

Creating a Sales Tax Fairness Credit in the Bay Area

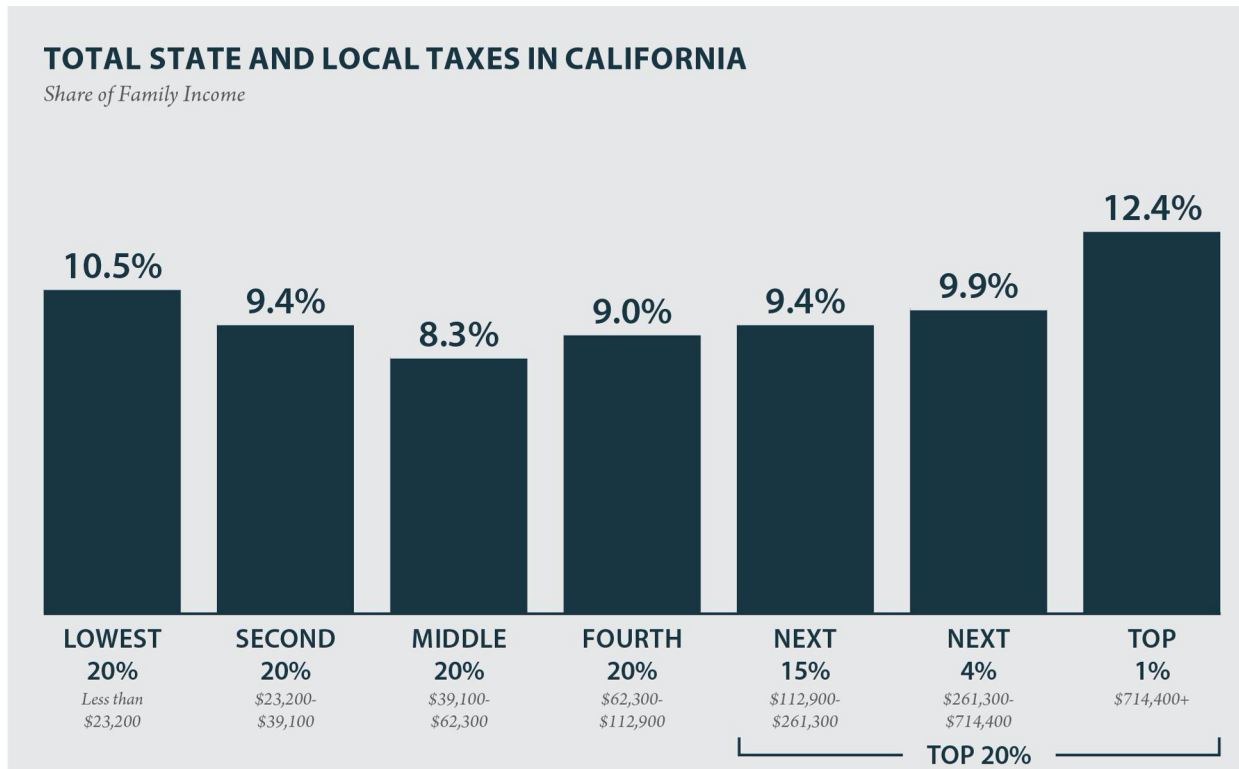
SPUR Digital Discourse October 28, 2020



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Ideas + Action
for a Better City

