



Date: April 9, 2024

To: Members, Assembly Local Government Committee

From: Tobias Wolken, Policy Advocate

Subject: OPPOSITION to AB 2431 (Mathis), as introduced on February 13, 2024

The California Taxpayers Association and the organizations listed below respectfully oppose AB 2431, which would authorize local governments to impose a transactions and use tax in excess of the state’s 2 percent rate cap if the sole purpose of the funding is for the seismic retrofitting of a hospital. CalTax and the organizations listed below oppose AB 2431 for the following reasons:

Opens the Door to Major Local Sales Tax Rate Hikes. California already has the highest state-level sales tax rate in the United States. By removing the cap on local transactions and use tax rates, AB 2431 would lead to even higher local rates. California’s state-level sales tax rate already makes our state uncompetitive with other states for many employers. This bill would exacerbate the problem by making our local sales tax rates uncompetitive, too.

Runs Counter to the Purpose of the Local Sales Tax Rate Limit. The 2 percent cap is an important policy that protects Californians from unmanageable increases in their cost of living. It traces back to 1953, when the Senate Committee on State and Local Taxation recommended that California adopt a uniform state and local sales tax with a rate cap. The committee reported that with a cap, the local sales tax would have a “minimum adverse” impact on taxpayers. The committee noted the following principles to consider when adopting sales tax changes: “[Local sales and use taxes] may and frequently do place unduly heavy compliance costs upon retailers”; and “Local business taxes levied under various ordinances and at different rates may produce artificial and unfair discrimination between retailers in the jurisdictions.” The cap has served the state and its residents well and should not be circumvented.

Imposes a Regressive Tax on Working Families. The combined sales tax rate in parts of the state is as high as 10.75 percent. The sales and use tax is a regressive tax that has the greatest impact on low-income residents because it makes it more expensive for these taxpayers to purchase everyday necessities. Adding even more to the cost of living with a sales tax increase would harm Californians, with a disproportionate impact on the state’s most vulnerable residents.

Increases Costs of Farming, Manufacturing, and R&D. California provides limited tax relief for business inputs on state-level taxes, but local rates continue to add costs for key industries

that engage in vital sectors of the California economy. Taxation of business inputs leads to a pyramiding effect throughout the production process, resulting in higher costs for purchases made by consumers.

To counter tax-layering and pyramiding, California provides only state-level exemptions for activities including manufacturing, research and development, teleproduction and post-production, and farm equipment. If the state authorizes localities to exceed the 2 percent transactions and use tax cap, these partially exempt activities could be taxed at a higher rate, defeating the purpose of the state-level exemptions and making it more cost-prohibitive to conduct such activities in California.

Increases State Government Costs. Unlike the federal government, which is exempt from all state and local sales taxes, state agencies are subject to state and local sales taxes for their purchases. Every increase in the local sales tax rate increases costs for purchases made by state agencies operating in these jurisdictions, making it more expensive for the state to continue providing existing levels of service.

While we understand your concern with finding funding to retrofit local hospitals in your district and appreciate you narrowing the focus of the bill to do so, circumventing the cap to achieve this opens the door for countless exceptions in the future. For these reasons, CalTax and the organizations listed below oppose AB 2431.

On behalf of...

California Taxpayers Association
Alameda County Taxpayers Association
California Building Industry Association
California Business Properties Association
California Chamber of Commerce
California Hotel and Lodging Association
California Retailers Association
Family Business Association of California
Kern County Taxpayers Association
Orange County Taxpayers Association
San Diego County Taxpayers Association
San Gabriel Valley Economic Partnership

cc: The Honorable Devon Mathis, California State Assembly

The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers.