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Schwarzenegger's proposed sales tax hike finds few fans

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Higher sales tax in California? Chuck Alvey wouldn't mind.

Alvey runs the Economic Development Authority of western Nevada, which recruits businesses to the Reno area, and he's glad to talk about Nevada's low-tax climate. Gov. Arnold Schwarzenegger's proposal to tack an extra penny on California's sales tax could offer him another selling point.

"We'll always use something like that," Alvey said.

On this side of the border, Schwarzenegger's plan for a temporary sales tax hike wasn't so well received. Merchants, consumers and economists were lukewarm at best.

"It's going to take a little bit of money out of people's pockets at a time when people are already struggling," said Jack Kyser, chief economist at the Los Angeles County Economic Development Corp. "It would act as a tiny brake, a further brake, on the economy."

One possible consequence, he said, is that Californians might make more of their purchases over the Internet, where sales tax is supposed to be collected but frequently isn't.

"It isn't something we need right now," said car dealer Steve Pleau, president of Future Automotive Group of Sacramento. "In the current business climate, raising any taxes is not productive."

Statewide, new car sales were off 22 percent in the first quarter of this year, according to the Department of Motor Vehicles. Pleau said his dealerships' sales "may have bottomed out."

One criticism of the governor's plan is that sales tax is regressive, meaning it is a bigger burden on the poor. The California Budget Project, which lobbies the Legislature on behalf of lower-income residents, says Californians in the bottom 20 percent of income spent 8.4 percent of their pay last year on sales tax. Those in the top 20 percent spent as little as 3 percent.

Jean Ross, the group's director, said she prefers the Democrats' proposal to raise income taxes on the wealthiest Californians. Yet she would support the sales tax idea if Schwarzenegger dropped his demand to tie the increase to spending cuts.

"I think it's a step forward that he's acknowledging we need real revenue to bridge the

budget gap," Ross said.

Without more revenue, the state would have to make big spending cuts that would harm the poor worse than a hike in the sales tax, she said.

California relies heavily on income tax, which tends to be volatile.

Schwarzenegger's proposal represents the latest effort to resolve the 37-day budget stalemate.

Nonetheless, the governor won little support among afternoon shoppers at Sacramento's Downtown Plaza.

"Everybody's struggling and 1 percent on top of the gas prices and all – 1 percent isn't so subtle, not in these times," said Araceli Collazo of Sacramento.

She was also skeptical of the governor's plan to let the tax increase expire in three or four years. "It doesn't sound so temporary," she said. "It's always easy to pass on the tab to the taxpayers."

Merchants who do business along California's borders saw little to cheer about, either.

Bill Todd, owner of the True Value Hardware in Tulelake, on California's northern border, said sales tax doesn't matter on small buys. But big purchases tempt his customers to drive to Oregon, which doesn't charge sales tax.

"We don't need another 1 percent sales tax, I guarantee that," he said.

Californians who buy goods out of state are supposed to pay the California sales tax but rarely do.

Roxanne Williams, who runs a Truckee clothing store called Sassafra, said higher taxes might chase shoppers over the border.

"It's one more reason for people to drive the extra 30 miles to Reno," she said.

The governor's plan would raise sales tax in Truckee to 8.875 percent. It's 7.375 percent in Reno, although voters are being asked in November to increase the tax by one-eighth of a cent.

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