Replacing California Sales Tax with Property Tax: Excerpt from Taxation of Interjurisdictional E-Commerce

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Replacing California Sales Tax with Property Tax

Mason Gaffney

(Excerpt from Mason Gaffney, "Taxation of Interjurisdictional E-commerce," 20 Oct 99, Meeting of Offshore Investment, Ritz-Carlton Hotel, San Francisco)

What would happen in California if we eliminated the sales tax and replaced it by raising the property tax?

A. No catastrophe

1. Five states and the Province of Alberta already get along nicely with no sales tax, so it must be possible.

2. No state at all had a retail sales tax before 1929 (GA). California opened its gates in 1933 with the Riley-Stewart Act, and so did several other states. It was sold as an "emergency measure," at a rate of 2%. As late as 1977 it was 4.75%. Now it is 7.25% statewide, with many cities, counties, and transportation districts adding their tolls to the total, but for most of our state's existence we got along nicely with either no sales tax or much lower rates than today.

3. The property tax rate would rise to a level lower than it was before Prop. 13. California sales tax revenues are currently 1.19% of the assessed value (A.V.) of taxable property.[1] Add that to the current 1%, and get 2.19%, compared to 2.7% before Prop. 13—except that the 2.7% was applied to actual value, while today's assessed valuations are far below that.

The A.V. value of land is probably about one-third or so of market value; buildings are closer to market.

B. Greater equity

The distribution of the tax burden would shift from poor counties to richer ones. Thus, in the poor inland counties of Fresno, Tulare, Imperial, and Stanislaus, sales tax revenus are about 1.5% of A.V.s. In the rich coastal and suburban counties of Santa Barbara and Marin, sales tax revenues are about .75% of A.V.s.[2] Thus, the state sales tax takes a lot more money from the poor counties than it would cost them to replace the services from local taxes; the rich counties, with the high property tax bases, are contributing less to the common pool than they are saving in property taxes.

Within counties, by extension and analogy, I am reasonably certain that a careful study will

[1]Data are from 1993-1994. See \mtrls\salestax.-av. Sales tax revenues est. $22b; A.V. is $1.86t.

[2]See note 1.

show that the burden would shift from poorer cities and districts to richer ones. Again, among individuals, I believe we would find the same. One of these days, God willing, I will find the time and money to conduct or sponsor such a study.

The relevance here of this equity question is that most states and provinces have complex and expensive systems and formulae for "power equalization" and the like, designed to shift resources from rich counties to poorer ones. One reason such programs are needed is to offset the effects of the very same state sales taxes used to finance them. There are great savings to be realized by quashing this cross-hauling of public funds.