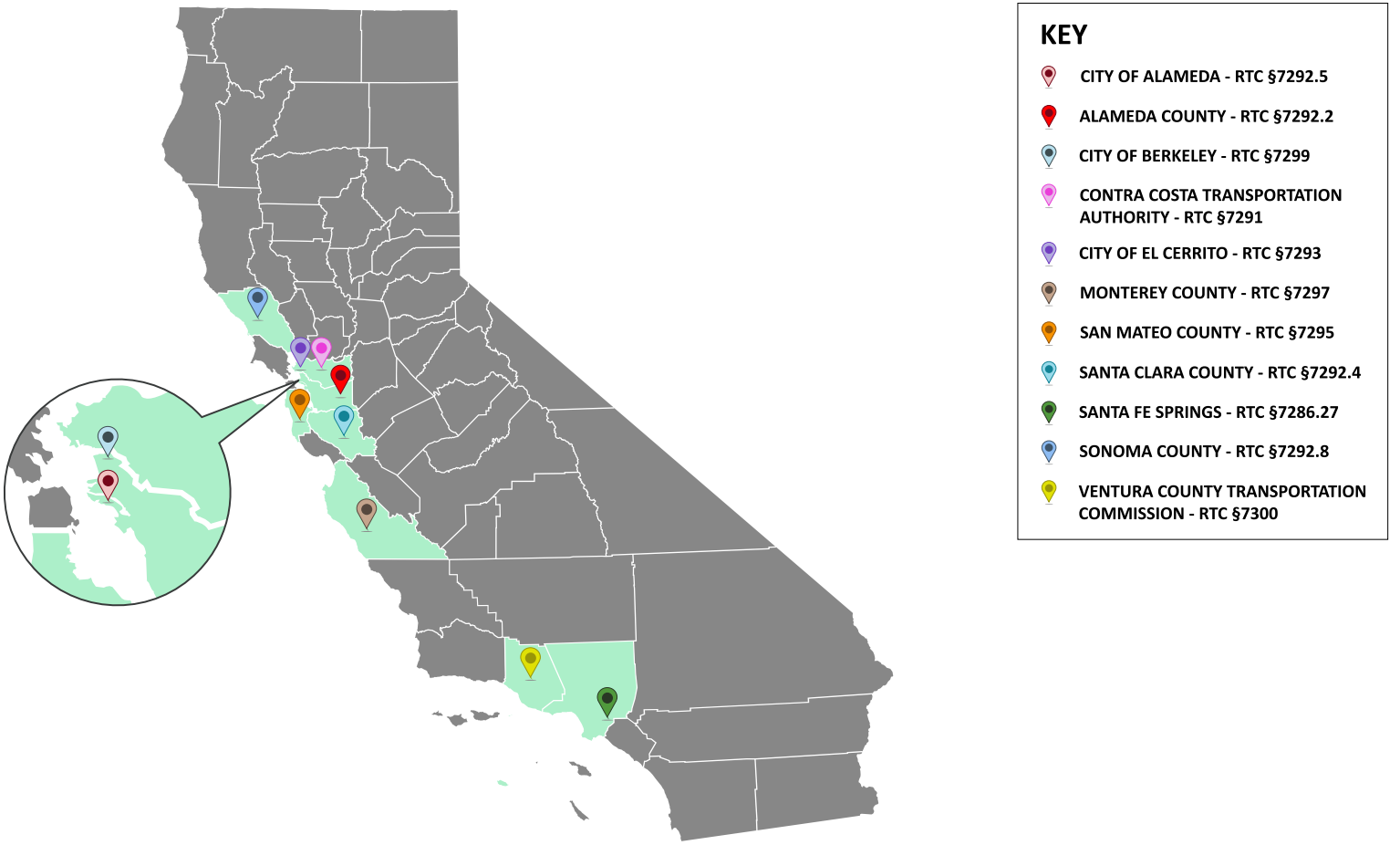


FIGURE 5.1 JURISDICTIONS THAT MAY EXCEED 2 PERCENT SALES TAX CAP.
Source: California Department of Tax and Fee Administration.

SALES AND USE TAX EXEMPTIONS

Purchases generally not subject to sales and use tax include, but are not limited to:

- Admission charge for the use of amusement parks, theaters, sporting events, golf courses, and other places (CDTFA Pub. 61)
- Lodging (CDTFA Pub. 61)
- Animal life used for human consumption (Reg. 1587)
- Seeds, plants and fertilizer (Reg. 1588)
- Noncarbonated bottled water (Reg. 1602)
- Candy (Reg. 1602)
- Cold food products (Reg. 1602)
- Electronically delivered software (Reg. 1502)
- Gas and electricity sold to households delivered through mains, lines or pipes (IRC section 6353)
- Prescription medicines (Reg. 1591)
- Medical cannabis (Cannabis Tax Law 34011[f])
- Printed sales messages (Reg. 1541.5)
- School yearbooks (Reg. 1590)
- Installation labor (Reg. 1546)
- Repair labor (Reg. 1546)
- Wheelchairs, crutches, canes and walkers when sold to an individual as directed by a licensed physician (Reg. 1591.2)
- Sales to the U.S. government (Reg. 1614)

TABLE 5.2 PURCHASES GENERALLY NOT SUBJECTED TO SALES AND USE TAX EXEMPTIONS. For more information, see the regulation or publication noted.
Source: California Department of Tax and Fee Administration.

Partial exemptions from sales and use tax include, but are not limited to:

- Farm equipment and machinery (Reg. 1533.1)
- Diesel fuel used in farming activities or food processing (Reg. 1533.2)
- Teleproduction or other postproduction service equipment (Reg. 1532)
- Manufacturing and research & development equipment (Reg. 1525.4)
- Timber harvesting equipment and machinery (Reg. 1534)
- Racehorse breeding stock (Reg. 1535)

TABLE 5.3 PARTIAL EXEMPTIONS FROM SALES AND USE TAX.
Source: California Department of Tax and Fee Administration.

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 2021.

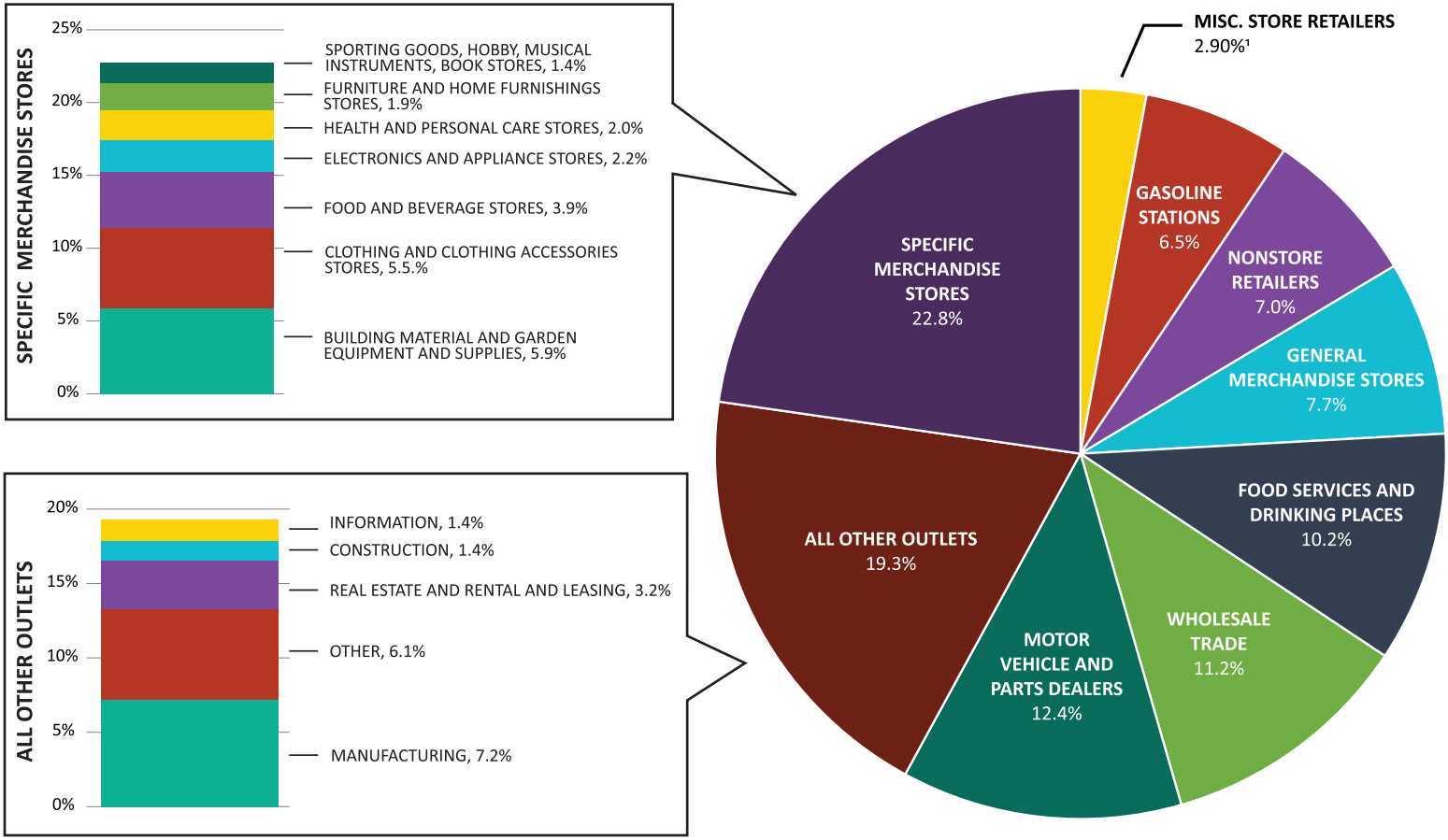


FIGURE 5.2 WHAT SALES GENERATE THE MOST TAX REVENUE?
Source: California Department of Tax and Fee Administration.
1. "Miscellaneous Stores" include all businesses under Code 453 of the North American Industry Classification System (NAICS), including florists, office supplies and used merchandise stores.

DISTRIBUTION OF LOCAL AND DISTRICT SALES AND USE TAXES COLLECTED FROM ONLINE SALES

LOCAL TAXES

California law allocates local sales and use 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, it depends on whether the merchandise is shipped from within California.

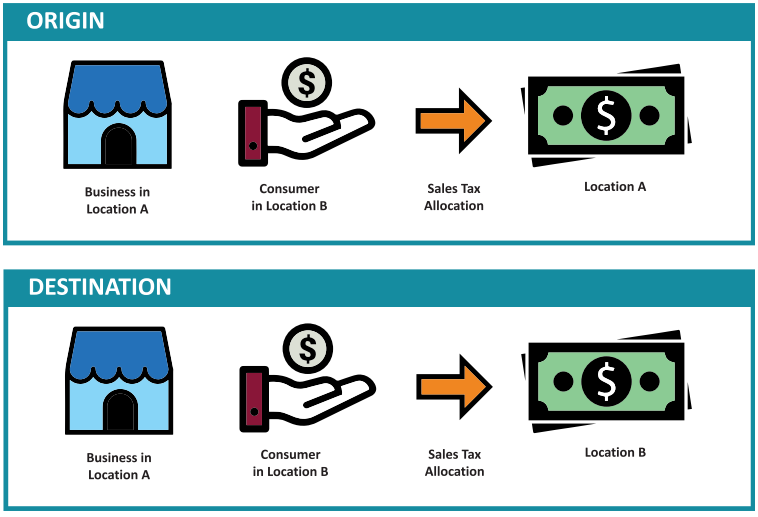


FIGURE 5.3 ORIGIN-AND-DESTINATION STRUCTURE.

In general, if the merchandise being sold is located within California, including in a warehouse or fulfillment center, the transaction is subject to sales tax. The local tax will be allocated to the specific jurisdiction where the merchandise is located.

If the merchandise is shipped from outside California, and title passes outside California, the transaction is subject to use tax and the local tax will be allocated to the jurisdiction the property is shipped to, through a countywide pool.

DISTRICT TAXES

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 district sales tax revenue allocation. If a retailer is located outside of a district, and is not considered to be engaged in business in the district, it is not required to collect the district tax. "Engaged in business" generally means having a physical presence in the district, e.g., a warehouse, fulfillment center or sales representative in the district.

As noted under the *Wayfair* section on page 38, operative April 25, 2019, all retailers, whether located inside or outside California, are required to collect district use tax on all sales made for delivery in any district that imposes a district tax if, during the preceding or current calendar year, the total combined sales of TPP in California or for delivery in California by the retailer and all persons related to the retailer exceed $500,000.

In general, if a retailer is making online sales and does not have a physical presence in a district, it is not responsible for collecting the district sales or use taxes from its customers, unless the retailer falls under the *Wayfair*-related provisions noted above.

SHOULD YOU COLLECT TAX ON AN ONLINE SALE?

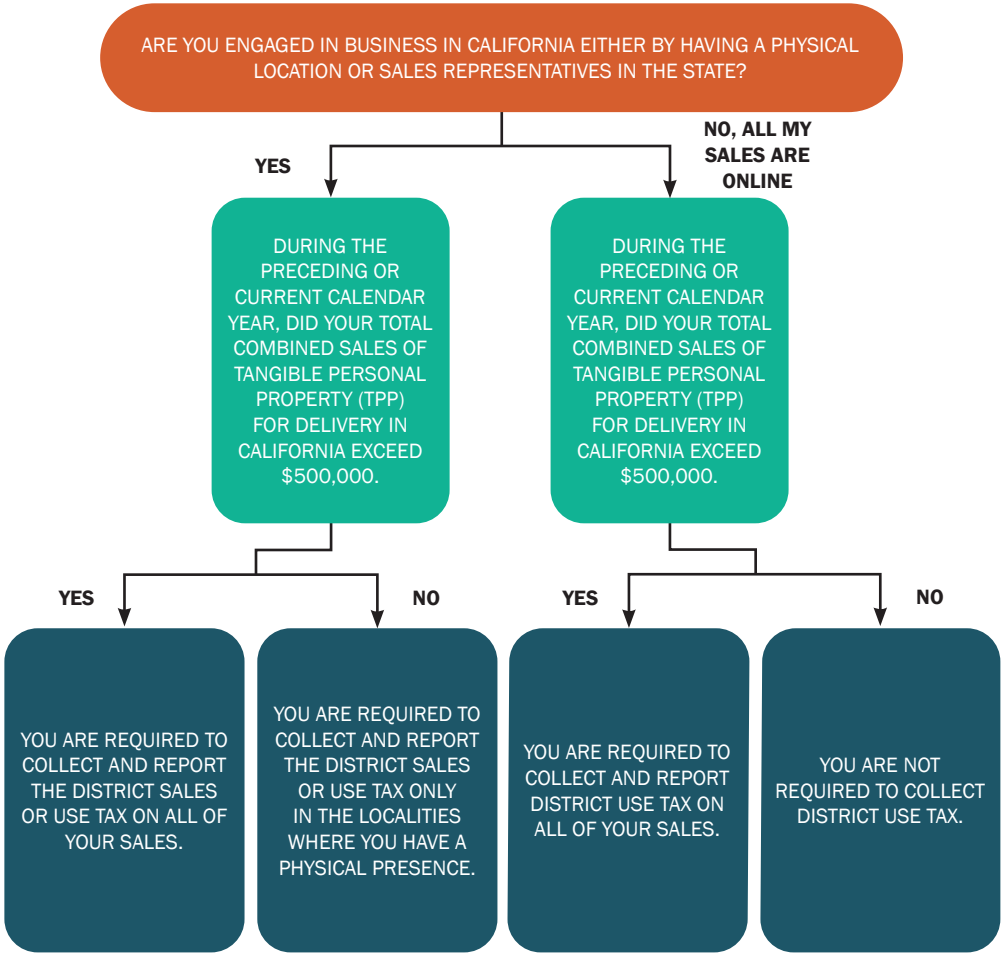


FIGURE 5.4 SHOULD YOU COLLECT TAX ON AN ONLINE SALE?

SALES AND USE TAX REVENUE

The sales and use tax is one of the three major sources of revenue that fund the California budget. In 2020, sales and use tax revenue totaled more than $66 billion.