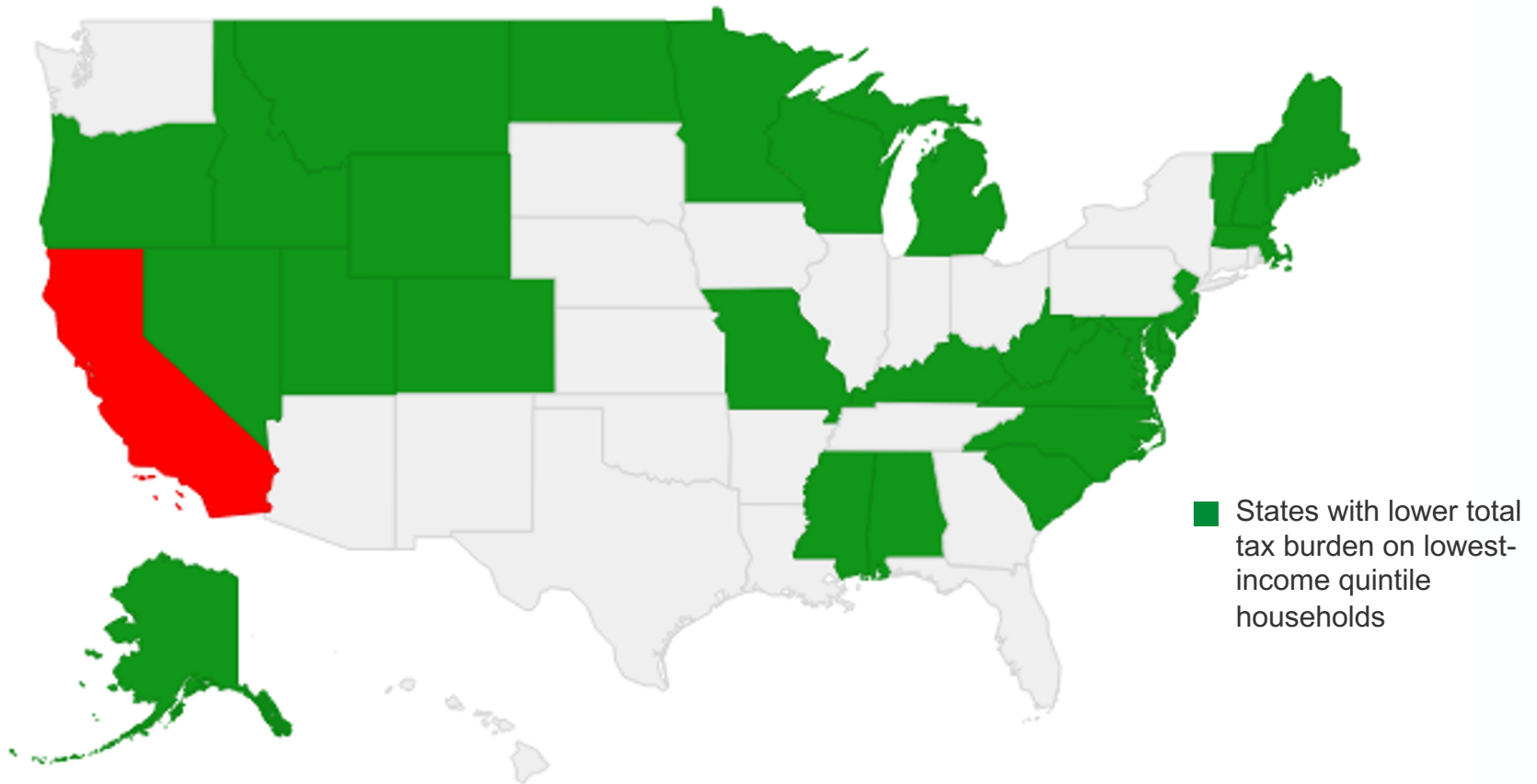
California's tax system



Source: Institute for Taxation and Economic Policy, 2018

Low-income Californians pay a higher share of their income in taxes than those of 28 other states

Overall Tax Burden As a Share of Household Income, Bottom Quintile



Source: *Who Pays 6th Edition*, Institute of Taxation and Economic Policy

What's behind the tax burden on low-income households?

Antioch voters pass one-cent sales tax, elect Motts, Ogorchock to city council

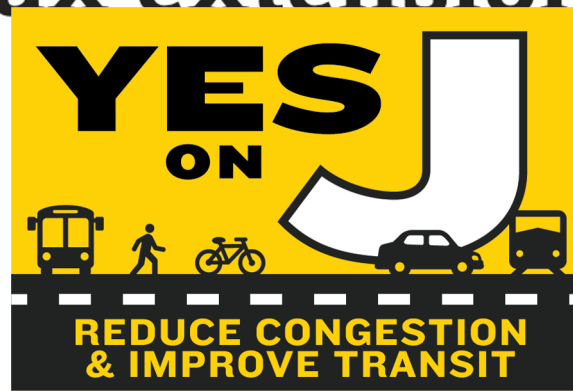
Alameda County Voters Weigh Tax Increase to Pay for Child Care

