



# Issue Brief: California Sales and Use Tax

## Introduction

California voters approved the first sales tax in 1933. Sales taxation, collection, and allocation have undergone several transformations along a winding journey of exemptions and evolving state and local bureaucracy. Today, the statewide sales tax rate on eligible taxable goods is 7.25%, but there is considerable variation across the state. Sales tax is administered and distributed by the state, but the 7.25% sales tax rate is composed of both state and local levies. As the chart on the following page illustrates, sales tax revenue helps fund a broad variety of county services ranging from anti-poverty programs, behavioral health services, and communicable disease control to regional parks, veterans' services, and weights and measures, with a litany of programs and services in the middle.

## If the statewide sales tax rate is 7.25%, why does the tax rate vary across the state?

Under California law, cities and counties are authorized to impose local transaction and use tax rates, when approved by the local jurisdictions' voters. Transaction and use taxes are "added on" and administered in tandem with the sales and use tax. For example, voters in Sacramento County approved a 0.5% transaction and use tax (Measure A, 2004), increasing the countywide tax rate to 7.75% for taxable transactions. The state often refers to these taxes as "district taxes." Across California's 58 counties, the unweighted average sales tax rate is 7.75%. When weighted for population, the average sales tax rate across California's 58 counties is 8.41%.

## Bradley-Burns Uniform Local Sales and Use Tax Act ("Bradley-Burns")

The Bradley-Burns Act allows local governments to adopt local sales and use tax rates up to 1% of taxable sales in their jurisdictions. Today, all cities and counties in California impose a Bradley-Burns tax, accounting for 1% of the statewide sales tax rate of 7.25%. The Bradley-Burns tax is a general tax, meaning its uses are unrestricted and can be used for general government purposes. Proposition 1A (2004) prohibits the Legislature from reducing the local sales tax rate or changing the method of allocation of local sales tax revenues.

## What is the "use" part of the sales and use tax?

California's use tax complements the sales tax. In cases where the sales tax is not collected, the use tax is imposed at the same rate as the sales tax. The use tax is most commonly applied to goods purchased out-of-state, long-term lease payments, private vehicle transactions, and construction contractors. The use tax is also applied when it is impractical to identify the multiple jurisdictions where the seller operates.

