Opinion: Additional sales tax in Calif. is wrong

By Ted Gaines

California might end the fiscal year with a whopping $20 billion in its rainy day fund. You might think a reserve that size, plus billions more in unanticipated revenue flowing into the state's coffers this year, would satisfy even the tax-hungriest Sacramento politicians and satisfy their appetite for tax increases. Sadly, you would be wrong. Even during this tax boom, Senate Bill 993 is trying to slap taxpayers with the single biggest sales tax increase in state history.

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Currently, Californians don't pay taxes on services, but SB993 would change that. Next time you visit a dry cleaner, hair stylist, manicurist, mechanic or any of the other countless services that we use day after day, week after week, you'll pay a new and additional 3 percent tax for the exact same service. That's the last thing financially-stretched Californians need in this already unaffordable state. And history is clear that the 3 percent tax will only creep up over time.

The damage wouldn't stop there. Small businesses contract out myriad tasks so they can focus on their core money making activity. They pay for computer services, payroll, janitorial, bookkeeping, legal services and more. Under this bill, they

will be paying a premium for those services. This additional cost puts them at a further disadvantage to their larger competitors, who have staff to perform these services in house, and they will have no choice but to pass those new costs on to consumers, shrink already thin margins, or go out of business completely.

By taxing businesses for services provided during multiple stages of production, this tax will be added on to the final costs of every product we use, including prescription drugs, milk, bread and other staples that are exempt from any sales tax. Although they will not be taxed directly, everyone – even the state's poorest citizens – will be paying a backdoor tax on the products they depend on.

In true California fashion, the plan envisioned in SB993 is wildly complicated, with a maze of exemptions and allocation decisions that make the bill not just a bad idea, but an unworkable one. It's estimated that first-year administrative costs for the state would be around $900 million, settling towards $600 million annually afterwards. Good taxation should be simple, and the convoluted scheme embodied in the bill violates that core principle.

A tax on services will spread over the California economy like a Kilauea lava flow, slowly destroying opportunity, prosperity, and the bottom line of family budgets. It could lead to a short-term bump in revenue, but would further damage California's faltering economic competitiveness and corrode our long-term financial health. That's a price none of us should be willing to pay.

State Sen. Ted Gaines represents the 1st Senate District, which includes all or parts of Alpine, El Dorado, Lassen, Modoc, Nevada, Placer, Plumas, Sacramento, Shasta, Sierra and Siskiyou counties.