



The Bradley-Burns Tax and Local Transportation Funds

Changing the Allocation Structure for the Bradley-Burns Tax Would Result in a More Equitable Distribution of Local Transportation Funding

Background

The California Department of Tax and Fee Administration (Tax Administration)—formerly part of the State Board of Equalization—administers the statewide general tax on the retail sale or use of merchandise or goods within the State. Subject to a number of exceptions, such as food for home consumption, California imposes sales and use taxes on the purchase price of tangible goods. Retailers owe sales taxes, while buyers owe use taxes for certain tangible goods not otherwise subject to the retail sales tax (e.g. Internet purchases from out-of-state retailers). Tax Administration also collects the Bradley-Burns tax on behalf of cities and counties and distributes the revenue to those local governments. The Bradley-Burns tax imposes a statewide rate of 1.25 percent, of which 1 percent is allocated to counties or incorporated cities to use at their discretion and the remainder is distributed to county local transportation funds (LTFs) to support transportation programs.

Our Key Recommendations

- The Legislature should do the following:
 - » Amend the Bradley-Burns tax to allocate revenues from Internet sales based on the destination of sold goods rather than their place of sale.
 - » Increase budgetary control and ensure it has the information needed for decision-making by regularly reviewing and evaluating tax exemptions and exclusions to sales and use taxes.
 - » Increase the tax bases for general sales and use taxes by amending state law to specify that digital goods are taxable.
- Tax Administration should help address the e-commerce tax gap and ensure out-of-state retailers comply with state tax laws by implementing a two-year pilot of its authorized reward program for information identifying unreported sales and use taxes.

Key Findings

- Although Tax Administration has adequately administered the Bradley-Burns tax and the tax revenue that county LTFs receive has steadily increased over the past five years, some counties may benefit disproportionately from the Bradley-Burns tax.
 - » Retailers generally allocate the Bradley-Burns tax revenue based on the place of sale, which they identify according to their business structure, even if they ship goods to other destinations.
 - » Retailers that make sales over the Internet (e-commerce) may identify the place of sale as one of their warehouses or sales offices rather than where they ship the goods to and thus, counties with more warehouses or offices may receive more Bradley-Burns and LTF revenue.
- E-commerce has contributed to California's tax gap—Tax Administration estimated that the State lost nearly \$1.5 billion in revenue due to unpaid taxes on e-commerce purchases.
 - » Retailers that have a connection with the State must remit sales taxes on applicable sales, but those that do not are not required to even if they sell goods to Californians.
 - » Buyers must pay use tax on purchases from retailers that do not remit sales taxes to California, but may not be aware they owe these taxes.
- There are 160 exemptions and exclusions to the State's general sales and use taxes, collectively estimated to be worth more than \$22.5 billion annually, yet there is no process to regularly evaluate them to determine if they are effective and should continue.
- The State currently does not tax digital goods or services, which could yield more than \$100 billion in additional tax revenue.