Contra Costa supervisors back sales tax proposal for transportation work

County board also endorses plan for spending funds should ballot measure pass

Half-cent sales tax for early child care in Alameda County gets voters' nod

San Francisco Marin county voters
Sales tax extension



Share of Income Paid to Taxes

CALIFORNIA INCOME GROUP	Lowest 20%
Income Range	Under \$23,200
Sales & Excise Taxes	7.2%
<i>General Sales</i>	3.1%
<i>Other Sales & Excise</i>	1.6%
<i>Sales & Excise on Businesses (pass through)</i>	2.6%
Property Taxes	4.0%
<i>Home, Rent Car</i>	3.9%
<i>Other Property Taxes</i>	0%
Income Taxes	-.7%
<i>Personal Income Tax</i>	-.7%
<i>Corporate Income Tax</i>	.1%

Source: Who Pays 6th Edition, Institute of Taxation and Economic Policy

Bay Area County Sales Tax Rates

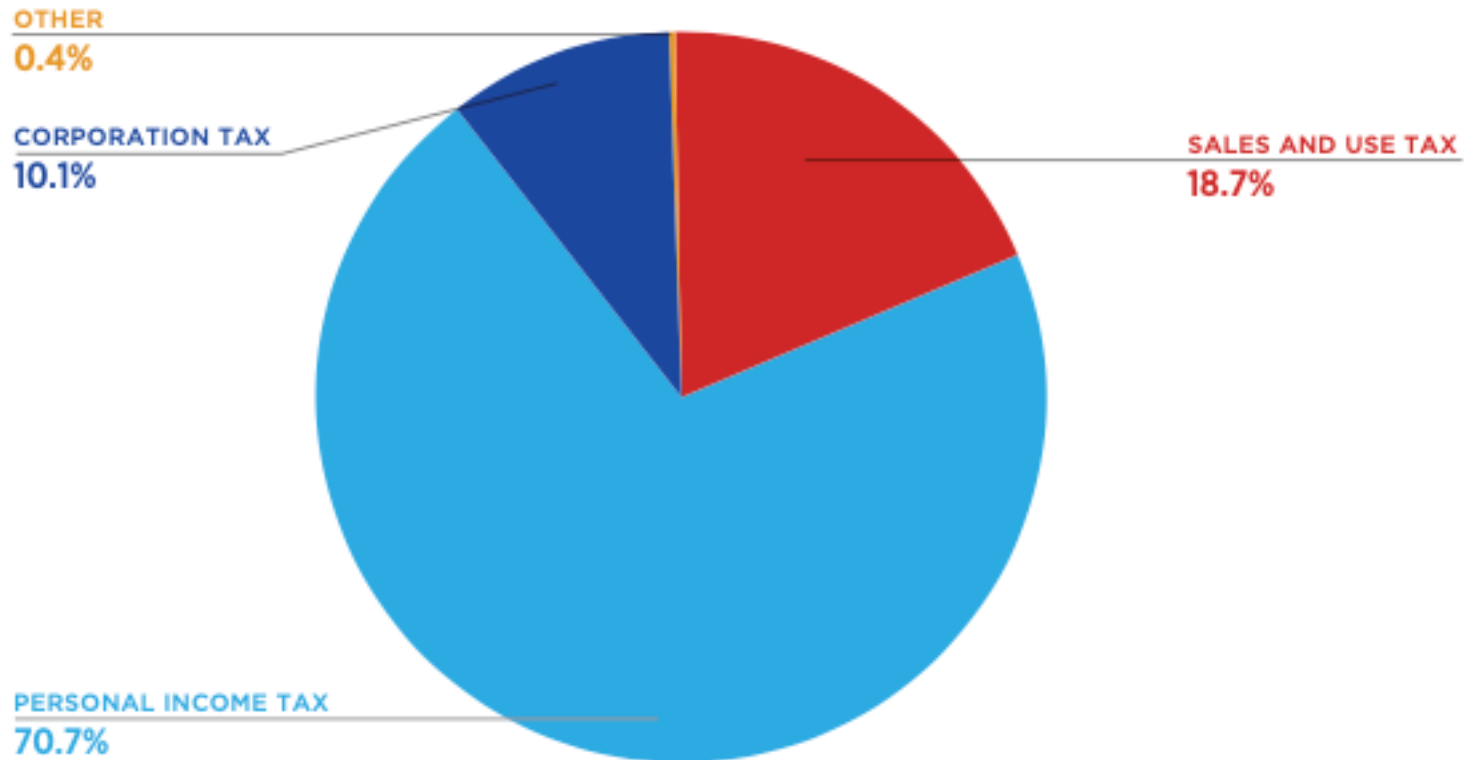
SALES TAX RATES IN THE BAY AREA (BY COUNTY)

Alameda	9.25%
Contra Costa	8.25%
Marin	8.25%
Napa	7.75%
San Francisco	8.50%
San Mateo	9.25%
Santa Clara	9.00%
Solano	7.375%
Sonoma	8.25%

Sales tax in context

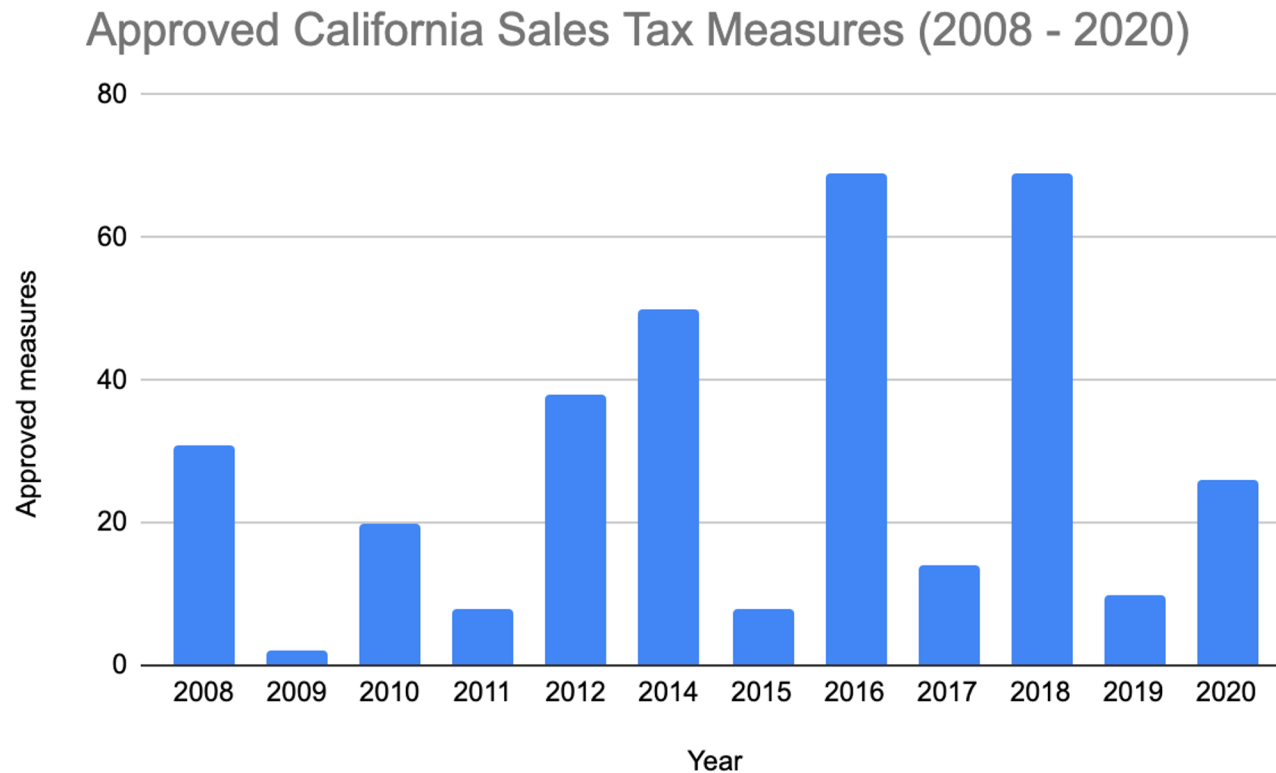
- Proposition 13 has shifted revenue sources away from property tax and toward sales taxes (and other sources)
- Sales tax is a significant source of state and local revenue
- California's sales tax is increasingly disconnected from the growth of the economy

Sales tax is the second-largest source of state revenue






Source: Legislative Analyst Office, 2020

Voters continue to approve new and increased sales taxes



Source: SPUR analysis of Ballotpedia data

Sales taxes are regressive

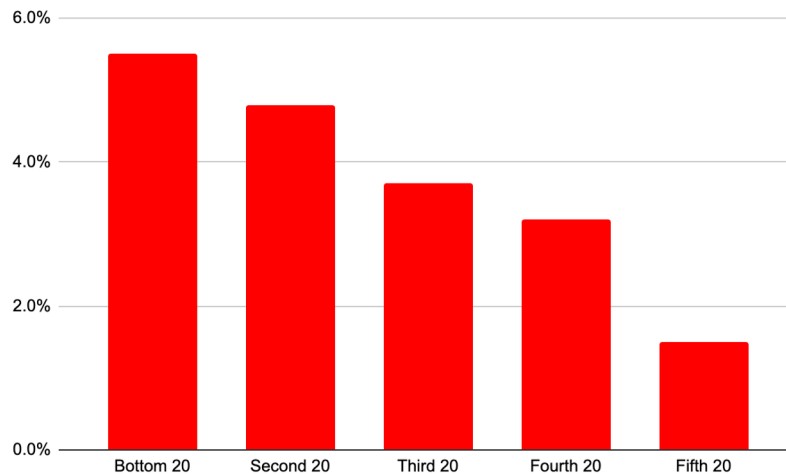
HOME HEATH AID	ELECTRICIAN	LAWYER
Annual salary: \$29k	Annual salary: \$70k	Annual salary: \$174k
		
