

# Sources of Sales Tax Revenue Collected in LA County



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## EXECUTIVE SUMMARY

### *Sales Tax by Source*

The LAEDC estimated the sources of sales tax revenue in Los Angeles County based on the type of party paying the sales tax. Specifically, we divided total taxable sales and corresponding sales tax payments in Los Angeles County into three categories—purchases by residents, tourists, and businesses.

<b>Estimated Sales Tax by Source in LA County, 2006</b>		
Source	Sales Tax (\$billions)	% of Total
LA Residents' Purchases (est.)	\$4.70	41.8%
Tourist Purchases (est.)	\$0.40	3.6%
Business Purchases (est.)	\$6.14	54.6%
<b>Total Sales-Taxable Purchases</b>	<b>\$11.24</b>	<b>100%</b>

Sources: State Board of Equalization, BLS, LA Inc, LAEDC

The LAEDC estimates that LA county residents' purchases of sales-taxable goods generated \$4.70 billion in sales tax revenues in 2006, 41.8% of the county total—based on average consumer spending patterns (see Table 2 and Table 3). Tourist purchases generated an estimated \$400 million in sales taxes—3.6% of the county total—based on visitor counts and estimated tourist spending (see Table 4). Subtracting the taxes paid by residents and tourists from the county total, taxable business purchases generated and estimated \$6.14 billion in sales tax, 54.6% of the total sales tax revenue.

### *Impact on Residents of a 0.5% Sales Tax Increase*

LA County residents spent an estimated \$62.0 billion on taxable purchases, an average of \$19,000 per household and \$6,100 per person, based on 3.26 million households and 10.16 million residents in LA County in 2006. Using an 8.25% rate, households in the county paid an average of \$1,440 in sales taxes, and individuals paid \$462. The effect of a 0.5% sales tax increase is shown in the table below.

<b>The Cost of 0.5% Sales Tax Increase per LA Resident, 2006</b>			
Tax Rate	Total Spending for Taxable Products	Purchases* (Net of Tax)	Sales Tax Paid
@ 8.25%	\$6,108	\$5,645	\$462
@ 8.75%	\$6,108	\$5,620	\$487
<b>0.5% Increase</b>	<b>No Change</b>	<b>-\$25</b>	<b>\$25</b>

\*Excludes tax payment

Sources: BLS, CA Dep. of Finance, LAEDC

Raising the tax rate and assuming no change in income or spending patterns will require a reallocation of money from net purchases to sales tax paid. In this case, taxes paid annually by residents will increase by an average of \$25 per person (about \$80 per household).

## LA COUNTY TAXABLE SALES

The total value of taxable sales transactions in Los Angeles County during 2006 was \$136.16 billion, which produced \$11.23 billion in sales tax revenue. Table 1 provides further details, breaking out the sales-taxable transactions by general type of business.

<b>Table 1</b>			
<b>Taxable Sales in LA County by Type of Business, 2006</b>			
Type of Business	Taxable Transactions (billions)	Sales Tax (billions)	% of Total
Retail Stores	\$95.55	\$7.88	70%
Business and Personal Services	\$5.39	\$0.44	4%
All Other Outlets	\$35.22	\$2.90	26%
<b>Total</b>	<b>\$136.16</b>	<b>\$11.23</b>	<b>100%</b>

Source: State Board of Equalization, 2006

The largest amount of sales-taxable transactions took place at retail stores, accounting for \$95.55 billion in 2006 and yielding \$7.88 billion in sales taxes, or 70% of the total sales tax revenue. Taxable transactions at business and personal services firms were \$5.39 billion, generating about \$440 million in sales taxes (4% of the total). Sales-taxable purchases and the associated sales taxes for all other outlets were \$35.22 billion and \$2.90 billion respectively, 26% of the total.

The LAEDC estimated the sales-taxable portion of average annual expenditures per household<sup>1</sup> in Los Angeles County based on the Bureau of Labor Statistics Consumer Expenditure Survey. The findings are presented in Table 2.

<b>Table 2</b>			
<b>Average Annual Expenditures in LA County , 2006</b>			
<b>(Per Household)</b>			
Category	Total Expenditure*	Taxable Portion	Estimated Taxable Sales*
<b>Food</b>	<b>\$7,222</b>		
Food at home	\$3,873	0%	\$0
Food away from home	\$3,349	100%	\$3,349
<b>Housing</b>	<b>\$21,190</b>		
Shelter	\$14,312	0%	\$0
Utilities, fuels, and public services	\$2,996	0%	\$0
Household operations	\$1,235	0%	\$0
Housekeeping supplies	\$643	100%	\$643
Household furnishings and equipment	\$2,004	100%	\$2,004
<b>Transportation</b>	<b>\$10,716</b>		
Vehicle purchases (net outlay)	\$4,443	100%	\$4,443
Gasoline and motor oil	\$2,566	100%	\$2,566
Other vehicle expenses	\$2,980	25%	\$745
Public transportation	\$727	0%	\$0
Alcoholic beverages	\$475	100%	\$475
Apparel and services	\$2,396	90%	\$2,156
Healthcare	\$2,316	0%	\$0
Entertainment	\$2,743	50%	\$1,372
Personal care products and services	\$815	75%	\$611
Reading	\$141	100%	\$141
Education	\$1,127	7%	\$79
Tobacco products and smoking supplies	\$199	100%	\$199
Miscellaneous Services	\$1,014	25%	\$254
Cash contributions	\$1,710	0%	\$0
<b>Average Annual Expenditure</b>	<b>\$58,404</b>	<b>35%</b>	<b>\$19,000**</b>