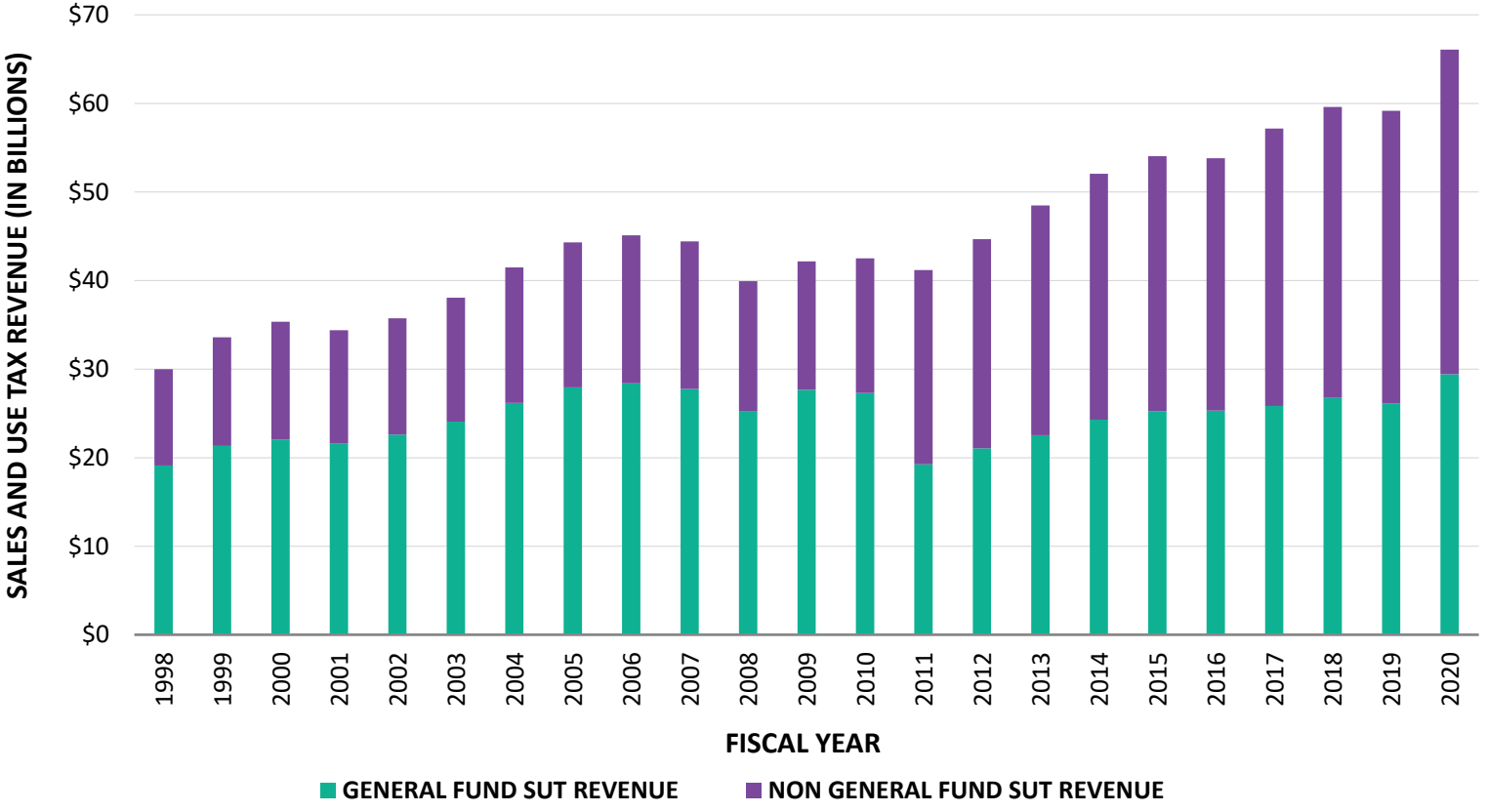


FIGURE 5.5 GENERAL FUND SALES AND USE TAX REVENUE.
Source: California Department of Tax and Fee Administration.

2023 CITY AND COUNTY SALES AND USE TAX RATES

ALAMEDA CO., 10.25%	Williams, 7.75%	Del Norte (Unincorporated Area)[2], 8.25%	**HUMBOLDT CO., 7.75%**
Alameda, 10.75%	**CONTRA COSTA CO., 8.75%**	**EL DORADO CO., 7.25%**	Arcata, 8.50%
Albany, 10.75%	Antioch, 9.75%	Placerville, 8.25%	Blue Lake, 8.75%
Emeryville, 10.50%	Concord, 9.75%	South Lake Tahoe, 8.75%	Eureka, 9.25%
Hayward 10.75%	El Cerrito, 10.25%	**FRESNO CO., 7.975%**	Fortuna, 8.50%
Newark, 10.75%	Hercules, 9.25%	Coalinga, 8.975%	Rio Dell, 8.75%
San Leandro, 10.75%	Martinez, 9.75%	Fowler, 8.975%	Trinidad, 8.50%
Union City, 10.75%	Moraga, 9.75%	Fresno, 9.60%	**IMPERIAL CO., 7.75%**
ALPINE CO., 7.25%	Orinda, 9.75%	Huron, 8.975%	Calexico, 8.25%
AMADOR CO., 7.75%	Pinole, 9.75%	Kerman, 8.975%	El Centro, 8.25%
BUTTE CO., 7.25%	Pittsburg, 9.25%	Kingsburg, 8.975%	**INYO CO., 7.75%**
Chico, 8.25%	Pleasant Hill, 9.25%	Parlier, 8.975%	Bishop, 8.75%
Oroville, 8.25%	Richmond, 9.75%	Reedley, 9.225%	**KERN CO., 7.25%[3]**
Paradise, 7.75%	San Pablo, 9.50%	Sanger, 8.725%	Arvin, 8.25%
CALAVERAS CO., 7.25%	Walnut Creek, 9.25%	Selma, 8.475%	Bakersfield, 8.25%
Angels Camp, 7.75%	**DEL NORTE CO., 7.25%[1]**	**GLENN CO., 7.25%**	Delano, 8.25%
COLUSA CO., 7.25%	Crescent City, 8.50%	Orland, 7.75%	Kern (Unincorporated Area)[4], 8.25%
Colusa, 8.25%			

TABLE 5.4 CITY AND COUNTY SALES AND USE TAX. Rates are effective beginning April 1, 2023.
Sources: Compiled by CalTax, California Department of Tax and Fee Administration.
1. This tax rate applies to areas that are within the boundaries of any incorporated cities within Del Norte County.
2. This tax rate applies to areas that are not within the boundaries of any incorporated cities within Del Norte County.
3. This tax rate applies to areas that are within the boundaries of any incorporated cities within Kern County.
4. This tax rate applies to areas that are not within the boundaries of any incorporated cities within Kern County.

McFarland, 8.25%	Bell Gardens, 10.25%	Irwindale, 10.25%	San Fernando, 10.25%
Ridgecrest, 9.25%	Bellflower, 10.25%	La Puenta, 10.00%	San Gabriel, 10.25%
Taft, 8.25%	Burbank, 10.25%	La Verne, 10.25%	Santa Fe Springs, 10.50%
Tehachapi, 8.25%	Carson, 10.25%	Lakewood, 10.25%	Santa Monica, 10.25%
Wasco, 8.25%	Commerce, 10.25%	Lancaster, 10.25%	Sierra Madre, 10.25%
KINGS CO., 7.25%	Compton, 10.25%	Lawndale, 10.25%	Signal Hill, 10.25%
Avenal, 8.25%	Covina, 10.25%	Lomita, 10.25%	South El Monte, 10.25%
Corcoran, 8.25%	Cudahy, 10.25%	Long Beach, 10.25%	South Gate, 10.25%
LAKE CO., 7.25%	Culver City, 10.25%	Lynwood, 10.25%	South Pasadena, 10.25%
Clearlake, 8.75%	Downey, 10.00%	Malibu, 10.00%	Torrance, 10.00%
Lakeport, 8.75%	Duarte, 10.25%	Monrovia, 10.25%	Vernon, 10.25%
LASSEN CO., 7.25%	El Monte, 10.00%	Montebello, 10.25%	West Hollywood, 10.25%
Susanville, 8.25%	Gardena, 10.25%	Monterey Park, 10.25%	Whittier, 10.25%
LOS ANGELES CO., 9.50%	Glendale, 10.25%	Norwalk, 10.25%	**MADERA CO., 7.75%**
Alhambra, 10.25%	Glendora, 10.25%	Palmdale, 10.25%	Chowchilla, 8.75%
Arcadia, 10.25%	Hawaiian Gardens, 10.25%	Paramount, 10.25%	Madera, 8.25%
Avalon, 10.00%	Hawthorne, 10.25%	Pasadena, 10.25%	**MARIN CO., 8.25%**
Azusa, 10.25%	Huntington Park, 10.25%	Pico Rivera, 10.25%	Corte Madera, 9.00%
Baldwin Park, 10.25%	Inglewood, 10.00%	Pomona, 10.25%	Fairfax, 9.00%

TABLE 5.4 CITY AND COUNTY SALES AND USE TAX (continued). Rates are effective beginning April, 2023.
Sources: Compiled by CalTax, California Department of Tax and Fee Administration.

Larkspur, 9.25%	Mammoth Lakes, 7.75%	**ORANGE CO., 7.75%**	Hemet, 8.75%
Novato, 8.50%	**MONTEREY CO., 7.75%**	Fountain Valley, 8.75%	Indio, 8.75%
San Anselmo, 9.25%	Carmel-by-the-Sea, 9.25%	Garden Grove, 8.75%	La Quinta, 8.75%
San Rafael, 9.25%	Del Rey Oaks, 9.25%	La Habra, 8.25%	Lake Elsinore, 8.75%
Sausalito, 9.25%	Gonzales, 8.75%	La Palma, 8.75%	Menifee, 8.75%
MARIPOSA CO., 8.75%	Greenfield, 9.50%	Los Alamitos, 9.25%	Murrieta, 8.75%
MENDOCINO CO., 8.25%[5]	King City, 8.75%	Placentia, 8.75%	Norco, 8.75%
Fort Bragg, 8.875%	Marina, 9.25%	Santa Ana, 9.25%	Palm Springs, 9.25%
Mendocino (Unincorporated Area) [6], 8.25%	Monterey, 9.25%	Seal Beach, 8.75%	Riverside, 8.75%
	Pacific Grove, 9.25%	Stanton, 8.75%	San Jacinto, 8.75%
Point Arena, 8.375%	Salinas, 9.25%	Westminster, 8.75%	Temecula, 8.75%
Ukiah, 8.875%	Sand City, 9.25%	**PLACER CO., 7.25%**	Wildomar, 8.75%
Willits, 9.125%	Seaside, 9.25%	Loomis, 7.50%	**SACRAMENTO CO., 7.75%**
MERCED CO., 7.75%	Soledad, 9.25%	Roseville, 7.75%	Elk Grove, 8.75%
Atwater, 8.25%	**NAPA CO., 7.75%**	**PLUMAS CO., 7.25%**	Galt, 9.25%
Gustine, 8.25%	St. Helena, 8.25%	**RIVERSIDE CO., 7.75%**	Isleton, 8.75%
Los Banos, 8.75%	**NEVADA CO., 7.50%**	Blythe, 8.75%	Rancho Cordova, 8.75%
Merced, 8.25%	Grass Valley, 8.50%	Cathedral City, 8.75%	Sacramento, 8.75%
MODOC CO., 7.25%	Nevada City, 8.375%	Coachella, 8.75%	**SAN BENITO CO., 8.25%**
MONO CO., 7.25%	Truckee, 8.25%	Corona, 8.75%	Hollister, 9.25%

TABLE 5.4 CITY AND COUNTY SALES AND USE TAX (continued). Rates are effective beginning April 1, 2023.
Sources: Compiled by CalTax, California Department of Tax and Fee Administration.
5. This tax rate applies to areas that are within the boundaries of any incorporated cities within Mendocino County.
6. This tax rate applies to areas that are not within the boundaries of any incorporated cities within Mendocino County.

San Juan Bautista, 9.00%	**SAN FRANCISCO CO., 8.625%**	East Palo Alto, 9.875%	Capitola, 9.00%
SAN BERNARDINO CO., 7.75%	**SAN JOAQUIN CO., 7.75%**	Pacifica, 9.875%	Santa Cruz, 9.25%
Barstow, 8.75%	Lathrop, 8.75%	Redwood City, 9.875%	Scotts Valley, 9.75%
Colton, 8.75%	Lodi, 8.25%	San Bruno, 9.875%	Watsonville, 9.25%
Montclair, 9.00%	Manteca, 8.25%	San Mateo, 9.625%	Santa Cruz (Unincorporated Area)[8], 9.00%
Ontario, 8.75%	Stockton, 9.00%	South San Francisco, 9.875%	
Redlands, 8.75%	Tracy, 8.25%	**SANTA BARBARA CO., 7.75%**	**SHASTA CO., 7.25%**
San Bernardino, 8.75%	**SAN LUIS OBISPO CO., 7.25%**	Carpinteria, 9.00%	Anderson, 7.75%
Victorville, 8.75%	Arroyo Grande, 7.75%	Goleta, 8.75%	**SIERRA CO., 7.25%**
Yucca Valley, 8.75%	Atascadero, 8.75%	Guadalupe, 8.75%	**SISKIYOU CO., 7.25%**
SAN DIEGO CO., 7.75%	Grover Beach, 8.75%	Lompoc, 8.75%	Dunsmuir, 7.75%
Chula Vista, 8.75%	Morro Bay, 8.75%	Santa Barbara, 8.75%	Mount Shasta, 7.50%
Del Mar, 8.75%	Paso Robles, 8.75%	Santa Maria, 8.75%	Weed, 7.50%
El Cajon, 8.25%	Pismo Beach, 7.75%	Solvang, 8.75%	Yreka, 7.75%
Imperial Beach, 8.75%	San Luis Obispo, 8.75%	**SANTA CLARA CO., 9.125%**	**SOLANO CO., 7.375%**
La Mesa, 8.50%	**SAN MATEO CO., 9.375%**	Campbell, 9.375%	Benicia, 8.375%
National City, 8.75%	Belmont, 9.875%	Los Gatos, 9.25%	Fairfield, 8.375%
Oceanside, 8.25%	Brisbane, 9.875%	Milpitas, 9.375%	Rio Vista, 8.125%
Solana Beach, 8.75%	Burlingame, 9.625%	San Jose, 9.375%	Suisun City, 8.375%
Vista, 8.25%	Daly City, 9.875%	**SANTA CRUZ CO., 8.50%[7]**	Vacaville, 8.125%

TABLE 5.4 CITY AND COUNTY SALES AND USE TAX (continued). Rates are effective beginning April 1, 2023.
Sources: Compiled by CalTax, California Department of Tax and Fee Administration.
7. This tax rate applies to areas that are within the boundaries of any incorporated cities within Santa Cruz County.
8. This tax rate applies to areas that are not within the boundaries of any incorporated cities within Santa Cruz County.

Vallejo, 9.25%	Modesto, 8.875%	Farmersville, 8.75%	Santa Paula, 8.25%
SONOMA CO., 8.50%	Oakdale, 8.375%	Lindsay, 8.75%	Ventura, 7.75%
Cotati, 9.50%	Turlock, 8.625%	Porterville, 9.25%	**YOLO CO., 7.25%**
Healdsburg, 9.00%	**SUTTER CO., 7.25%**	Tulare, 8.25%	Davis, 8.25%
Petaluma, 9.50%	**TEHAMA CO., 7.25%**	Visalia, 8.50%	West Sacramento, 8.25%
Rohnert Park, 9.00%	Corning, 7.75%	Woodlake, 8.75%	Woodland, 8.00%
Santa Rosa, 9.25%	Red Bluff, 7.50%	**TUOLUMNE CO., 7.25%**	**YUBA CO. 7.25%[9]**
Sebastopol, 9.25%	**TRINITY CO., 7.25%**	Sonora, 8.75%	Marysville, 8.25%
Sonoma, 9.00%	**TULARE CO., 7.75%**	**VENTURA CO., 7.25%**	Wheatland, 7.75%
STANISLAUS CO., 7.875%	Dinuba, 8.50%	Oxnard, 9.25%	Yuba (Unincorporated Area)[10], 8.25%
Ceres, 8.375%	Exeter, 8.75%	Port Hueneme, 8.75%	

TABLE 5.4 CITY AND COUNTY SALES AND USE TAX (continued). Rates are effective beginning April 1, 2023.
Sources: Compiled by CalTax, California Department of Tax and Fee Administration.
9. This tax rate applies to areas that are within the boundaries of any incorporated cities within Yuba County.
10. This tax rate applies to areas that are not within the boundaries of any incorporated cities within Yuba County.