Effective tax rate: 5.5%	Effective tax rate: 3.7%	Effective tax rate: 1.5%

*Dublin, CA Sales Tax: 9.5%

Sales tax impacts are borne disproportionately by income group

BAY AREA COMBINED SALES TAXES

Share of household income



Source: ITEP for SPUR, 2020

Sales tax impacts are borne disproportionately by income group

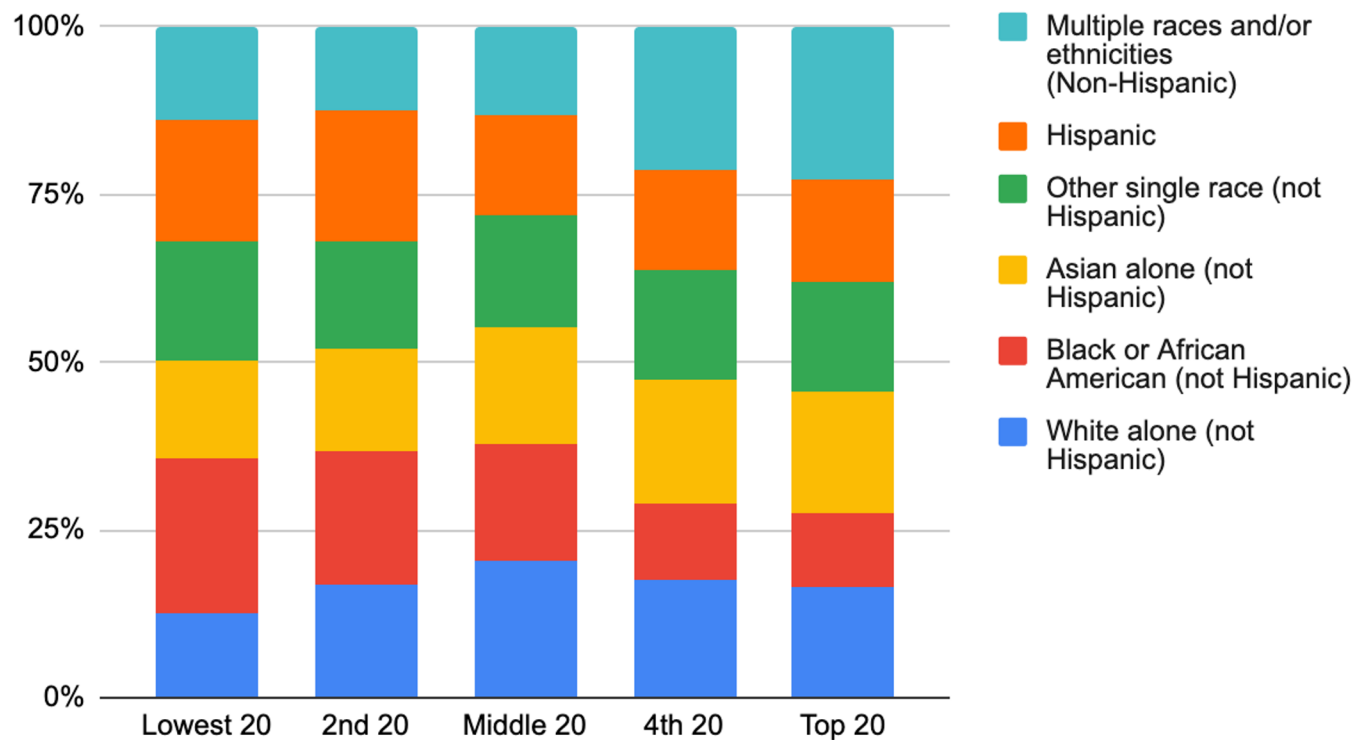
STATE AND LOCAL SALES TAX BURDEN

	<u>Bottom 20</u>	<u>Second 20</u>	<u>Third 20</u>	<u>Fourth 20</u>	<u>Fifth 20</u>
	\$0 - <i>From - To</i> \$30,000	\$30,000- \$53,000	\$53,000- \$91,000	\$91,000- \$163,000	\$163,000- And Up
Tax as % of Income	5.50%	4.80%	3.70%	3.20%	1.50%
Average Combined State & Local Sales Tax Burden	\$1,026	\$1,967	\$2,613	\$3,854	\$7,240

Source: ITEP for SPUR, 2020

Sales tax impacts are born disproportionately by race / ethnicity

DISTRIBUTION OF RACE THROUGH INCOME GROUPS



Sales tax reform strategies

- Structural reform: broadening the tax base, lowering the rate
- Product exemptions: include clothing or other essentials
- Administrative reform: changing “situs” rules
- Tax credits and cash benefits

The Earned Income Tax Credit

Federal and State Tax Credit Benefits

HOUSEHOLD COMPOSITION		FEDERAL EITC		CALEITC	
		AVERAGE CLAIM	TOTAL CLAIMS	AVERAGE CLAIM	TOTAL CLAIMS
Single	0 kids	\$330	\$215 M	\$75	\$46 M
	1	\$2,340	\$1,721 M	\$273	\$101 M
	2	\$3,595	\$1,714 M	\$487	\$100 M
	3+	\$3,980	\$952 M	\$537	\$48 M
Married	0 kids	\$379	\$40 M	\$70	\$5 M
	1	\$2,270	\$439 M	\$220	\$14 M
	2	\$3,383	\$738 M	\$413	\$21 M
	3+	\$3,664	\$652 M	\$454	\$15 M
Totals			\$6.47 B		\$351 M

Source: California Policy Lab, 2019

Existing Sales Tax Credit Programs

CREDIT ELIGIBILITY CUTOFF			MAX CREDIT VALUE	
Arizona	12,500 25,000	Single Married	\$25	per exemption
Hawaii	30,000 50,000	Single Married	\$110	
Idaho	Universal		\$100 \$120	Non-Seniors with dependents <21 Seniors (>55)
Kansas	30,615	All Filer Types	\$125	per exemption
Maine	26,000 41,000 51,000	Single Head of Household Married Filing Jointly	\$125 \$175 \$200 \$225	if 1 exemption if 2 exemptions if 3 exemptions if 4 or more exemptions
New Mexico	22,000	All Filer Types	\$135 \$195 \$450	Single, no kids Married, no kids Married with kids
Oklahoma	20,000 30,000 50,000	Filers without dependents Filers with dependents Seniors	\$40	per exemption

Creating a Sales Tax Fairness Credit in the Bay Area:

Three Policy Options

Option 1: Create a Sales Tax Fairness Credit

Create a refundable credit of \$1,000, adding \$50 for each additional exemption up to max of \$1,150 for filers with incomes <\$35,000

Sales Tax Fairness Credit	
Income Eligibility	\$35,000
Credit Amount	\$1,000
Max Credit Amount	\$1,150
Phase Out	\$30K - \$35K
Average Credit for Taxpayer in Bottom Income Quintile	\$1,048
Percent of Bottom Quintile Eligible	%100
Cost of Credit (Per Year)	\$669M

Option 2: Create a Local Sales Tax Supplement

Set aside revenue from future sales tax, administered as a supplement to the CalEITC, and as an automatic payment

Key Elements

- County, city or special district scale, administered by FTB
- Eligibility matches CalEITC (\$30,000)
- Flat amount regardless of family size
- Automatic payment
- Magnifies the benefits of CalEITC

Option 3: Create a Local Cash Benefit

Create a locally funded and administered cash benefit

Key Elements

- Locally funded (General Fund or other)
- Administered outside tax structure
- Administered through social services agencies
- Eligibility matches that of other benefits

Questions?