\*Figures include the sales taxes paid

\*\*May not sum due to rounding

Source: BLS, Consumer Expenditure Survey 2005-2006; LAEDC

<sup>1</sup> The BLS data reflect spending averages per “consumer unit”. The concept is similar to the more commonly used “household”.

In the food section, we considered 100% of the food purchased away from home to be sales-taxable, which was over \$3,300 per consumer unit, according to the Consumer Expenditure Survey, 2005-2006.

Out of five housing expenditure categories only housekeeping supplies and household furnishings & equipments are sales-taxable (we assume 100%), accounting for over \$2,600 per household living in Los Angeles County.

Many transportation related expenditures are sales-taxable, including vehicles, gasoline & motor oil purchases (100% sales taxable). We assume only 25% of other vehicle expenses are taxable (mostly replacement parts).

Most other expenditure categories shown in the lower section of Table 2 are at least partially sales-taxable with the exception of healthcare and cash contributions. Alcoholic beverages, reading materials, and tobacco related products are 100% sales taxable. In addition, the taxable portions of entertainment, apparel & services, and personal care products & services are 90%, 50%, and 75% respectively. Also, we assume that 25% of miscellaneous services are sales taxable in Los Angeles County, depending on the type of service they provide. Finally, purchases of textbooks and supplies are about 7% of total educational expenses.

Overall, out of \$58,404 in average annual spending per consumer unit, the LAEDC estimated that \$19,000 is sales-taxable, which is roughly one third of the total.

Next, we multiplied the estimated taxable spending per household by the total number of households in Los Angeles County to produce an estimate of sales taxes paid by LA residents, as shown in Table 3.

<b>Table 3</b>	
<b>Estimated Sales Taxes Paid by LA County Residents, 2006</b>	
Number of households in LA County*	3,260,000
Average annual sales-taxable spending per household	\$19,000
Total sales-taxable spending (includes sales taxes paid)	\$62,000,000,000
<b>Sales Tax Paid by LA County Residents</b>	<b>\$4,700,000,000</b>

\*Average of January 1, 2006 and January 1, 2007 household numbers  
Source: California Department of Finance, BLS, LAEDC

There are 3.26 million households in Los Angeles County. Multiplying the average sales-taxable spending per household by the number of households in Los Angeles County suggests annual sales-taxable spending of \$62 billion, and \$4.70 billion in paid sales taxes.

The LAEDC also estimated the value of sales taxes paid by visitors to Los Angeles County in 2006. We started with the total number of overnight visitors (from LA Inc). Then we used an estimated breakdown of visitors' spending, also from LA Inc, to identify the sales taxable categories. In practice, this meant excluding spending for hotels and most of transportation (90% tax exempt).

In 2006, there were 25.4 million total visitors in Los Angeles County—20.7 million domestic visitors from elsewhere in the US and 4.7 million international visitors, as shown in the upper section of Table 4.

<b>Table 4</b>			
<b>Estimated Sales Taxes Paid by Tourists</b>			
<b>Visiting LA County in 2006</b>			
Tourists			
Domestic Visitors	20.7 million		
International Visitors	4.7 million		
<b>Total</b>	<b>25.4 million</b>		
Tourist Spending			
	Total Spending (\$billions)	Taxable Spending (\$billions)	Sales Tax (\$billions)
Domestic Visitors	\$9.5	\$3.4	\$0.26
International Visitors	\$4.0	\$1.9	\$0.14
<b>Total</b>	<b>\$13.5</b>	<b>\$5.3</b>	<b>\$0.40</b>

Source: LA Inc, LAEDC

Together, domestic and international visitors spent \$13.5 billion (\$5.3 billion for taxable purchases) and paid \$400 million in sales taxes within Los Angeles County in 2006. The lower section of Table 4 shows total spending and estimated sales taxes paid by domestic and international tourists visiting LA County in 2006.

Domestic tourists spent an estimated \$9.5 billion, of which \$3.4 billion was sales taxable, suggesting those visitors paid \$260 million in sales tax in 2006.

International tourists visiting Los Angeles County during 2006 spent an estimated \$4.0 billion, \$1.9 billion of which was taxable, suggesting they paid an estimated \$140 million in sales tax.

NOTE: The figures for visitors are conservative. In particular, they exclude spending by day trip visitors to Los Angeles County from elsewhere in California, Arizona, and Nevada.