Joshua Tree National Park

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 that end once the bonds have been repaid.
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[1]	Local property taxes that end once the bonds have been repaid.

TABLE 6.1 TYPES OF BONDS.
1. 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 repayment period, interest rates, risk and the issuing government'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 in interest. Adjusted for inflation, this equates to approximately $1.40 for every dollar borrowed, the LAO estimates.

California voters approved $178.78 billion in general obligation bonds from 1987 to 2020, the LAO reports.

The most common types of bonds:

- K-12 education: $51.25 billion
- Transportation: $34.86 billion
- Water: $18.06 billion
- Deficit financing: $15 billion
- Parks/resources/energy: $14.96 billion

HOW BONDS ARE REPAID

OVER 30 YEARS AND ADJUSTED FOR INFLATION

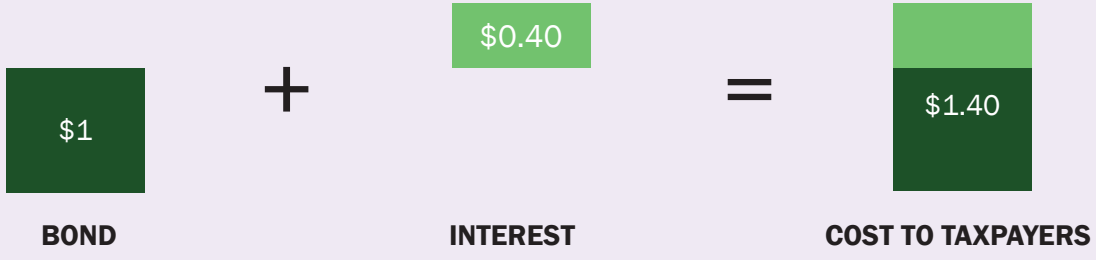


FIGURE 6.1 HOW BONDS ARE REPAID.

LOCAL BOND AUTHORIZATIONS

Voters across California can approve local bonds that are repaid via property tax increases (unlike state general obligation bonds that are repaid through the state's general fund). The most common types of local bonds are school facility bonds and general obligation bonds for locally based infrastructure projects. From 2005 to 2022, voters approved 1,142 local bonds totaling more than $186.4 billion in additional debt, not including interest. While voters authorized the debt, it does not mean those bonds have been sold yet.

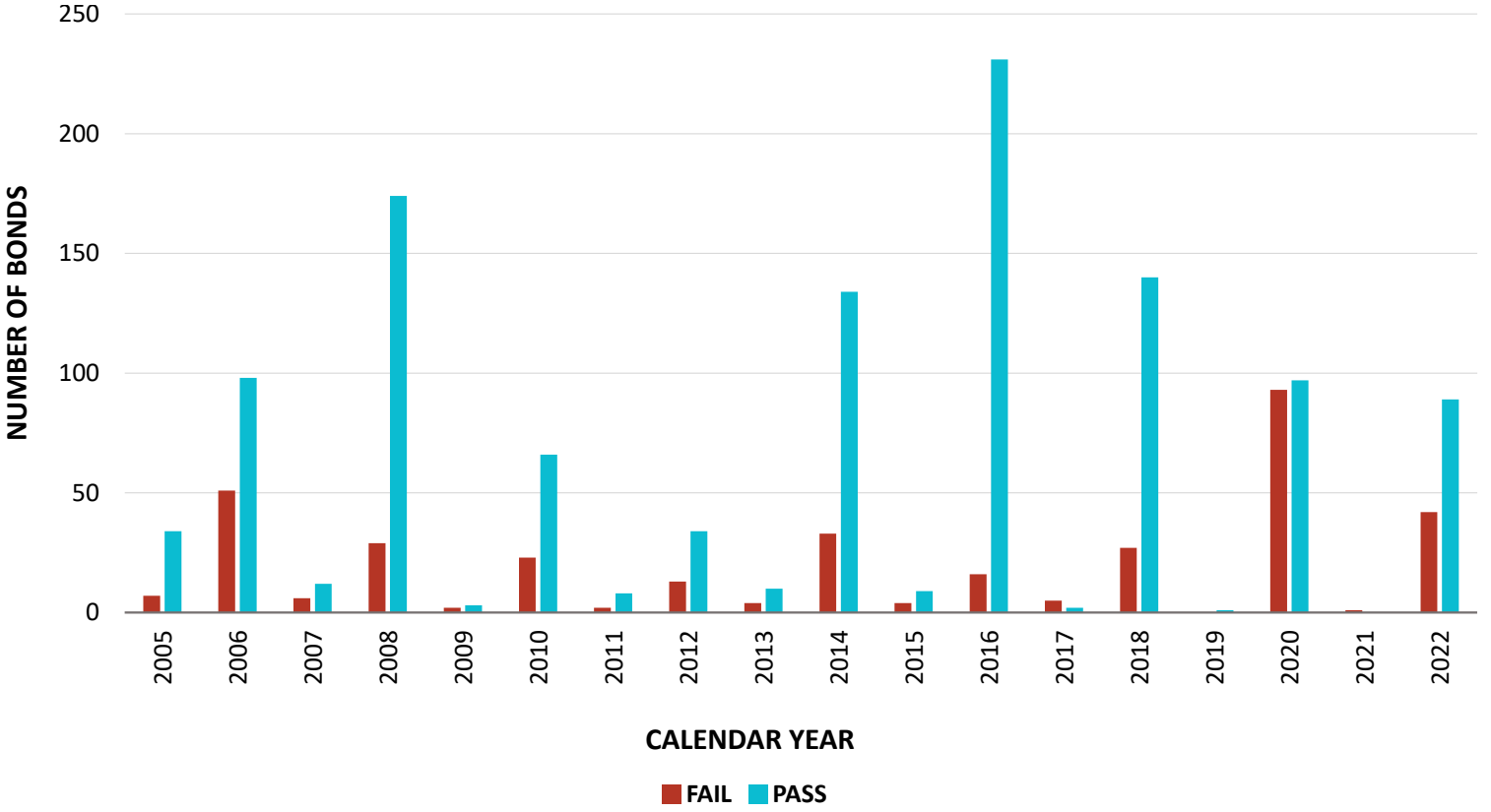


FIGURE 6.2 LOCAL BONDS PASS-FAIL.
Source: California Taxpayers Association local tax data.

Kennedy Meadows, Eastern Sierra

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.

2023 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 - $3.15	$13.50 per gallon	$13.50 per gallon (or more depending on alcohol content)
TOTAL STATE AND FEDERAL TAX	$0.78 per gallon[4]	$0.43 per gallon[4]	$3.70 per gallon	$1.27 - $3.35 per gallon	$16.80 per gallon[4]	$20.10 per gallon

TABLE 7.1 ALCOHOL TAX RATES. Excise taxes are calculated on a per wine gallon basis.
Sources: State Board of Equalization and U.S. Department of the Treasury.

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. 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.

STATE ALCOHOL TAX REVENUE

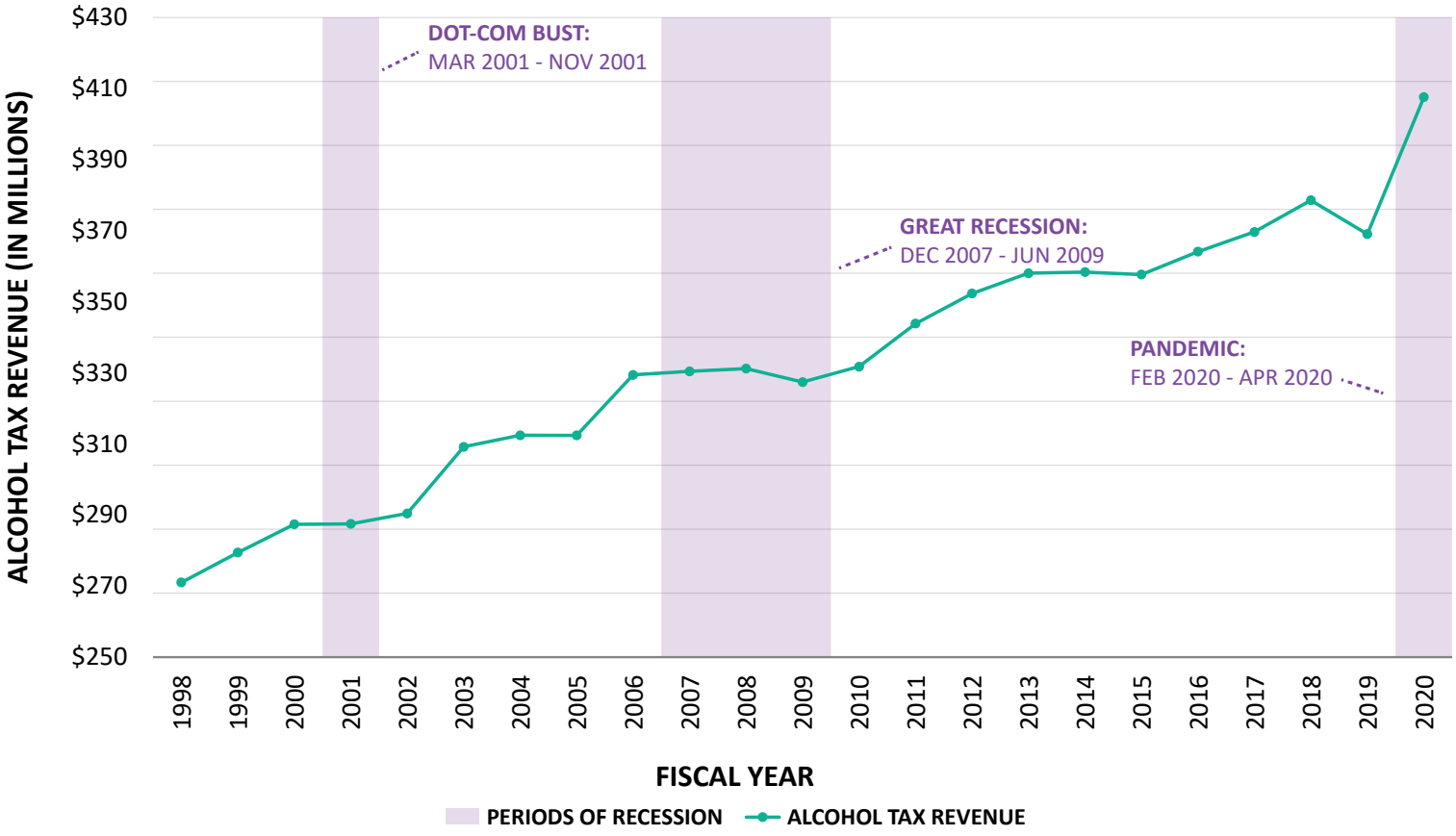


FIGURE 7.1 STATE ALCOHOL TAX REVENUE.
Sources: State Board of Equalization, Department of Finance (Fiscal Year 2019-20 and 2020-21), National Bureau of Economic Research.

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 2020:

190.08
12-ounce bottles of beer

18.39
bottles of wine

154.45
cocktails

TABLE 7.2 ALCOHOL CONSUMPTION ON A PER CAPITA BASIS.
Source: State Board of Equalization.

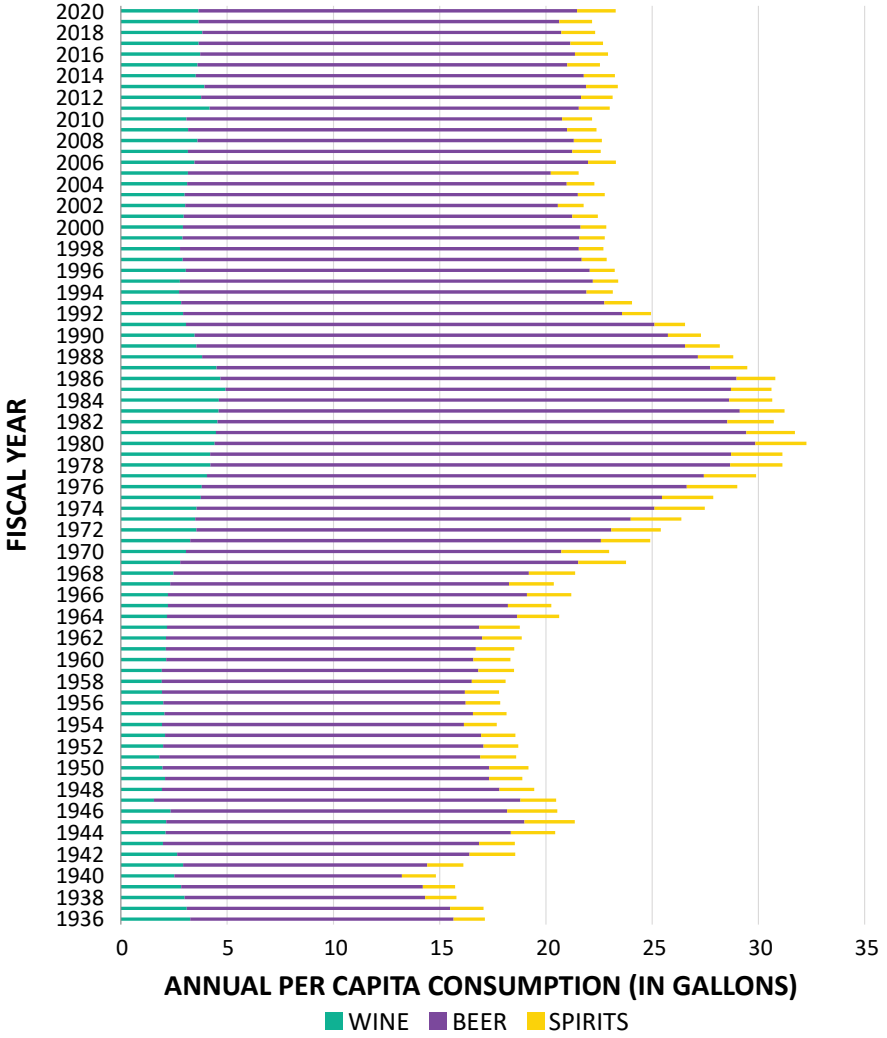


FIGURE 7.2 ALCOHOL CONSUMPTION.
Source: State Board of Equalization.

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.
- The California Department of Tax and Fee Administration is required to adjust the cannabis excise tax every two years at a rate estimated to generate what would have been collected from the cannabis cultivation tax, which was suspended January 1, 2023, by Assembly Bill 195 (Chapter 56, Statutes of 2022).

CANNABIS TAX RATES

(Effective January 1, 2022)

MARIJUANA FLOWERS	$10.08 per dry-weight oz.
MARIJUANA LEAVES	$3.00 per dry-weight oz.
FRESH CANNABIS PLANT	$1.41 per oz.
ADDITIONAL TAX	15% on purchases of cannabis products, plus the above rates

TABLE 7.3 CANNABIS TAX 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:

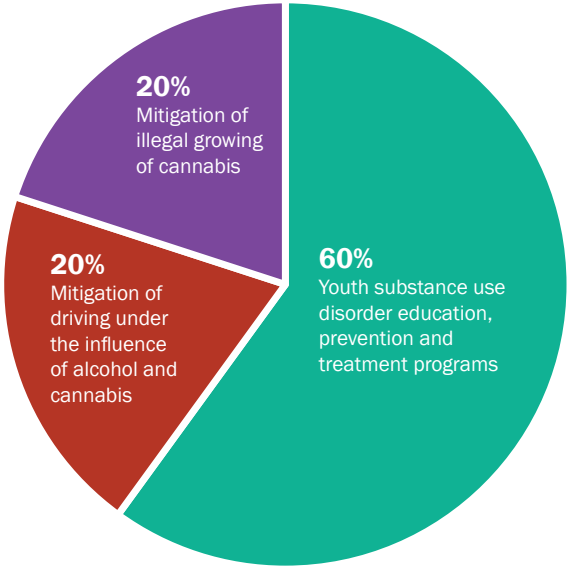


FIGURE 7.3 CANNABIS EXPENDITURES.

