Commission on the 21st Economy Century Recommendations
Administrative Impact

The Commission on the 21st Century Economy recommends that the state general purpose portion of the sales and use tax be eliminated. However, the state would retain the state portion of the sales and use tax on gas and diesel fuels with revenue used for improvements to transportation. The state portion of the sales and use tax would be phased out beginning in the initial year of the tax plan, reduced by 1 percent during each of the five years of the plan's phased-in period. The Board of Equalization (BOE) would still be required to administer the local and special fund components of the sales and use tax.

The implementation of this proposal will not result in any significant cost savings to the BOE but would increase the complexity of the remaining program and would result in significant implementation costs based on the following factors.

- The BOE currently has approximately 850,000 seller's permits. All of these accounts report both state and local sales and use tax. Accordingly, the same number of seller's permits would continue to be required to report the local and special fund components of the sales and use taxes. Additionally, a portion of these accounts would be required to collect and report the state sales and use tax on gas and diesel fuel.

- The same transactions would remain taxable or exempt so the same reporting errors and non-compliance would likely still exist. The top two areas of non-compliance found in audits is disallowed sales for resale and unreported use tax.

- The BOE would still be required to perform all its primary functions for these accounts, including but not limited to:
  - Account Registration and Closeouts
  - Return Processing
  - Refunds
  - Appeals
  - Audit
  - Collection
  - Litigation
  - Outreach
  - Respond to taxpayer contacts
  - Regulatory reviews and revisions
  - Computer system upgrades and maintenance

- During the transition period and for several years thereafter, this proposal will increase the complexity of the remaining sales and use tax program based on the following:
  - Returns will need to accommodate multiple tax rates during and after the phased-in reduction (split returns and prior period adjustments).
  - Audits for prior, phased-in and subsequent periods will need to address multiple tax rates.

Commission on the 21st Economy Century Recommendations
Administrative Impact

- Implementation one-time and ongoing costs could be significant. During FY 08-09 the BOE implemented the 1% tax rate increase incurring one time costs of over $1 million (eFiling and mainframe computer changes, special notices to all taxpayers, form and publication changes, etc).

- Many thresholds (EFT, prepayment, write-off, audit liability, etc…) would need to reviewed and evaluated to ensure the local governments do not experience revenue delays that could result from less frequent reporting requirements.

- The local government would be responsible for the cost of the majority of the sales and use program. While costs would triple in some cases, the overall cost versus revenue would still be very low. For example, the City of Los Angeles receives $400 million a year in local tax revenue at a current cost of $3.7 million (less than 1%). Under the proposed program, the same revenue would cost the city $12.2 million (3%).

- Total Sales and Use Tax Program Cost (2009/10) = $365 million

Program	2009/10 cost	Cost after phase out	Percentage Increase
State General Fund	$237 million	$ 28 million	-88%
Bradley-Burns	$ 66 million	$191 million	189%
Fiscal Recovery Fund	$ 12 million	$ 42 million	250%
STJ's	$ 50 million	$104 million	108%
Total	$365 million	$365 million	

Counties = 58
Cities = 478
STJ's = 113