

# Estimates of Potential Revenues Derived From Applying the Sales and Use Tax to Services Currently Non-Taxed

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# Services Highlights

- 15 service industries
- 293 sub-industries
- Over 30,000 product and service codes reviewed
- 3 million plus employer and non-employer California establishments
- Possibly more than 2.5 million new permits to administer
- Estimated total receipts of \$1.456 trillion
- Potentially \$57.3 billion in General Fund



# Data Sources

- US Economic Census
  - 2007 National and State
  - 2012 National
  - National Product Lines Reports
  - County Business Patterns
- Global Insight
  - Growth rate for each industry
- Board of Equalization
  - Sales Tax Rate



# US Census Definitions

- Establishment - A single physical location where business is conducted or services are performed.
- Firm - A business organization or entity consisting of one or more domestic establishments under common ownership or control.
- Employer – A business that has paid employees.
- Non-employer – A business that has no paid employees, has annual business receipts of \$1,000 or more (\$1 or more in the construction industries), and is subject to federal income taxes. Most non-employers are self-employed individuals operating very small unincorporated businesses, which may or may not be the owner’s principal source of income.
- Corporation - An incorporated business that is granted a charter recognizing it as a separate legal entity having its own privileges, and liabilities distinct from those of its members.
- Partnership - An unincorporated business where two or more persons join to carry on a trade or business with each having a shared financial interest in the business.
- Sole Proprietorships - An unincorporated business with a sole owner.
- Service Annual Survey (SAS) - A mandatory annual survey that collects estimates of operating revenue, operating expense, and inventory from firms in service industries. This supplements the Economic Census.



# Service Industries Summary

Two-Digit NAICS	Service	Estimated 2015-16 Receipts	State General Fund 3.9375%	Total Average Statewide 8.4200%	Estimated California Establishments in 2012*
11	Support activities for agriculture and forestry	1,933,701,425	76,139,494	162,817,660	10,025
21	Support activities for mining	2,814,696,781	110,828,686	236,997,469	744
23	Construction**	87,885,487,963	3,460,491,089	7,399,958,086	271,798
44	Automobile dealers	5,710,000,000	224,831,250	480,782,000	3,220
48-49	Transportation and warehousing	103,236,614,471	4,066,407,528	8,695,657,495	149,530
51	Information	153,707,493,504	6,052,232,557	12,942,170,953	73,860
52	Finance & insurance	225,083,591,772	8,862,666,426	18,952,038,427	70,538
53	Real estate & leasing	102,408,762,385	4,032,345,019	8,622,817,793	352,490
54	Professional, scientific, & technical services	300,583,558,665	11,835,477,622	25,309,135,640	625,618
56	Administrative and Support and Waste Management and Remediation Services	96,041,878,530	3,781,648,967	8,086,726,172	288,414
61	Educational services	8,384,588,695	330,143,180	705,982,368	83,614
62	Health care & social assistance	255,270,247,799	10,051,266,007	21,493,754,865	371,430
71	Arts, entertainment & recreation	42,935,439,492	1,690,582,930	3,615,164,005	210,211
72	Accommodations	26,793,441,971	1,054,991,778	2,256,007,814	13,241
81	Other Services Except Public Administration	43,573,908,655	1,715,722,653	3,668,923,109	510,385
<b>Grand Totals, All Services</b>		<b>1,456,363,412,108</b>	<b>57,345,775,185</b>	<b>122,628,933,856</b>	<b>3,035,118</b>

NAICS – North American Industry Classification System.