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.

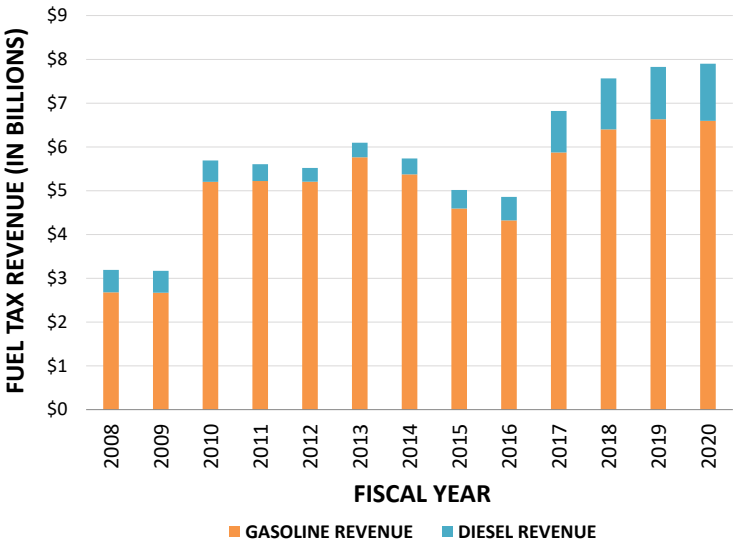


FIGURE 7.4 FUEL TAX REVENUE.
Sources: California Department of Tax and Fee Administration.

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 $5.00 per gallon, taxpayers pay $1.15 in federal and state taxes and fees.

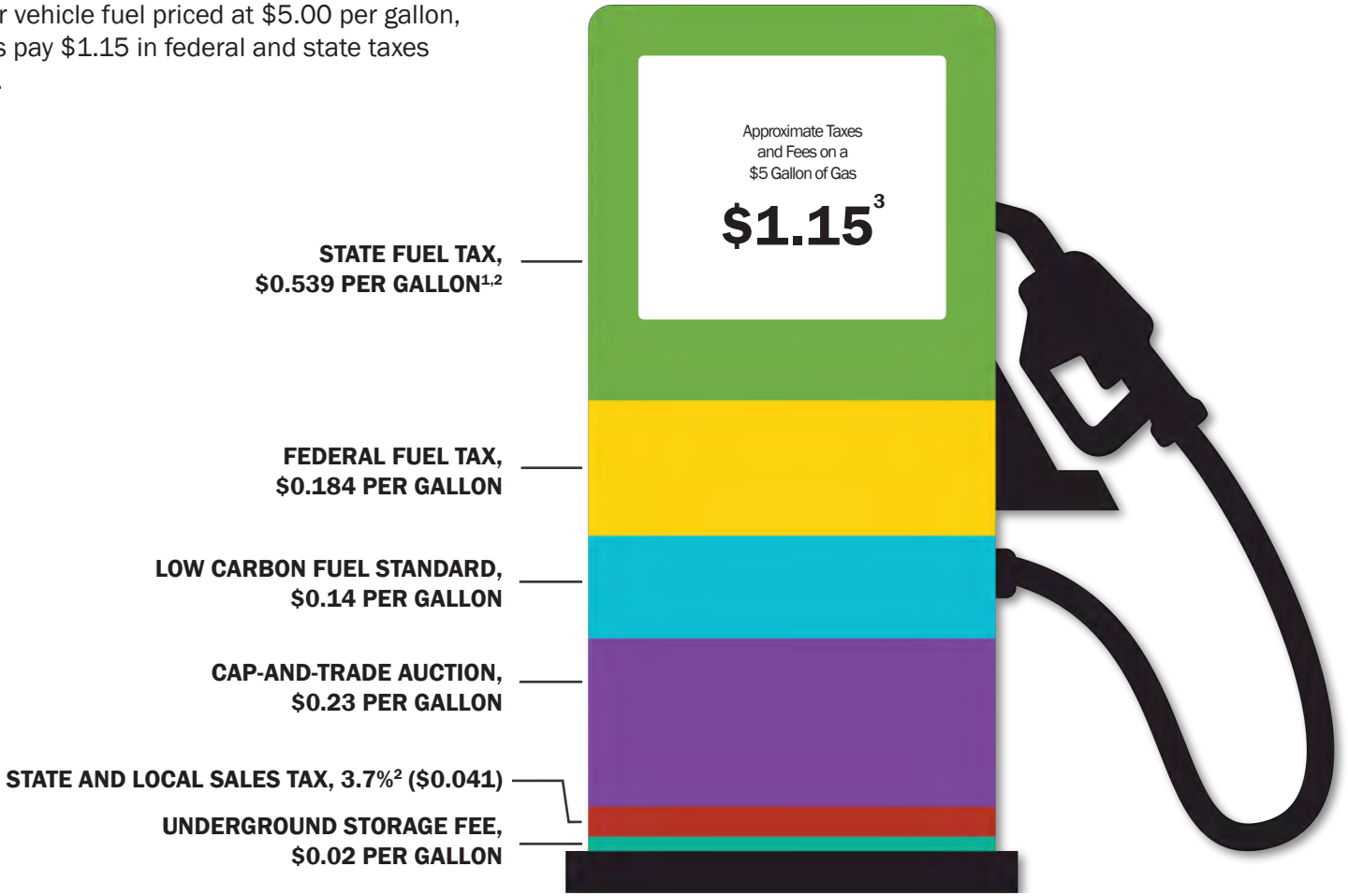


FIGURE 7.5 TAXES INCLUDED IN THE PRICE OF GAS. This figure does not apply to diesel fuel.
Sources: California Department of Tax and Fee Administration, California Energy Commission, OPIS West Coast Spot Market Report.

1. The state fuel tax rate is adjusted annually for inflation (under SB 1 of 2017).
2. California partially exempts fuel from the sales and use tax that benefits the state's general fund. The current average state and local sales tax rate is 3.7 percent, though the rate can vary from as low as 2.25 percent to as high as 5.5 percent depending on the locality. In calculation, the 3.7 percent average was used with the $5.00 cost of gasoline.
3. The number has been rounded.

INSURANCE TAX

The gross premiums tax is a voter-approved constitutional tax. 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.

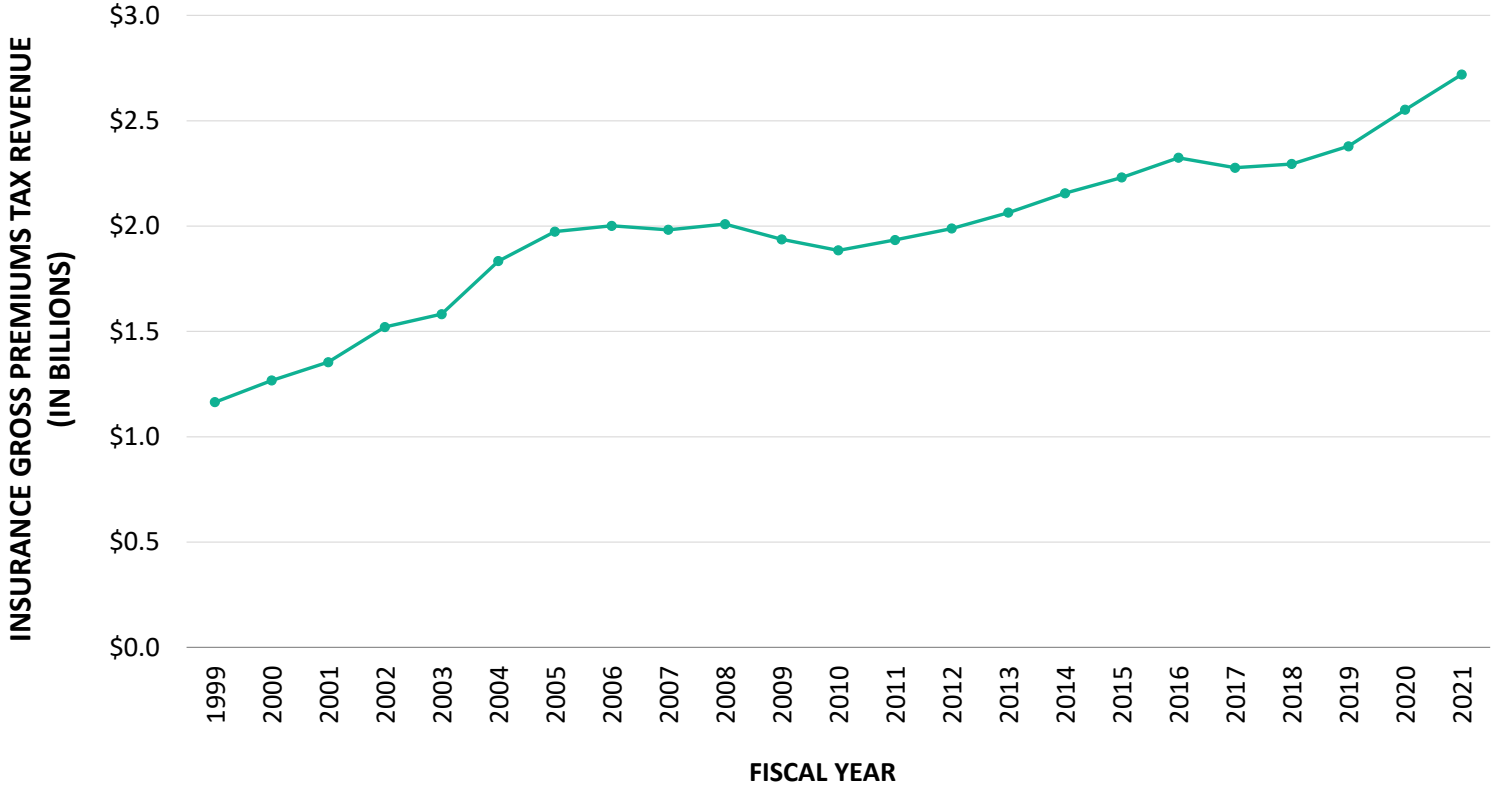


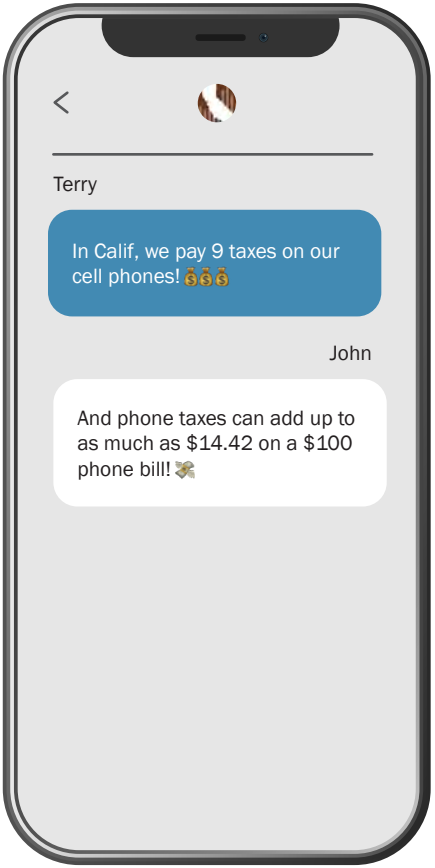
FIGURE 7.6 INSURANCE GROSS PREMIUMS TAX REVENUE.
Source: State Board of Equalization.

PHONE TAXES

California levies a variety of taxes and fees on residents' phone bills. The California Public Utilities Commission administers the surcharges associated with the Universal Lifeline Telephone Service, Deaf and Disabled Telecommunications Program, High-Cost Fund A, High-Cost Fund B, Teleconnect Fund, and California Advanced Services Fund. The California Department of Tax and Fee Administration administers the State 911 and 988 taxes, which collectively levy $0.38 per access line per month. In addition, some local jurisdictions impose a utility users tax on telecommunication services.

The U.S. Federal Communications Commission's (FCC) "safe harbor" rules reduce telecommunications providers' and customers' tax liability by assuming a certain percentage of revenue is derived from interstate and international sources. In 2023, the "safe harbor" rate is 37.1 percent.

California taxpayers pay $14.42 in state and local taxes and fees on a $100 phone bill, when accounting for the federal "safe harbor" provisions.



State 911 Fee, $0.30/access line/month

State 988 Surcharge, $0.08/access line/month

Local Utility Users Tax (Statewide Average), 8.00%

Federal Universal Service Fund, 12.24%

California Advanced Services Fund, 1.109%

Teleconnect Fund, 0.78%

High-Cost Fund A, 0.70%

Deaf and Disabled Telecommunications Program, 1.11%

Universal Lifeline Telephone Service, 4.75%

FIGURE 7.7 PHONE TAXES.
Sources: California Department of Tax and Fee Administration and California Public Utilities Commission.

TOBACCO TAXES

Excise taxes on cigarettes and tobacco products are used for the general fund and various special fund programs. These taxes 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.

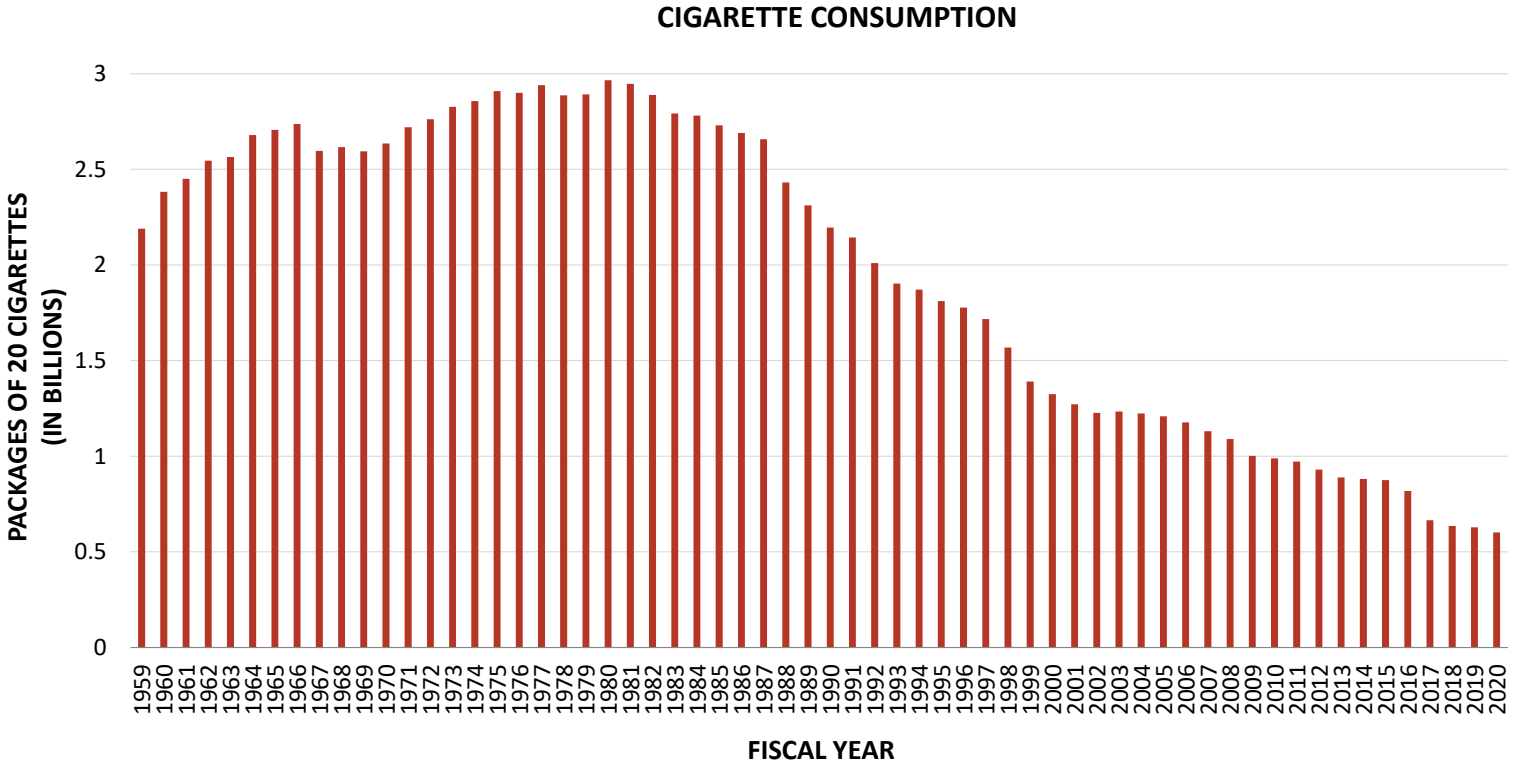


FIGURE 7.8 CIGARETTE CONSUMPTION. Figures reflect legal sales for which tax was paid, and do not include black-market activity that is believed to be substantial in California.
Source: California Department of Tax and Fee Administration.

