

[back to article](#)

pressdemocrat.com

Your taxes are going up this week

1-cent hike in sales tax taking effect Wednesday, vehicle license fee jumps in May; income tax already went up

By [GUY KOVNER](#)
THE PRESS DEMOCRAT

Published: Sunday, March 29, 2009 at 2:32 p.m.

The rancor in Sacramento over balancing California's budget has subsided, at least for the time being.

Now Californians are feeling it, big time.

A statewide sales tax increase, starting Wednesday, will instantly bump up the price of everything from cars to ant poison by 1 cent on every dollar, a seemingly small levy that is estimated to add up to \$5.8 billion over the next 15 months.

It's the biggest portion of a \$12.5 billion tap on taxpayer wallets, California's first major tax increase since 1991, with multi-billion-dollar boosts of sales and personal income taxes as well as the vehicle license fee.

The budget deal also cut more than \$15 billion in state spending, mostly for education, social service programs and medical assistance.

Experts, such as Sonoma State University economist Robert Eyster, call the sales tax hike "an artificial price increase" that will curb some consumer spending and hit lower-income families harder than affluent ones.

Folks like Renita Anderson of Santa Rosa are more direct.

"It's highway robbery," said Anderson, a Roseland School District technology assistant. "Very hard to take."

Anderson had hoped to buy a car this year, and a dealer made her an attractive offer, but the added tax may doom the transaction.

"Prices are down, but the tax is coming," she said last week. "It seems like everything that can go wrong will go wrong."

But some experts also say tax revenues should save jobs, create new ones and thereby stimulate the economy.



MARK ARONOFF/ PD

Stina Selinske, 22, is all smiles with her father, Robert, in the 2006 Mustang GT she purchased Sunday.

"This is a necessary evil," said Bill Dombrowski of the California Retailers Association.

For the moment, the looming sales tax increase, which will add \$300 to the cost of a \$24,000 vehicle, has spurred sales in an otherwise moribund industry.

Santa Rosa's Hansel Ford experienced a sales uptick two weekends ago, general manager Justin Hansel said.

"People are coming in and acting on it," he said.

Anderson said she was getting calls from her dealer last week, saying "this is the week to buy."

But the temporary upswing won't rescue the auto industry from its worst sales downturn in 27 years, Hansel said.

Sonoma and Marin County residents take a twofold tax hit on Wednesday, with the 1 percent state sales tax increase compounded by implementation of the quarter-cent tax for a commuter rail system approved by voters in November.

The 1.25 percent increase will boost the sales tax rate in most of Sonoma County to 9 percent, while Santa Rosa and Sebastopol's rates will rise to 9.25 percent.

California's current sales tax base rate of 7.25 percent, which is augmented by city and county taxes, is the highest in the nation, according to the Tax Foundation. Most of Sonoma County now pays 7.75 percent; Santa Rosa and Sebastopol pay 8 percent.

The foundation, a Washington-based nonpartisan organization, ranked California's overall state and local tax burden at \$5,028 per capita last year, sixth highest in the nation.

Gov. Arnold Schwarzenegger and state lawmakers agreed on the \$12.5 billion tax increase, along with \$15.4 billion in spending cuts, \$5.3 billion in borrowing and \$8.5 billion in anticipated federal stimulus funds, to plug a \$40 billion budget deficit.

Already, however, state officials warn that sagging revenues will create an additional \$8 billion state deficit over the next 15 months.

The tax package includes a 0.25 percent boost in personal income tax rates, effective in the 2009 tax year, and a 0.5 percent increase in the vehicle license fee (from 0.65 to 1.15 percent), effective May 19.

Another Republican, former Gov. Pete Wilson, presided over a \$7 billion tax increase in 1991, which amounts to \$11 billion when adjusted to current dollars.

"Finally, the Legislature's come to grips with the fact there needed to be a revenue increase," said Jean Ross, executive director of the California Budget Project.

But Ross said she would have preferred tax increases targeted more at wealthy taxpayers who are better able to absorb higher sales and income taxes.

State income tax rates, which range from 1 percent to 9.3 percent, all go up by 0.25 percent for the current tax year, a levy that Ross said falls most heavily on middle-income households.

The tax liability of a married couple with a \$40,000 taxable income goes up 12.9 percent, while the

liability of a couple with taxable income of \$150,000 increases 4 percent, Ross said.

Sales tax increases are inherently regressive, falling hardest on lower-income people, Ross and Eyler said. Vehicle license fee hikes also "hurt the poor more than the wealthy," Eyler said.

The tax increase package will have about the same effect on 80 percent of taxpayers, taking nearly 1 percent of their 2008 income, according to the Institute on Taxation and Economic Policy, a nonpartisan research organization.

But it will take about 0.5 percent of the income of taxpayers making \$211,000 and up. The 0.47 percent income loss cost to people making \$592,000 or less than half the 0.98 percent cost to the poorest taxpayers making less than \$21,000, the institute said.

Higher taxes will reduce consumer spending and contribute to a depressed economy, but it's hard to tell how much and for how long, said Eyler, head of the SSU Center for Regional Economic Analysis.

In terms of consumer behavior, higher taxes could contribute to more Internet shopping, which often is tax free, and encourage Californians to make major purchases in Oregon, which has no sales tax, experts said.

An editorial in The Oregonian newspaper suggested the state might launch a "Shop Oregon" campaign to capture more revenue from visitors.

Daniel Burner of Santa Rosa said he generally believes in supporting local merchants but may consolidate major purchases, such as a computer, with trips to visit his brother in Eugene, Ore.

"I see it as a viable option," Burner said, considering local sales taxes of close to 10 percent.

"Americans generally don't like taxes," Eyler said. But on the bright side, he said, the Sonoma-Marine rail tax will help build a \$541 million project, creating jobs that will, in turn, boost local consumer spending.

If the state maintains or expands employment with its tax revenue, the economy also will get a boost, he said.

Dombrowski, president of the state Retailers Association, said he doubted the tax increases will stunt sales, except on big ticket items.

"The reality is the economy is in such bad shape it can hardly get worse," he said. "I hate to put it that way."

An injection of tax revenue, he said, may "get the state back on its feet."

You can reach Staff Writer Guy Kovner at 521-5457 or guy.kovner@pressdemocrat.com.