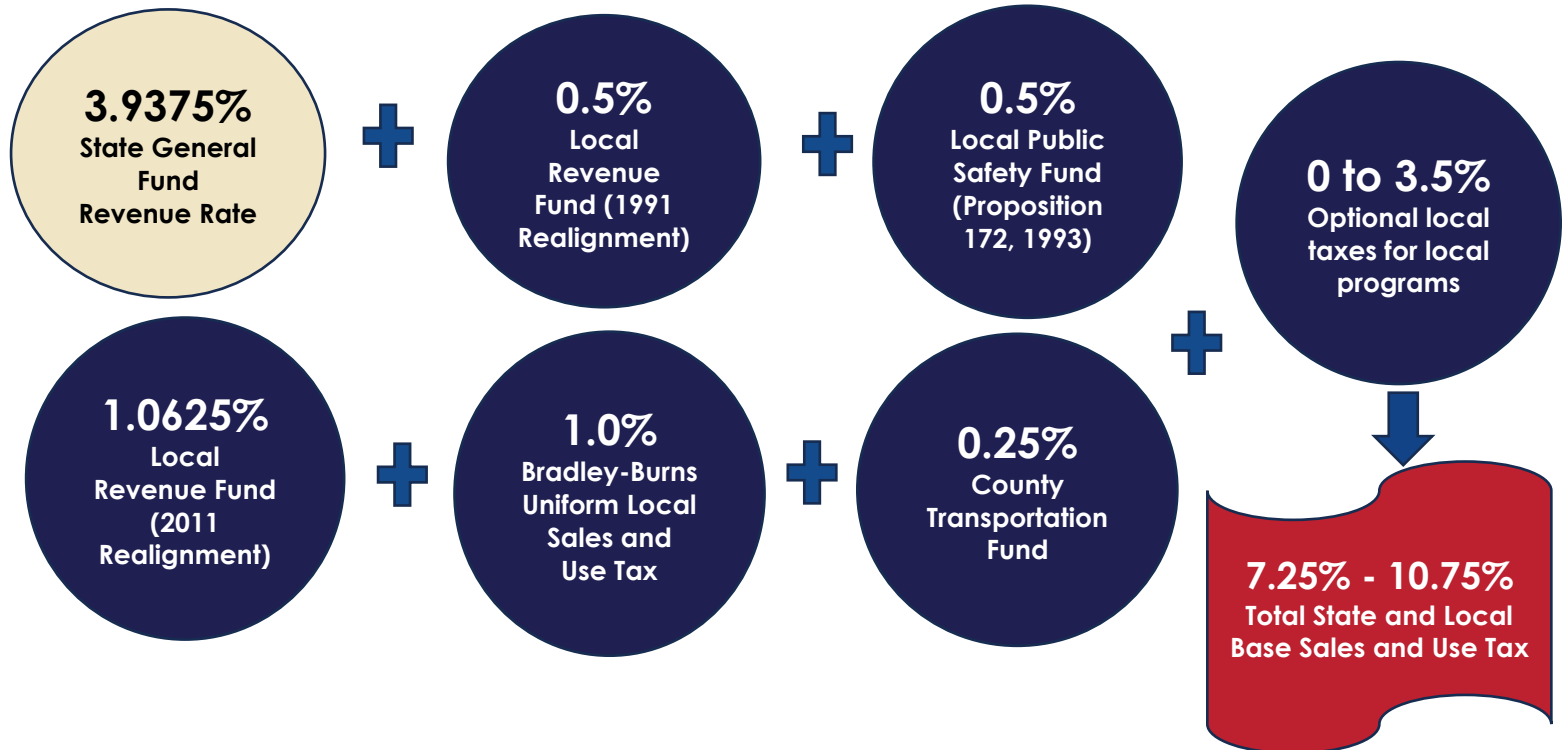
## Sales and Use Tax Exemptions

Although the overall sales tax rate (7.25%) is higher than most states, California has one of the smallest pools of taxable goods. Virtually all services are exempt from the sales and use tax in California. Services commonly taxed in other states, but not in California, include dry cleaning, automobile or appliance repair, extermination services, lawn care, swimming pool cleaning, and digital downloads. The sales tax also does not apply to the sale of real property, such as land and buildings. The state continues to narrow the base of goods that are taxed with additional exemptions. For example, the sales tax is not applied to most groceries, utilities, museums, public art, manufactured housing, and more.

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## Statewide Sales and Use Tax Rate, Purpose, and Allocation



**State General Fund Revenue Rate:** The statewide general-purpose sales tax.

**Local Revenue Fund (1991 Realignment):** In 1991, the state realigned various health and welfare program responsibilities to counties. This shift included dedicating 0.5% of the state-imposed sales and use tax rate to counties for these programs.

**Local Public Safety Fund (Proposition 172, 1993):** Proposition 172 established a 0.5% state sales tax to fund public safety programs (e.g., sheriff, police, fire, district attorney, etc.) to mitigate the impacts on those programs of state shifts of property tax revenues.

**Local Revenue Fund (2011 Realignment):** In 2011, the state realigned various corrections

and rehabilitation and health and welfare program responsibilities to counties. This shift included dedicating 1.0625% of the state-imposed sales and use tax rate to counties for these programs.

**County Transportation Fund:** The Transportation Development Act (1971) added a 0.25% rate for countywide transit and other transportation purposes.

**1% Bradley-Burns Uniform Local Sales and Use Tax:** The local 1% rate is a general tax with unrestricted uses by local governments.

**Optional Local Taxes for Local Programs:** Voter approved optional taxes may be levied as general or special taxes.

### Resources:

- "California City and County Sales and Use Tax Rates" California Department of Tax and Fee Administration: <https://www.cdtfa.ca.gov/taxes-and-fees/rates.aspx>
- "Sales and Use Taxes: Exemptions and Exclusions" California Department of Tax and Fee Administration: <https://www.cdtfa.ca.gov/formspubs/pub61.pdf>
- "Understanding California's Sales Tax" Legislative Analyst's Office, May 6, 2015: <https://lao.ca.gov/Publications/Detail/3244>