TOBACCO TAXES

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	61.74 percent of the product's wholesale cost[1]	Taxes cigars, chewing tobacco, 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
E-CIGARETTES	12.5 percent of the sales price of the product	Funds health education, loan payments for dentists and physicians, the University of California, programs increasing the number of underrepresented health professionals, and providing relief to rural hospitals.	SB 395 of 2021 (RTC §31002)

TABLE 7.4 TOBACCO TAX RATES.
Source: California Department of Tax and Fee Administration.
1. Other products rate applies to tax year 2022.

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 healthcare funding, cancer research and other long-term programs.

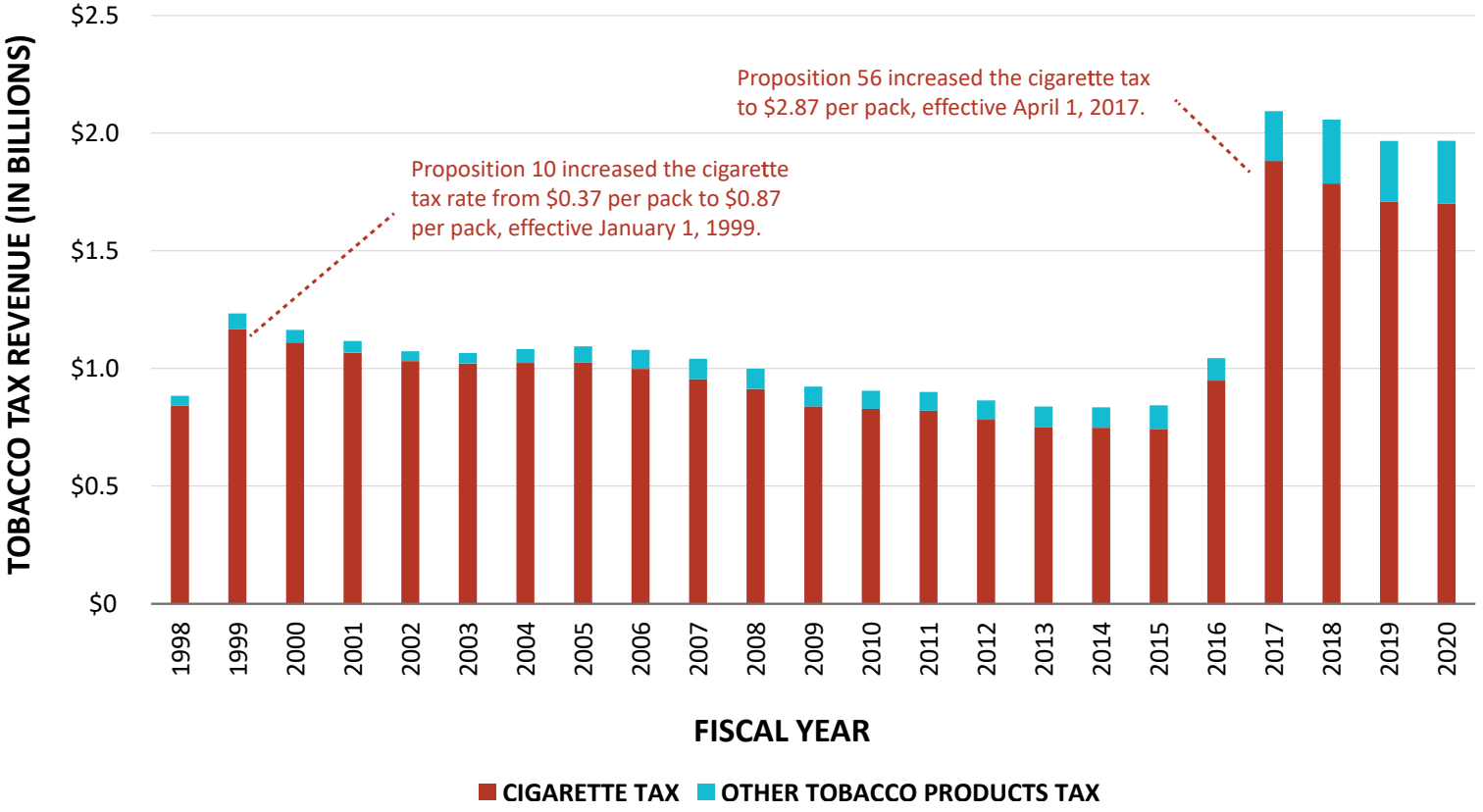


FIGURE 7.9 TOBACCO TAX REVENUE.
Source: California Department of Tax and Fee Administration.

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.	$27 annually when registering or renewing registration for a vehicle, or $45 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 $20. 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

TABLE 7.5 VEHICLE LEVIES.
Source: Department of Motor Vehicles. Rates effective January 2023.

VEHICLE LEVIES

MOTOR VEHICLE TAXES AND CHARGES	RATE	AUTHORITY
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
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.	$23 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: $28 Vehicle's value $5,000 - $24,999: $56 Vehicle's value $25,000 - $34,999: $112 Vehicle's value $35,000 - $59,999: $168 Vehicle's value $60,000+: $196	RTC §11052
Zero-Emission Vehicle Registration Fee. An annual fee imposed on zero-emission vehicles model year 2020 or later for road repairs.	$102 for zero-emission vehicles with a model year of 2020 or later.	VC §9250.6

TABLE 7.5 VEHICLE LEVIES (continued).
Source: Department of Motor Vehicles. Rates effective January 2023.

Chapter 8

EMPLOYMENT TAXES

California imposes three types of employment taxes: Unemployment Insurance (UI), the Employment Training Tax (ETT), and State Disability Insurance Tax (SDI). UI and ETT are paid by employers and, SDI is paid by employees. All three are administered by the Employment Development Department, which also administers the personal income tax withholding program.

Kirby Beach, San Francisco

2023 EMPLOYMENT TAX RATES

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.	For 2023, employees pay 0.9% on the first $153,164 of wages, for a maximum tax of $1,378.48. Beginning January 1, 2024, there will not be a cap on the amount of wages subject to the tax, so payroll taxes will be higher for workers with wages above $153,164.	UIC §984 UIC §2655 UIC §3301
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

TABLE 8.1 EMPLOYMENT TAX RATES.
Source: Employment Development Department.

UNEMPLOYMENT INSURANCE

The California Employment Development Department (EDD) manages the unemployment insurance (UI) fund, which is funded by a tax on employers based upon a percentage of the first $7,000 of wages paid to each employee during the calendar year. The UI fund balance fluctuates with the economy.

During periods of high unemployment, the UI fund may become insolvent, since disbursements to claimants can exceed the tax revenue coming into the fund. This requires the state to secure federal loans to pay unemployment benefits to those who lose their jobs. Loans taken from the federal government must be repaid with interest. If the state does not repay the loans within two years, employers must repay the loans via an additional federal surcharge.

Employers typically receive a federal credit of 5.4 percent to deduct from their federal taxes through the Federal Unemployment Tax Act (FUTA). If a state maintains a negative UI loan balance for two consecutive years, the credit received by employers is reduced 0.3 percent annually until all loans are repaid, resulting in a surcharge – a tax increase on employers.

Prior to the COVID-19 pandemic that began in 2020, the last federal loans came during the Great Recession when California took approximately $10 billion in federal loans but did not repay the balance within two years. As a result, California employers paid $9.6 billion in additional federal taxes from 2011 to 2018.

ADDITIONAL FEDERAL TAXES PAID BY EMPLOYERS TO REPAY UI FUND DEFICIT

TAX YEAR	TOTAL TAXES (IN MILLIONS)
2011	$292.7
2012	$604.1
2013	$946.9
2014	$1,325.5
2015	$1,735.4
2016	$2,155.3
2017	$2,562.0

TABLE 8.2 ADDITIONAL FEDERAL TAXES PAID BY EMPLOYERS TO REPAY UI FUND DEFICIT.
Source: Employment Development Department.

Due to the pandemic, California's unemployment insurance fund is projected to end 2023 with a $18.3 billion deficit. The EDD estimates that California employers will pay the maximum 6.2 percent tax through 2023 and the foreseeable future.

UNEMPLOYMENT INSURANCE

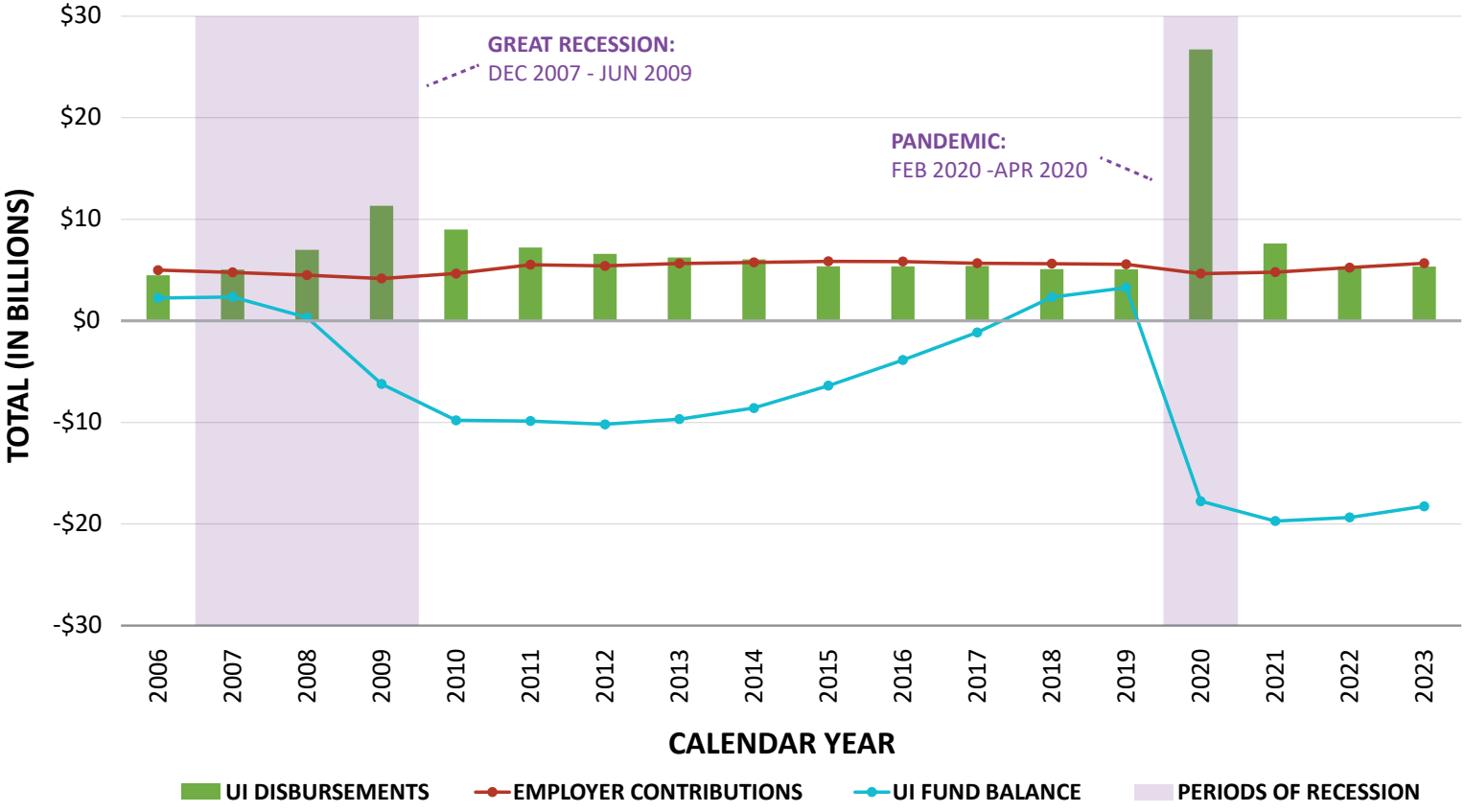


FIGURE 8.1 UNEMPLOYMENT INSURANCE. In addition to regular unemployment benefits, disbursements for 2021 included the state's portion of the Federal Extended Benefit program (FED-ED) which represents approximately $5.6 billion. Numbers for 2022 and 2023 are forecast estimates.
Sources: Employment Development Department, National Bureau of Economic Research.

Chapter 9

OTHER STATE LEVIES

In addition to the major taxes discussed in previous chapters, approximately $5.6 billion in other taxes, fees, charges, assessments and levies are imposed by the state. These include levies on lumber, tires, and many other things.

Lake Casitas, Ojai

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: $4 for products more than 4 inches, but less than 15 inches; $5 for products at least 15 inches, but less than 35 inches; and $6 for products 35 inches or more.	PRC §42464
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
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
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

TABLE 9.1 OTHER STATE LEVIES. Not inclusive of all state-imposed fees.
Source: California Department of Tax and Fee Administration.

OTHER STATE LEVIES

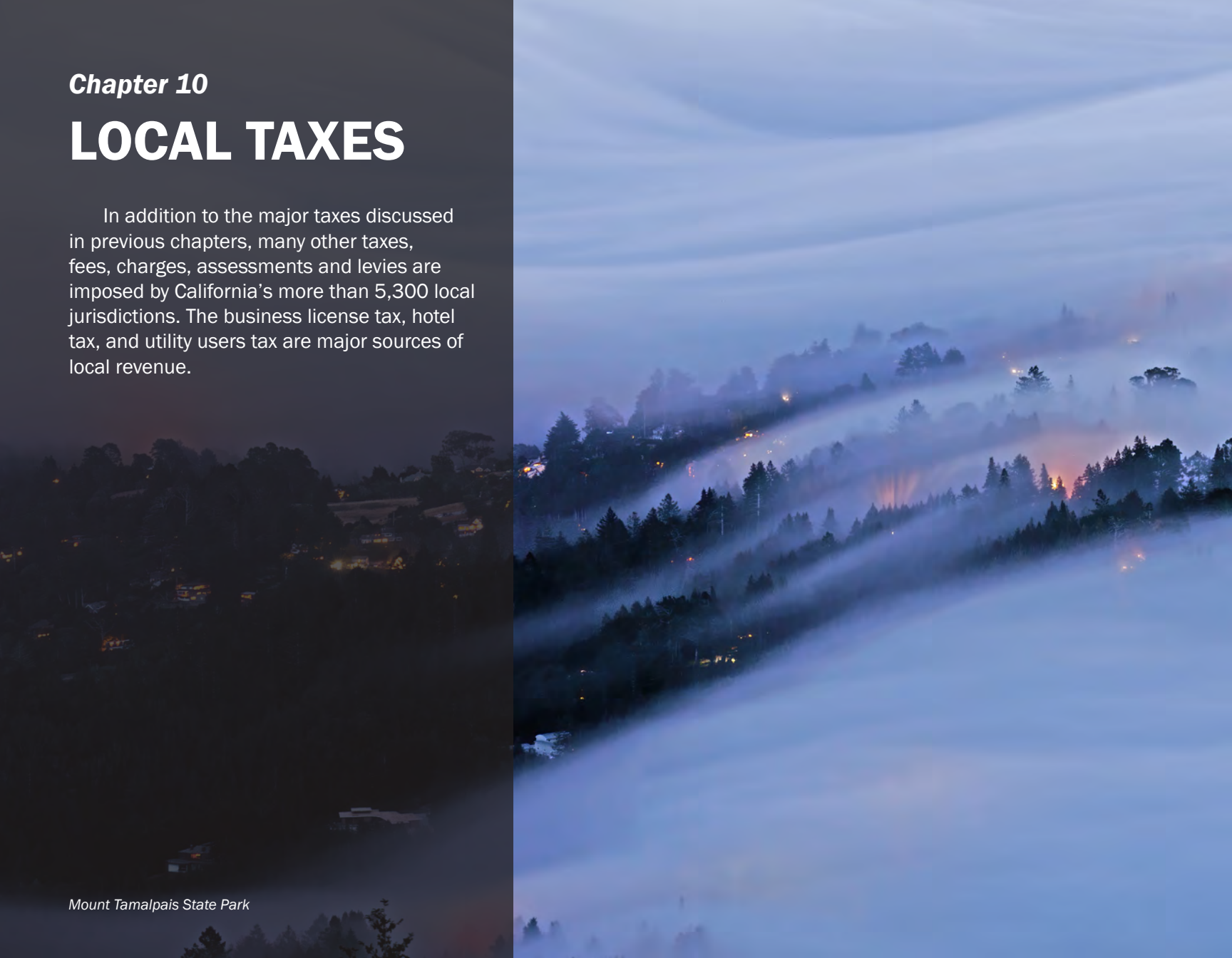
LEVY	PURPOSE	RATE AND IMPOSITION	AUTHORITY
Water Rights Fee	Funds programs relating to water quality improvement.	Charged on permits to appropriate water, paid by water customers. Varies by project and permit.	WAT §1525, §1530, and §13160.1
Hazardous Waste			
Environmental Fee	Funds the collection, disposal 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 $54,100, depending on the number of employees.	HSC §25205.6
Generator Fee		Up to $100,000 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 $310.10, 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

TABLE 9.1 OTHER STATE LEVIES (continued). Not inclusive of all state-imposed fees.
Source: California Department of Tax and Fee Administration.

