NOVEMBER 15, 2023

Local Sales Tax Revenue Allocation

PRESENTED TO: Assembly Committee on Revenue and Taxation
Hon. Jacqui Irwin, Chair

LEGISLATIVE ANALYST'S OFFICE

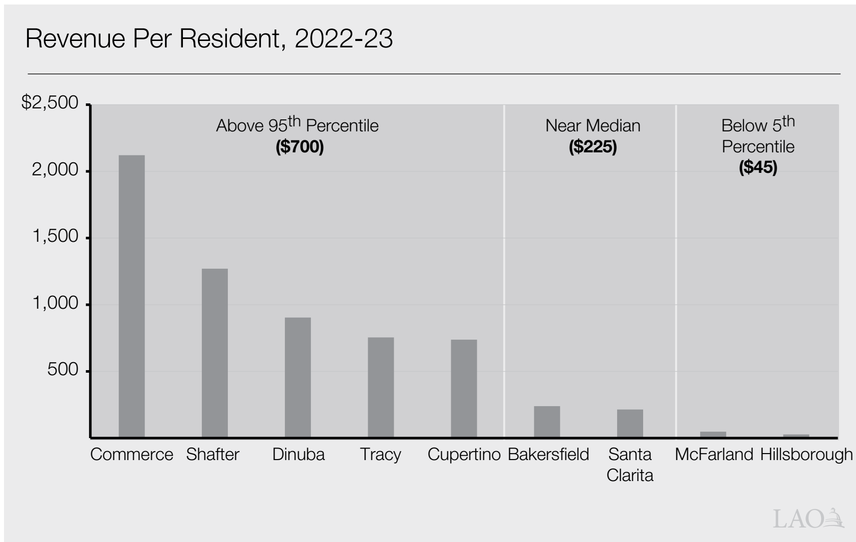
Allocation of Bradley-Burns Revenue

Driven by Place of Sale. Bradley-Burns revenue goes to the jurisdiction where the retail sale occurs (origin sourcing). As a result, cities have a fiscal incentive to maximize the retail sales that occur within their boundaries.

How Cities Compete for Taxable Sales. Some cities provide partial tax rebates or other incentives to retailers to increase taxable sales within their boundaries. Broadly, these approaches can take two forms:

- ***Attracting Retail Development.*** As e-commerce has grown, this retail development often has come in the form of warehouse distribution centers.
- ***Shifting the Legally Defined Place of Sale Without Changing the Location of Economic Activity.*** For example, "cardlock systems" allow businesses to purchase large amounts of fuel in advance. All Bradley-Burns revenue from these transactions goes to the city where the advance purchase occurs, even though the physical transfer of fuel occurs elsewhere.

Bradley-Burns Revenue Per Resident Varies Across Cities



Foundations of Current System

Bradley-Burns Law (1955). Allowed counties to opt in to a 1 percent uniform local sales tax. All counties opted in.

"Triple Flip" and Proposition 1A (2004). State's complex fiscal maneuver redirected a portion of Bradley-Burns revenue. In response, constitutional amendment prohibited state from changing Bradley-Burns allocation method.

Attempts to Limit Rebates or to Make Them More Transparent

Chapter 462 of 1999 (AB 178, Torlakson). Prohibited local financial assistance for certain types of retail relocations. Chapter 781 of 2003 (SB 114, Torlakson) made this prohibition permanent.

Chapter 4 of 2009 (SB 27, Hancock) and Chapter 717 of 2015 (SB 533, Pan). Prohibited certain types of local sales tax rebates and created some disclosure requirements. In particular, prohibited such rebates only if they divert Bradley-Burns revenue from other jurisdictions where the retailer maintains a physical presence.

Chapter 803 of 2019 (AB 485, Medina). Required certain public disclosures before approving subsidies for warehouse distribution centers.

SB 531 (Glazer, 2019). Vetoed bill would have expanded the prohibitions established by SB 27 and SB 533.

Attempts to Move Towards Destination Sourcing

SCA 20 (Glazer, 2018) and ACA 13 (Obernolte, 2019). Proposed constitutional amendments would have allocated revenues from online sales based on destination sourcing rather than origin sourcing.

SB 792 (Glazer, 2021). Vetoed bill would have required certain online retailers' tax returns to specify the local jurisdictions to which their goods are delivered.