# Employer vs. Non-employer

Chart 1  
Services Estimate  
Percentage of Establishments

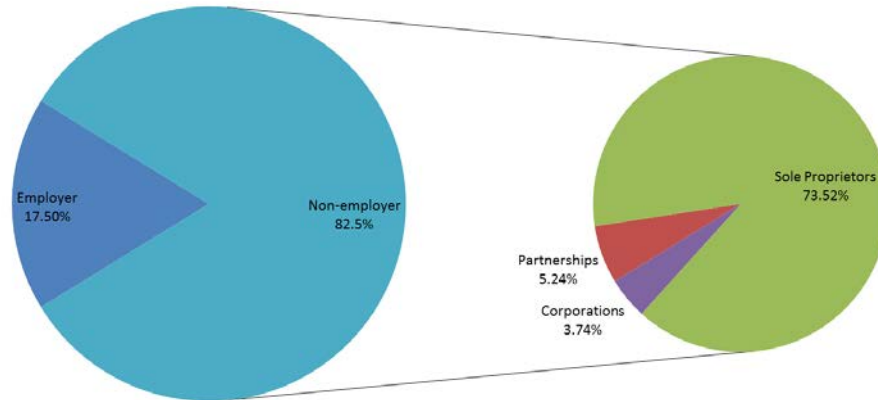
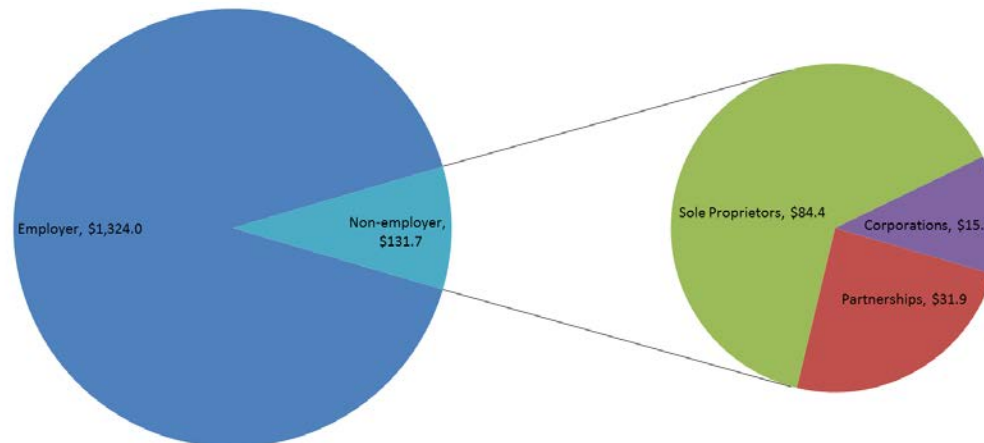


Chart 2  
Services Estimate  
Total Receipts (Billions)



# Methodology

- Determine service industry
  - US Economic Census
- Calculate California percentage
  - US Economic Census
- Deduct current taxable sales
  - US Census Product Lines Report
- Apply industry sector growth rate
  - Global Insight
- Apply sales tax rate
  - California Board of Equalization

*This methodology was used for each individual NAICS code for both employers and non-employers.*



# Sample Methodology

## Golf Courses and Country Clubs

- Determine US total golf course and country clubs receipts
  - \$20.788 billion
- Calculate California percentage
  - 12.1% of US = \$2.515 billion
- Deduct current taxable sales
  - 65.9% Non-taxable = \$1.657 billion
- Apply industry sector growth rate
  - 11.8% Growth rate = \$1.853 billion
- Apply sales tax rate
  - 8.42% = \$156 million

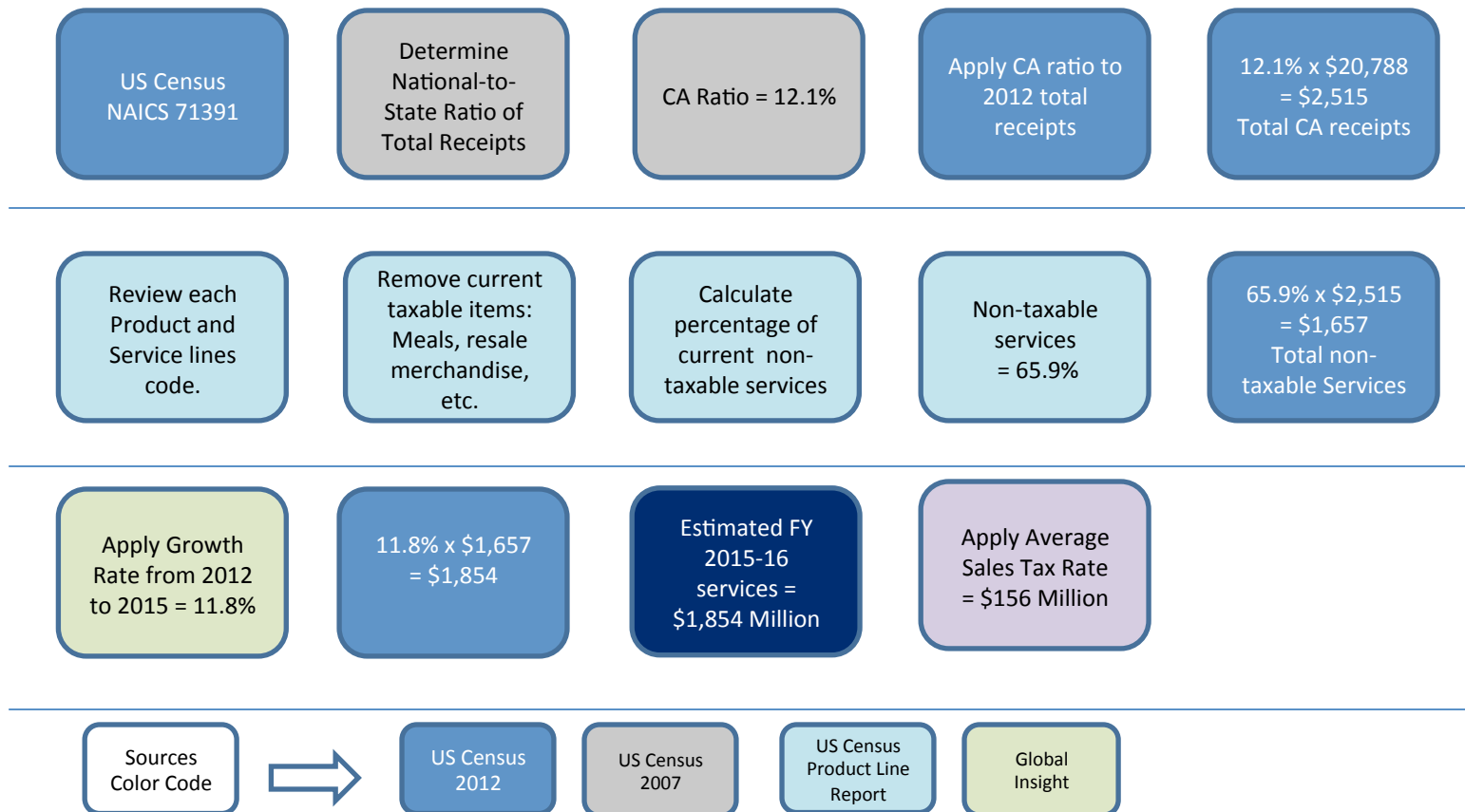
*This methodology was used for each individual NAICS code for both employers and non-employers.*