Chapter 10

LOCAL TAXES

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 5,300 local jurisdictions. The business license tax, hotel tax, and utility users tax are major sources of local revenue.



Mount Tamalpais State Park

CITY REVENUE AND EXPENDITURES

According to data provided to the State Controller's Office by 482 California cities, city revenue grew from $47.6 billion in fiscal year beginning 2002 to $96.4 billion in the fiscal year beginning 2020. Cities dramatically increased spending during the same time period, from $46.7 billion to $94.4 billion.

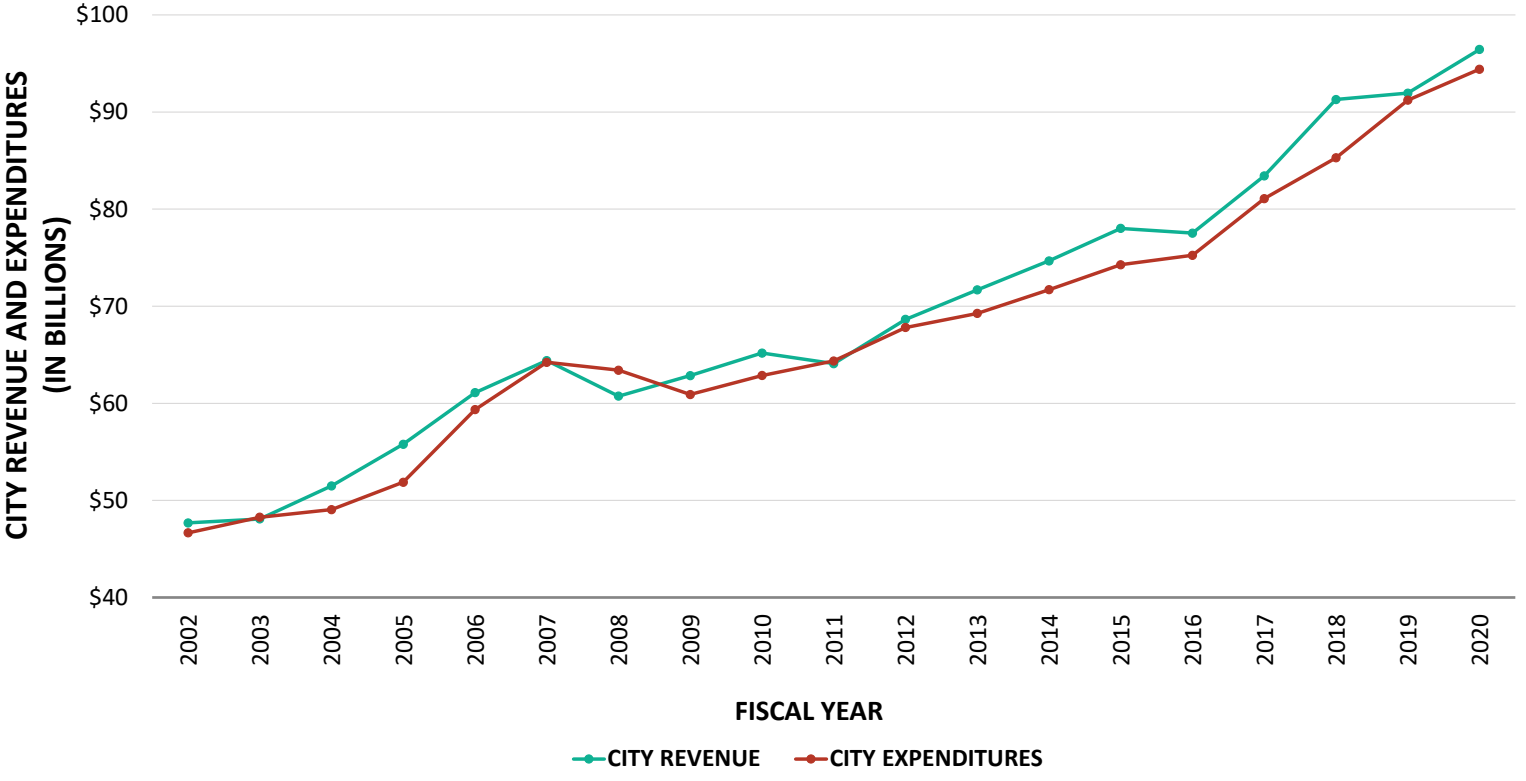


FIGURE 10.1 CITY REVENUE AND EXPENDITURES. Data for the City and County of San Francisco is included in city data.
Source: State Controller's Office.

COUNTY REVENUE AND EXPENDITURES

Counties receive revenue from a variety of taxes and fees, including property taxes, sales taxes and hotel taxes. Since 2002, revenue for California's 57 stand-alone counties has more than doubled – from $45.8 billion to $107.2 billion in fiscal year 2020-2021 – as have expenditures, which increased from $43.9 billion to $104.7 billion.

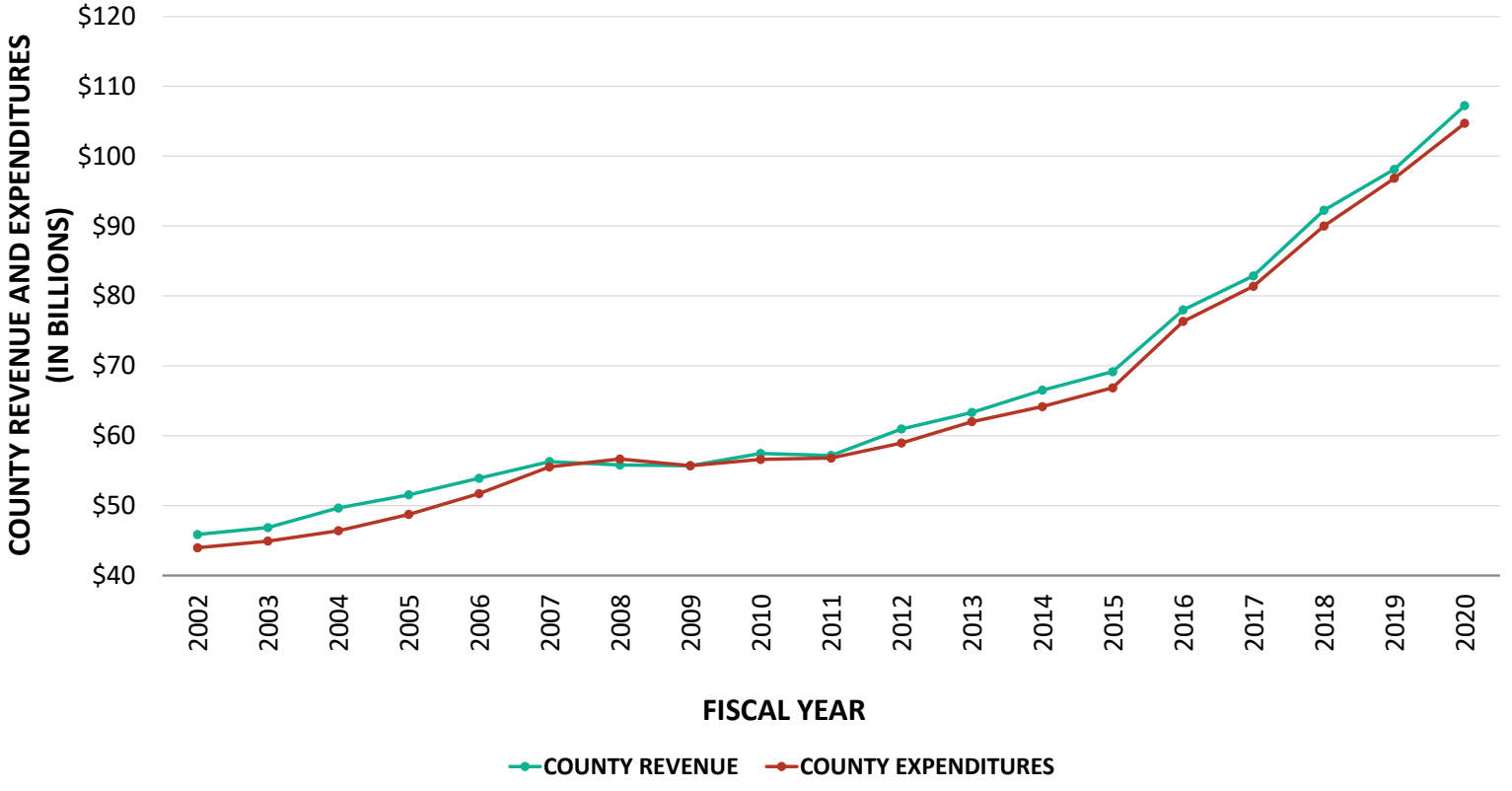


FIGURE 10.2 COUNTY REVENUE AND EXPENDITURES. California has 58 counties, but the state controller's numbers for the City and County of San Francisco, the only consolidated city and county, are included in city data.
Source: State Controller's Office.

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.

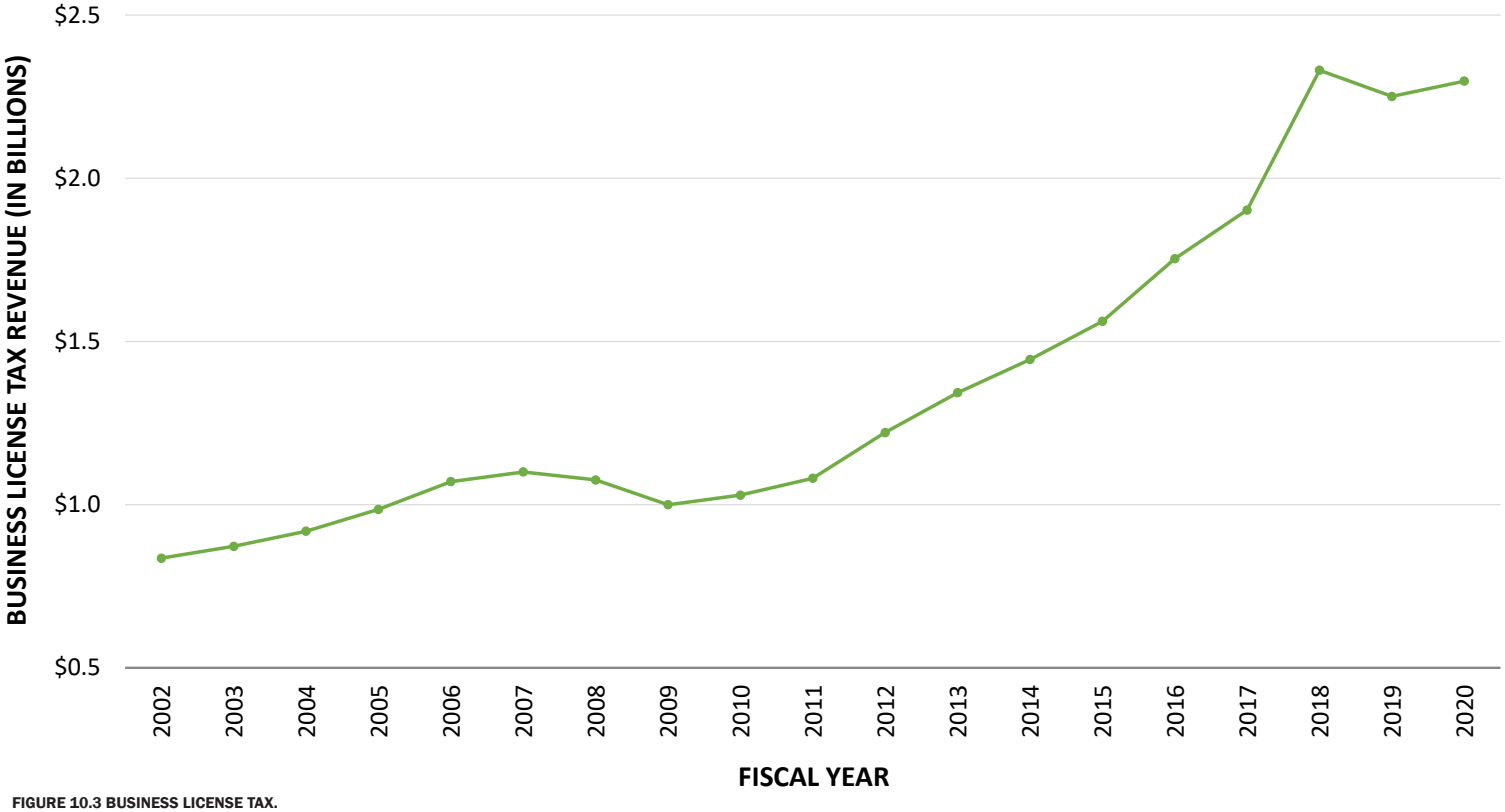


FIGURE 10.3 BUSINESS LICENSE TAX.
Source: State Controller's Office.

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[1]
Antioch
Artesia
Berkeley
Brisbane
Carmel-by-the-Sea
Carson
Cudahy
Culver City
East Palo Alto
Emeryville
Foster City
Guadalupe
Hermosa Beach
Isleton
Los Angeles County
Los Gatos
Marina
Monterey
Oakland
Richmond
Rolling Hill Estates
San Francisco City and County
San Leandro
Santa Ana
Sausalito
South Lake Tahoe
San Mateo County
Tracy

TABLE 10.1 JURISDICTIONS WITH A GROSS RECEIPTS TAX.
1. 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.

