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April 15, 2019

The Honorable Steve Glazer
California State Senate
State Capitol Building, Room 5108
Sacramento, CA 95814

RE: SB 531 (Glazer) Sales Tax Shifting Agreements
Notice of Support (As proposed to be amended by RN# 1913597 on 4/22/19)

Dear Senator Glazer:

The League of California Cities is pleased to support your Senate Bill 531, as it will be revised pursuant to amendments included in RN# 1913597 and appear in print on April 22, 2019. In brief, the measure would, on and after January 1, 2020, prospectively ban sales tax rebate agreements between retailer with sales nexus in a warehouse, sales office or fulfillment center and a local agency involving Bradley-Burns Sales and Use Taxes revenue derived from the sales of tangible property delivered to and received by the purchaser in the territorial jurisdiction of another city or county.

This measure reflects and is consistent with policies developed by the League as part of a comprehensive multi-year review of issues related to the collection and distribution of Bradley-Burns Sales and Use Tax revenue. The League's policy states that sales tax agreements involving online retailers should be prohibited going forward because they have the effect of encouraging revenue to be shifted away from numerous communities and concentrated to the benefit of one agency with a portion rebated to a retailer.

Under California's existing situs allocation rules, purchases made over the Internet are often allocated to a warehouse, sales office or fulfillment center from which the goods are shipped. With the increasing volume of Internet sales, a tremendous amount of sales tax revenue can be concentrated in a retailer's warehouse, sales office or fulfillment center, which make locating these facilities an enticing prospect for local agencies.

Also important to the League is that SB 531, as drafted, does not interfere with any existing agreement negotiated prior to the bill's effective date, nor does it interfere with the ability of a local agency to offer economic development incentives with its own revenue, including shares of Bradley-Burns revenue generated by sales of products delivered to and received by purchasers within its territory.

The League also recognizes that SB 531 is part of a larger spectrum of issues related to the local sales tax. League policy also supports other changes affecting sales and use taxes, which include establishing a broader sales tax base, improving distribution and direct allocation from use tax pools, and having the California Department of Tax and Fee Administration thoroughly analyze the impacts on all local agencies of a potential shift to destination allocation of sales tax revenue for online purchases before any such transition can be appropriately evaluated.

SB 531 would prohibit future rebate agreements that result in Bradley-Burns Sales and Use Tax revenue from being shifted away from numerous communities and concentrated to the benefit of one agency with a portion rebated to a retailer. For the reasons stated above, the League supports this measure.

Thank you for your leadership on this important matter and we look forward to working with you in support of this measure. Should you have any questions about the League's position, please contact me at (916) 658-8222.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel Carrigg", enclosed in a thin black rectangular border.

Daniel Carrigg
Deputy Executive Director, Legislative Director

cc: Chair and Members, Senate Governance and Finance Committee
Colin Grinnell, Staff Director, Senate Governance and Finance Committee
Ryan Eisberg, Policy Consultant, Senate Republican Caucus