# Sample Methodology

## Golf Courses and Country Clubs



- *Figures are in millions*
- *This methodology was used for each individual NAICS code for both employers and non-employers.*



# Average Statewide Sales Tax Rate

- In 1970, the Legislature allowed cities and counties to impose transactions and use (district) taxes. The BOE collects these taxes in the same manner as local sales and use taxes. In the years since, the number of such special taxing jurisdictions has grown. As of April 1, 2015, there are approximately 202 jurisdictions that impose a district tax. Given the proliferation of special taxing jurisdictions, staff computes an effective tax rate each quarter. This rate is computed by weighting the tax rates by the taxable sales in the various jurisdictions. This effective tax rate is used in revenue estimates and to calculate the statistical funding factors.

State General Fund	3.9375%
Proposition 30	0.25%
Local Revenue 2011	1.0625%
Local Revenue 1991	0.50%
Public Safety Fund	0.50%
Local Sales and Use Tax	1.25%
Special District	0.92%
<b>Statewide Average Rate</b>	<b>8.42%</b>



# Utilities and Insurance

## Utilities

- Gas, electricity, and water are exempted from sales and use taxes when delivered to consumers through mains, lines, or pipes (Reference Sales and Use Tax Law, Chapter 4. Exemptions, Article 1. General Exemptions, Section 6353). This sector was not included in the overall grand total; however, staff calculated an estimate separately for both employers and non-employers.

## Insurance Industry Exemption

- The insurance industry is generally exempt from most forms of taxation by the California Constitution Article 13 Taxation. Therefore, it was not included in the overall grand total. However, staff calculated an estimate separately for both employers and non-employers. This included all types of insurance, such as, home, auto, life, etc.



# Construction

- NAICS Code 23
- Total Receipts: \$49.6 billion
- Potential General Fund Revenue: \$3.5 billion
- Methodology
  - Only Labor (Services) was included (67%)
  - Materials were not included (33%)
  - Federal Contracts were excluded
  - This estimate does not account for any currently taxed fabrication labor charges, such as assembly charges by contractors to affix fixtures to real property; however, staff does not anticipate such charges to significantly impact this estimate.



# Qualifying Remarks

- Some of the services identified are specifically exempted or excluded from tax under current law. Any legislation to impose tax on services would require corresponding amendments to the sales and use tax law to address the current statutory exemption or exclusion.
- This estimate does not include out-of-state establishments.
- The permit counts do not correspond directly with the number of firms due to changes in the NAICS codes being updated. The permit counts are rolled up to the two-digit NAICS code.
- Every effort was made to avoid duplication using US Census data.
- Staff assumes 100 percent compliance; however, due to differences in the nature of services compared to goods, compliance may be lower. It may be more difficult to track a service provided than goods sold.
- This estimate does not account for any currently taxed fabrication labor charges, such as assembly charges by contractors to affix fixtures to real property; however, these charges do not significantly impact this estimate.
- This estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.



## For More Information

For more information, go to the link below and view the files under “Letter to Senator Hertzberg.”

<http://www.boe.ca.gov/legdiv/miscreports.htm>

A summary article is also available in the June 2015 issue of the *Economic Perspective* Newsletter:

[http://www.boe.ca.gov/legdiv/legresearch.htm#Reports\\_Resources](http://www.boe.ca.gov/legdiv/legresearch.htm#Reports_Resources)

Thank You!

Questions ???