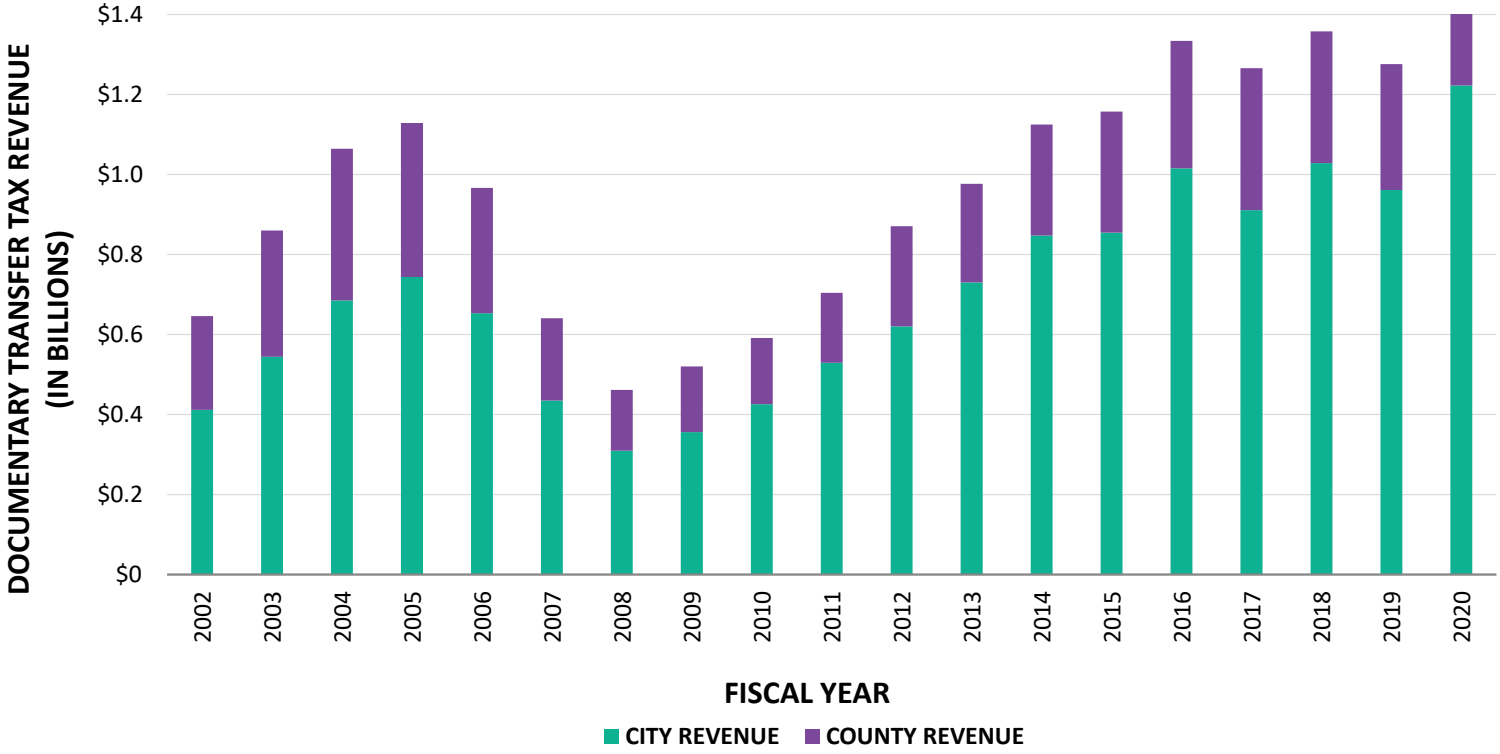


FIGURE 10.4 DOCUMENTARY TRANSFER TAX.
Source: State Controller's Office.

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, $16.10

Berkeley

Property Value			Rate
Less than	$1.5 Million		$16.10
$2.5 Million or	More		$26.10

Emeryville

Property Value			Rate
More than	$1 Million		$15.00
$2 Million or	More		$25.00

Hayward, $9.60

Oakland

Property Value			Rate
Less than	$300,000		$11.10
$300,000	to	$2 Million	$16.10
$2 Million	to	$5 Million	$18.60
$5 Million	or	More	$26.10

Piedmont, $14.10

San Leandro, $12.10

SONOMA COUNTY

Petaluma, $3.10

Santa Rosa, $3.10

YOLO COUNTY

Woodland, $2.20

LOS ANGELES COUNTY

Culver City

Property Value			Rate
Less than	$1,5 Million		0.45%
$1.5 Million	to	$2,999,999	1.95%
$3 Million	to	$9,999,999	3.45%
$10 Million	or	More	4.45%

Los Angeles

Property Value			Rate
More than	$5 Million		$50.00
$10 Million	or	More	$55.00

Pomona, $3.30

Redondo Beach, $3.30

Santa Monica

Property Value			Rate
Less than	$5 Million		$4.10
Less than	$8 Million		$7.10
$8 Million or	More		$56.00

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	5.50%
$25 Million	or	More	6.00%

SAN MATEO COUNTY

San Mateo

Property Value			Rate
More than	$10 Million		$15.00

SANTA CLARA COUNTY

Mountain View, $4.40

Palo Alto, $4.40

San Jose

Property Value			Rate
Less than	$2 Million		$4.40
$2 Million	to	$5 Million	$11.90
$5 Million	to	$10 Million	$14.40
$10 Million	to	More	$19.40

SOLANO COUNTY

Vallejo, $4.40

TABLE 10.2 DOCUMENTARY TRANSFER TAX RATES PER $1,000 OF VALUE. Not inclusive of all local jurisdictions with a documentary transfer tax.

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.

Anaheim, 15%	Palo Alto, 15.5%
Healdsburg, 14%	Riverside, 13%
Laguna Beach, 12%	Sacramento, 12%
Los Angeles, 14%	San Diego, 10.5%
Mammoth Lakes, 13%	San Francisco, 14%
Monterey, 12%	San Mateo, 14%
Napa, 13%	Santa Barbara, 12%
Oakland, 14%	Santa Monica, 14%

TABLE 10.3 HOTEL TAX RATES. This list of tax rates in popular destination cities is not inclusive of all hotel taxes imposed in California.
Source: State Controller's Office.

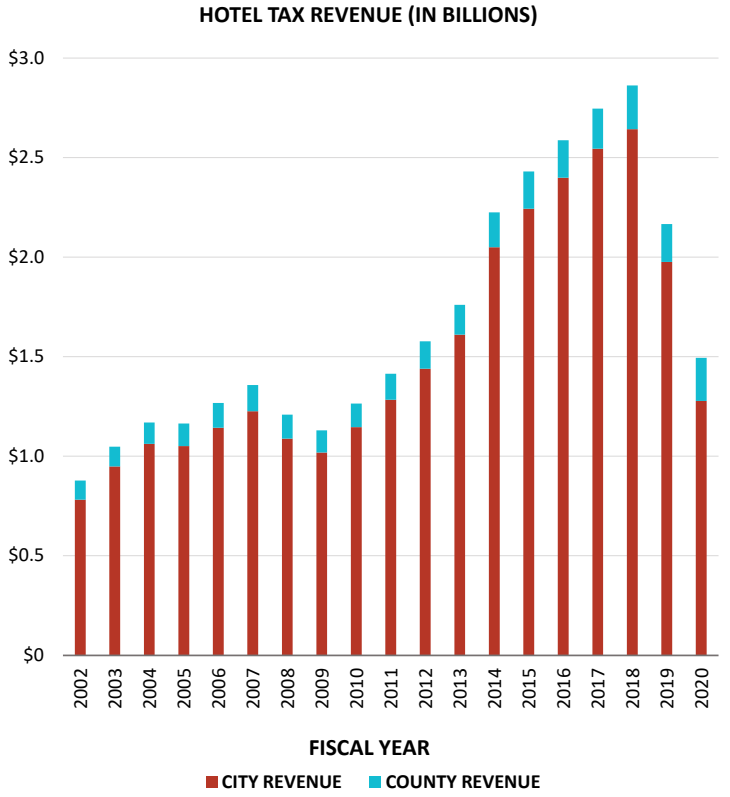


FIGURE 10.5 HOTEL TAX REVENUE.
Source: State Controller's Office.

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.

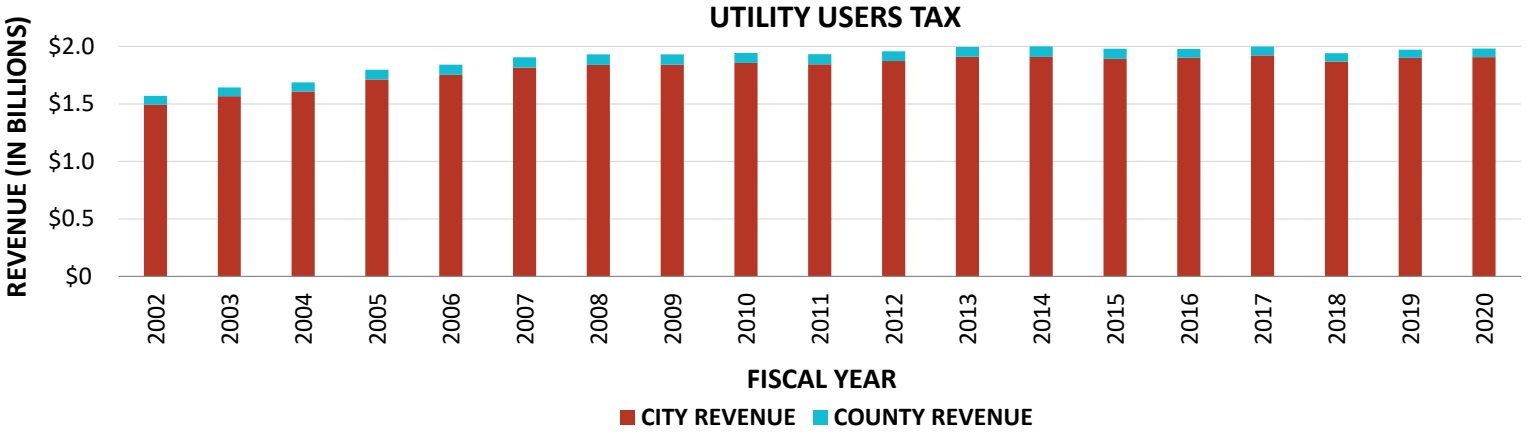


FIGURE 10.6 UTILITY USERS TAX.
Source: State Controller's Office.

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

TABLE 10.4 UTILITY SERVICES COMMONLY TAXED BY LOCAL GOVERNMENT.
Source: State Controller's Office.

OTHER LOCAL LEVIES

California's local governments obtain revenue from many different sources, including:

1915 Act Assessments

1982 Act Assessments

Abandoned Vehicle Fee

Abatement District Assessments

Admissions Tax

Airport Special Tax

Ambulance/Paramedic Mello-Roos Tax

Birth Certificate Fee

Business Improvement District Assessment

Business Gross Receipts Tax

Card Room Tax

Cemetery Special Tax

Child Care Facility Special Tax

Child Care Facility Insurance Special Tax

Community College District Special Tax

Community Service District Special Tax

County Airport Special Tax

County Service Area Special Tax

Criminal Justice Services Mello-Roos Tax

Death Certificate Fee

Drug Abuse/Crime Prevention Tax

Fire Protection/Prevention Special Tax

Flood and Storm Water Special Tax

Geological Hazard Abatement Assessment

Graffiti Prevention Tax

Harbor Improvement and/or Development Special Tax

Hazardous Substance Cleanup Services Special Tax

Health Care Special Tax

Hospital Special Tax

Library Contract Special Tax

Library Facility and Services Special Tax

Library Facility and Services Mello-Roos Tax

Lighting and Landscaping Assessment

Lighting Mello-Roos Tax

Marijuana Tax

Marriage License Fee

Marks-Roos Bond Act Assessment

Mello-Roos Act Tax

Memorial Halls, Buildings, and Meeting Places Special Tax

Mosquito Abatement Tax

Municipal Affairs Special Tax

Museum and Cultural Facilities, Operation and Maintenance Special Tax

Municipal Utilities Special Tax

Musical Performances Special Tax

Oil Production Tax

Paramedic Special Tax

Parks and Recreation Special Tax

OTHER LOCAL LEVIES

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

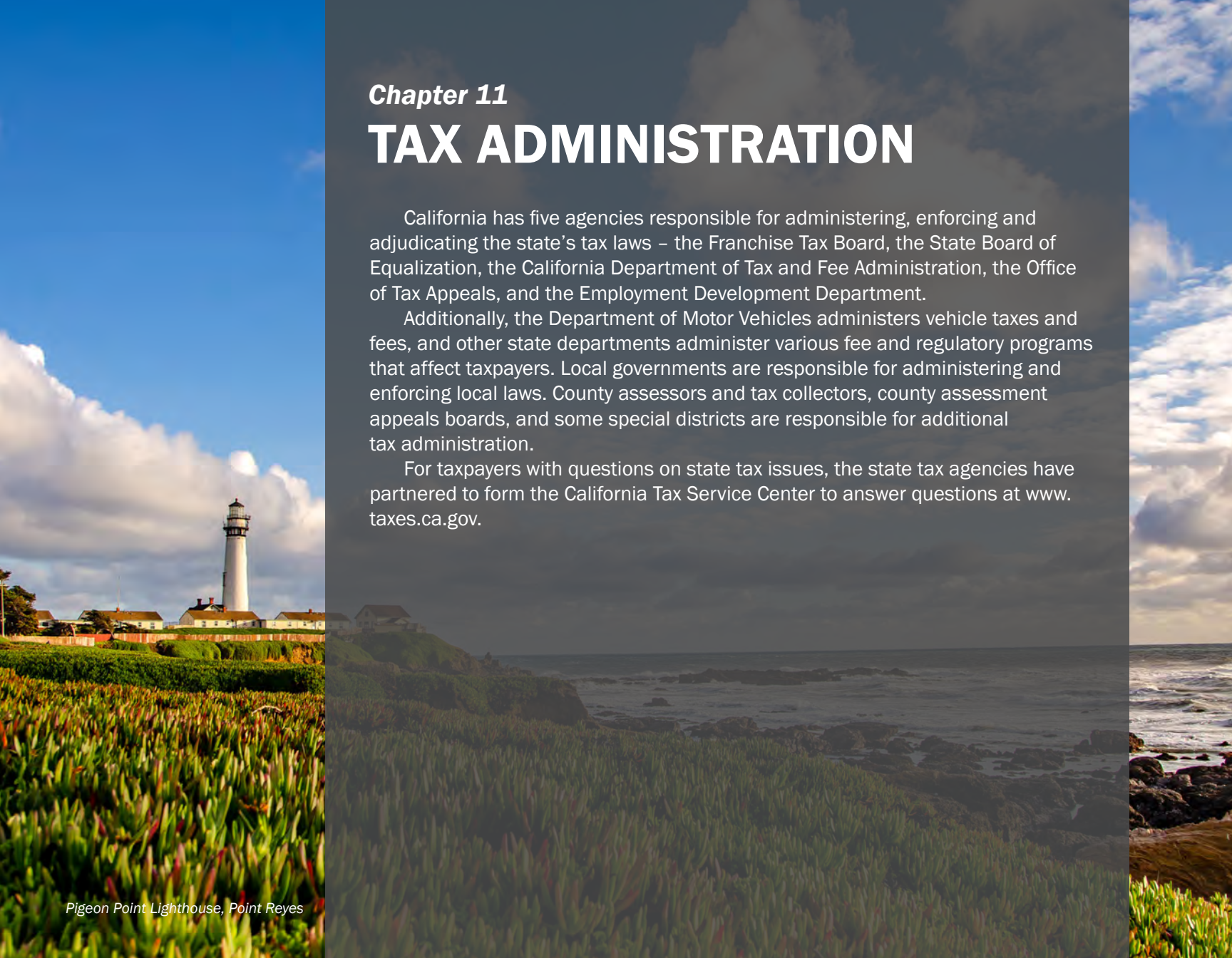
Vector Control Special Tax

Veteran Buildings, Memorial, and Cemeteries Special Tax

Veteran Homes Special Tax

Water Special Tax

Zoo Facilities Mello-Roos Tax



Pigeon Point Lighthouse, Point Reyes

Chapter 11

TAX ADMINISTRATION

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.

Additionally, the Department of Motor Vehicles administers vehicle taxes and fees, and other state departments administer various fee and regulatory programs that 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 ADMINISTRATION

	Franchise Tax Board (FTB)	Administers personal income taxes and corporate income taxes, and collects delinquent child-support payments on behalf of counties.
	California Department of Tax and Fee Administration (CDTFA)	Administers sales and use taxes, fuel taxes, tobacco taxes, the 911 and 988 surcharge, and other tax and fee programs.
	State Board of Equalization (BOE)	Administers and adjudicates state-assessed property taxes, alcohol excise taxes, and insurance gross premium taxes, and audits county assessors' offices for compliance with assessment laws and regulations.
	Office of Tax Appeals (OTA)	Hears and decides appeals of income, franchise and business taxes.
	Employment Development Department (EDD)	Administers and adjudicates payroll taxes, including unemployment and disability insurance taxes.

