1. Cover Fisher HW
   - Chapter 12, Question 1
   - Chapter 14, Question 1

2. Cover Chapman Article

3. Fisher Chapter 15 - Sales Taxes
   - California specifics on sales and use taxes
     Second largest tax levied in CA
     Sales and use taxes paid per $100 personal income about average of U.S.
     State level began in 1930
       Currently 6.25% rate
       Local level (1% situs and further local options) in 1955
     County rates vary from 7% to 8.25%
     Current distribution: 75% state, 25% locals
     See pp. 27-34 in LAO Tax Guide
   - Sales tax base: Theory and practice
     Underlying principle: Tax on final consumption of individual
     Reality: Tax base more commonly applies to goods than services
       Only about half of personal consumption in U.S. taxed
       Housing and professional services are exempt in most states
       Personal services are only taxed in a limited manner
   - History
     Began in 1930s as a tax on tangible item
     Then, 2/3 of consumer purchases
     Now, 1/3 of consumer purchases
   - Do we need to bring more services into sales tax base?
     Raise more revenue if rates not changed
     Equity and economic efficiency both call for expanding base and
     lowering rates to revenue neutral level if desire is not to raise rates
   - Why not tax input sales to business?
     Problem of hidden taxes or “cascading”
     In CA applied somewhat haphazardly
• Origin and destination principle
  Decision in multi-state compacts to rely on destination principle
  Where good or service is used gets to levy tax
  Important exception
  1% situs rate levied in California
  Example of origin based
  But how can state/local jurisdiction enforce destination basis?
  Get the company to report that a taxable sale has occurred
  Requires nexus
  Internet sales tax issues same as mail-order sales issues
  Use tax collection

• Border Effects
  Economic substitution effect that generates an economic inefficiency
  People drive to avoid sales taxes

• Regressivity
  Fact: Low-income people devote a larger % of income to consumption than high income people
  A pure final consumption tax is therefore regressive
  Reduce regressivity by exempting items that poor devote a greater % of there income to than rich
  Groceries, utilities, prescriptions
  But still regressive if using yearly income
  More proportional if using lifetime income

4. Fisher Chapter 16 – Personal Income Taxes

• California specifics on PIT
  See pp. 16-26 in LAO Tax Guide
  Established in 1935, state’s largest single revenue source (40%)
  Progressive marginal rates (see earlier handout)
  Married couple
    2003 Taxable income – rate: $0 – $11,668 at 1%, above $76,582 at 9.3%
  Taxpayers earning annual incomes of greater $200,000: 3% returns, 50% taxes
  Capital gain payments in late 1990s
  Only people in Oregon pay more per $100 personal income
  See p. 19 in LAO Tax Guide

• Income tax terminology
  Table 16.3

• Federal AGI based upon “consumption + net change in wealth”
  California chooses to begin with Federal AGI
  Benefit: enforcement, Cost: fluctuation
  Efficiency and equity considerations
5. Bru Chapter 6: Local Option Sales and Excise Taxes

- 33 states allow local option sales taxes
  1977 (7% of total local tax revenue), 1997 (11%)
  Direct result of reduced local property tax reliance

- Policy reasons in favor of local sales taxes
  Promote local autonomy
  Administrative efficiency
  Piggyback off of state
  Diversify local tax base
  Public Acceptance
  Only 5 states do not use sales taxes

- Policy reasons against local sales taxes
  Shrinking base
  Interjurisdictional competition for mobile base
  Reduced state flexibility in use
  Higher federal taxes
  Fiscal disparities between high and low income communities

- Excise taxes
  Per-unit basis
  Lodging, meals, fuel, real-estate transfer, tobacco

- Conclusion: not likely to increase in importance

6. Bru Chapter 7: Income and Business Taxes

- Relatively small amount raised
  Likely to stay that way

- Policy issues in regard to local income taxes
  Visibility and accountability
  Economic efficiency
  Revenue growth and diversification
  Fairness
  Fiscal disparities
  Taxing commuters
  Intergovernmental issues
  Political bias

- Local option business taxes
  Deter local economic development
7. Federation Tax Admin.: State Tax Comparisons

- CA has highest state sales tax rates
- Only MA, MN, ND, NJ, PA, RI, VT, and WV have a higher max corporate income tax rate
- U.S. median excise tax on cigarette pack is $0.60, CA at $0.87 (19th highest)
- U.S. median excise tax on liquor gallon is $3.75, CA at $3.30
- U.S. median excise tax on beer gallon is $0.188, CA at $0.20
- U.S. median excise tax on wine gallon is $0.064, CA at $0.20
- Implication for No on Prop. 56 funding

8. ITEP: California Taxes Poor at Highest Rates

- See table provided on page 2
  What is assumption made in regard to property tax incidence?
  New view or traditional?
  Importance of federal tax deduction

- Tax trends on page 3

9. LAO: California’s Tax System: A Primer

10. Homework Due the Start of Meeting 10

- Read material under meeting six in the syllabus; come prepared to discuss. The go to person on covered chapters are listed below:
  Cut pp. 1 – 31: Aguirre
  Cut pp. 32 – 60: Jackson
  Cut pp. 61 – 85: Aliferas-Gjerde
  Cut pp. 86 – 123: Catron
• A well developed question from reading assignment for week eleven.

• Provide typed and double-spaced answers to questions at the back of chapters in Fisher’s text: Chapter 15 (Question 2) and Chapter 16 (Question 1)