TABLE 11.1 CALIFORNIA'S TAX STRUCTURE.

	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 is the bookkeeper for all state funds, audits state and local government agencies, and administers the Uniform State Payroll System and unclaimed property laws.
	State Treasurer's Office	Manages the state's Pooled Money Investment Account, finances public works projects and acts as the state's banker. The treasurer also is responsible for managing state debt and issuing bonds.
	Department of Finance	The governor's fiscal policy office, creates and administers the state's annual budget and analyzes budgetary aspects of proposed laws. The director of the department, appointed by the governor, sits on the Franchise Tax Board.
	Department of Motor Vehicles	Registers vehicles in California and issues drivers' licenses and identification cards. 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 (GO-Biz)	Administers the California Competes Tax Credit, an income tax credit available to businesses that want to locate or expand in California.

TABLE 11.1 CALIFORNIA'S TAX STRUCTURE (continued).

HOW DOES THE INCOME AND BUSINESS TAX APPEALS PROCESS WORK?

In 2017, California created the Office of Tax Appeals (OTA) to hear income and business appeals that previously were under the jurisdiction of the State Board of Equalization. Taxpayers who disagree with a determination or decision by the tax agencies may appeal or contest that decision to the OTA. Taxpayers can file an appeal or a claim for refund, but may do so only after working through the administrative appeals process and exhausting administrative remedies.

In a typical appeal, a taxpayer and the tax agency will have a disagreement on the tax liability amount, filing status, qualifications for a tax credit, a penalty being imposed, or some tangential issue related to the amount that the tax agency alleges is owed.

The first step is to go through the relevant agency's internal protest or appeals process. The Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA) both allow taxpayers to file appeals from their assessments, as long as deadlines are met. The FTB has a protest process and the CDTFA has an appeals bureau to handle the initial appeals.

Taxpayers who go through those steps and disagree with the decision made by the agencies may file an appeal with the OTA. Taxpayers will be required to submit certain information about their dispute to begin their appeal, which may be submitted to the OTA in the form of a letter. After the OTA confirms receipt of the appeal request, the agency will notify the agency responsible for the tax and that agency will have 60 days to submit an opening brief. Afterward, the taxpayer will have 30 days to file a reply brief. The tax agencies may obtain permission from the OTA to file a response to the reply brief, to address any new facts or arguments raised in the taxpayer's reply.

After briefing is completed, the taxpayer may elect to have an oral hearing, where a representative may appear on the taxpayer's behalf, or can choose to have the appeal decided on the written record.

Depending on which path the taxpayer chooses, the OTA will either review the written record and make its decision accordingly, or schedule an oral hearing — conducted in person or via teleconference — where both sides will be allowed to present their case to the OTA's administrative law judges (ALJs).

Most appeals are heard by a three-member panel of ALJs, but some taxpayers may elect to have their appeals heard before a single ALJ rather than the typical three-member panel if certain conditions are met. Taxpayers may elect to have their appeal heard within the Small Case Program if the appeal arises from a personal income tax dispute and the amount in dispute is less than $5,000, or if the appeal arises from a tax, fee, or penalty administered by the CDTFA; the taxpayer has less than $20 million in gross

receipts; and the amount in dispute is less than $50,000.

The OTA's decision is issued within 100 days of the oral hearing. For taxpayers who elect to have their case decided based on the written record, the OTA states that taxpayers typically receive a resolution within six months of the briefing being completed.

Any party who disagrees with the OTA's decision may file a petition for rehearing. This petition may be filed regardless of whether the taxpayer elected to hold an oral hearing. If the OTA grants the petition, both parties will be given an opportunity to file additional briefing, and the taxpayer may once again elect to have an oral hearing or have the decision based on the written record.

If the petition is denied, however, the original decision becomes final. Taxpayers who disagree with the final decision made by the OTA can pursue legal remedies through the California court system. Generally, a taxpayer must pay the disputed tax before going to court – a requirement typically referred to as "pay to play."

If a taxpayer disagrees with the OTA's decision on a case that involves a "tax assessment" and the tax liability has not yet been paid, the taxpayer must pay the tax liability before proceeding to litigation.[1] Under Article XIII, section 32 of the California Constitution, "No legal or equitable process shall issue in any proceeding in any court against this State or any officer thereof to prevent or enjoin the collection of any tax. After payment of a tax claimed to be illegal, an action may be maintained to recover the tax paid, with interest, in such manner as may be provided by the Legislature."

After paying the tax liability, the taxpayer may file a claim for refund with the respective tax agency. If this claim is denied, the taxpayer can file an action in a California superior court against the taxing agency within 90 days of the denial.

If the OTA's decision was for a case that stemmed from a claim for refund, the taxpayer can file suit against the taxing agency within 90 days of the decision becoming final.

Under Government Code section 15677, actions filed in superior court are reviewed "de novo," which means the court will "not review OTA's decision, but rather will review" the case "as if it were being reviewed for the first time."[2]

1. California Office of Tax Appeals, Office of Tax Appeals Appeals Procedures, available at https://ota.ca.gov/wp-content/uploads/sites/54/2019/03/OTA-Appeals-Procedures.rev1_.pdf.
2. *Id.*

OTA APPEALS PROCESS

Each taxpayer will face different individual circumstances, but this flow chart is designed to offer a general outline of what a taxpayer can expect while working through the OTA appeals process.

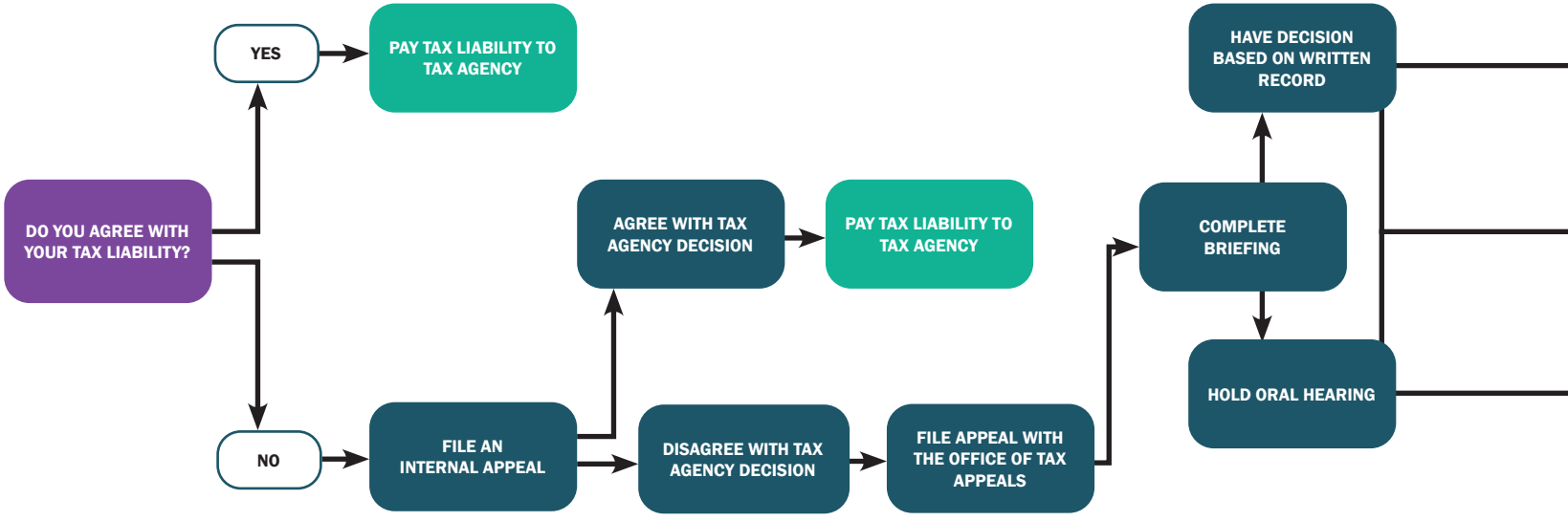
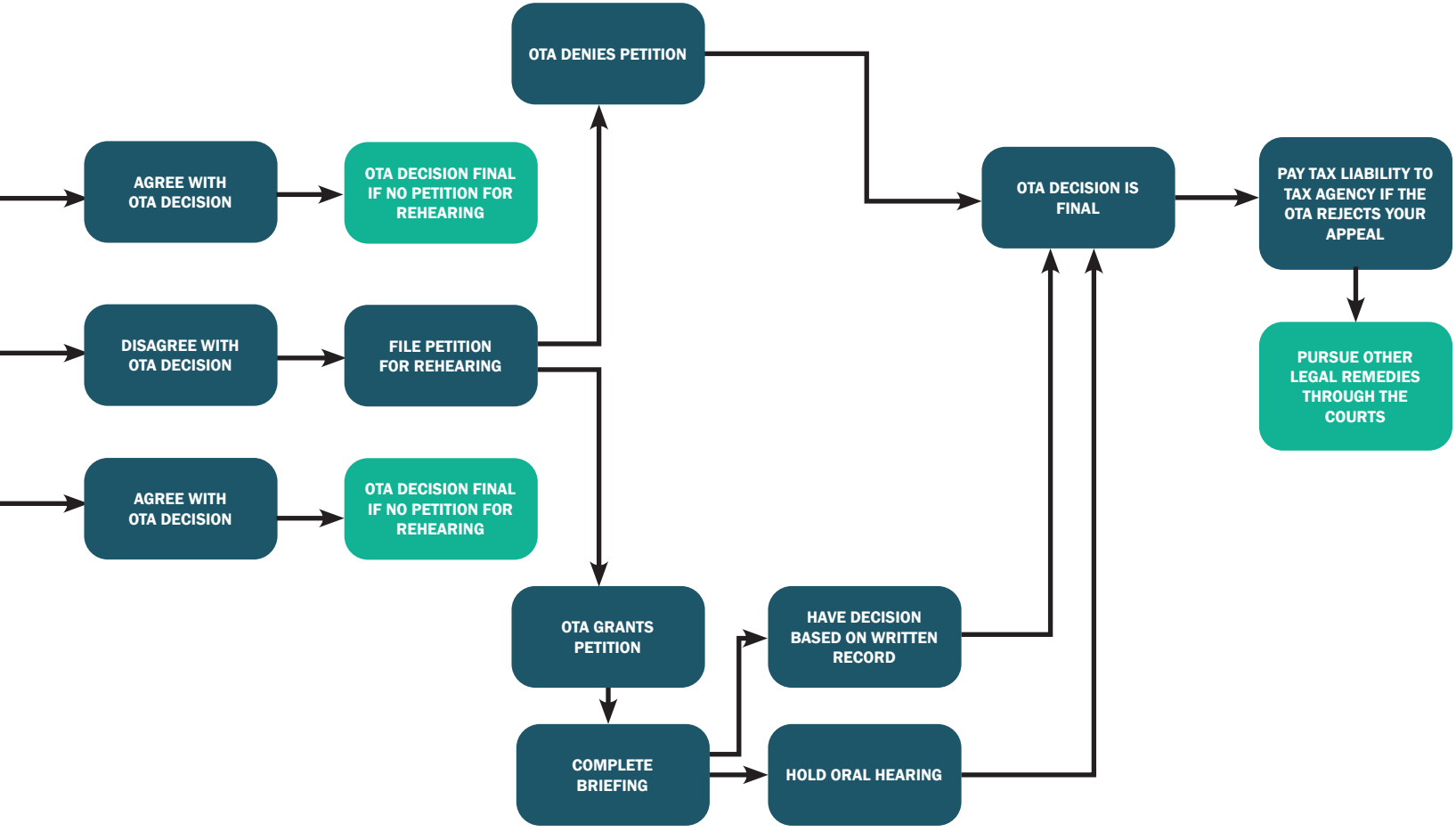


FIGURE 11.1 OTA APPEALS PROCESS.


AGREE WITH OTA DECISION
OTA DECISION FINAL IF NO PETITION FOR REHEARING
DISAGREE WITH OTA DECISION
FILE PETITION FOR REHEARING
AGREE WITH OTA DECISION
OTA DECISION FINAL IF NO PETITION FOR REHEARING
OTA DENIES PETITION
OTA GRANTS PETITION
COMPLETE BRIEFING
HAVE DECISION BASED ON WRITTEN RECORD
HOLD ORAL HEARING
OTA DECISION IS FINAL
PAY TAX LIABILITY TO TAX AGENCY IF THE OTA REJECTS YOUR APPEAL
PURSUE OTHER LEGAL REMEDIES THROUGH THE COURTS

Chapter 12

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.

- **Sufficient Revenue** – A stable tax structure should be able to generate a revenue stream to support effective and efficient government.

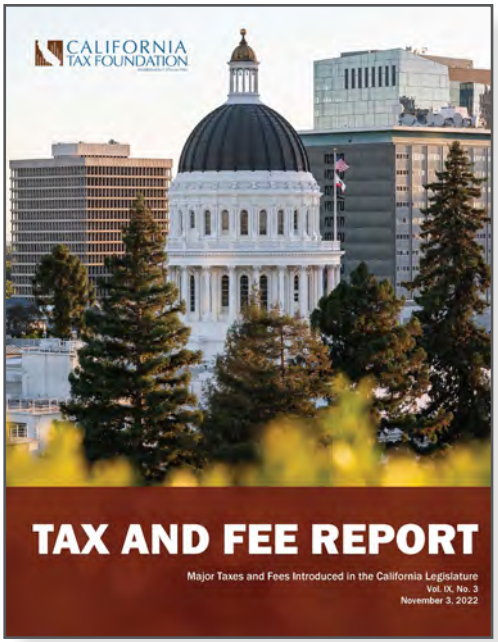
- **Complementary Tax Bases** – A tax structure should address the relationships between state and local governments. By understanding the division of power between state and local governments, policymakers can limit or expand taxing authority for local government. Taxes levied by federal, state and local governments should share similar bases and application to the greatest extent possible.

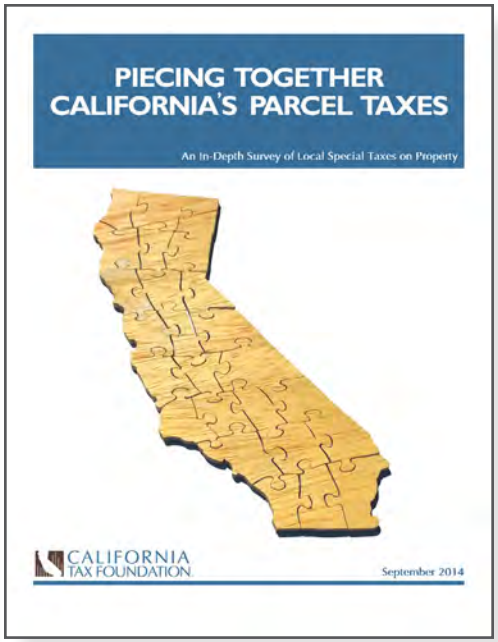
- **No Retroactivity** – There should be no retroactive tax increases. Retroactive taxes can create financial hardship for taxpayers, and hinder investment planning, savings and economic growth by introducing changes that were not accounted for in taxpayers' budgets or planning.

OTHER CALIFORNIA TAX FOUNDATION PUBLICATIONS

In addition to "California Tax Facts," the California Tax Foundation publishes fact sheets and research reports on a variety of topics including sales taxes, property taxes, and more. The "Tax and Fee Report," updated regularly to reflect legislative activity, identifies all taxes, fees, assessments, and charges introduced in the state Legislature.

The Foundation is also a continuing education provider offering legal and accounting credit for its webinars with leading state and local tax experts discussing tax policies.





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METHODOLOGY

Data for Tax Facts is from the State of California, including the Department of Finance, State Controller's Office, and state tax agencies. Local tax election results are from the California Taxpayers Association. When data is presented by "Fiscal Year," the listed year is the year in which the fiscal year began (California's fiscal year runs from July 1 to June 30).

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