HIT & RUN BLOG

Don't Fund California Single-Payer Health Care With a Gross Receipts Tax

The sales tax' big brother tends to cripple growth, lower wages, and promote inequality, economists warn. Will that stop California from doing it?

Eric Boehm|Jun. 5, 2017 3:42 pm

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Ingram Publishing/NewscomCalifornia's single-payer health care proposal would eliminate premiums, deductibles, and co-pays for residents of the state, but would require massive tax increases—including the creation of a new, more complex version of a sales tax that would drive up the cost of living or doing business there.

There's still no fully formed plan to finance the California single-payer proposal, which cleared the state Senate with a 23-14 vote on Thursday and is headed to the state House. Implementing the so-called Healthy California Act, or HCA, would likely cost the state as much as $400 billion annually (that's more than California currently spends on its entire state government), and would require at least $200 billion in new revenue, if not more.

The bill is silent about how the plan would be funded, but an analysis published last month by the state Senate Appropriations Committee envisioned a 15 percent payroll tax increase to generate the necessary revenue. A new analysis released last week by researchers at the University of Massachusetts-Amherst, suggests that California pay for the single-payer health care plan with a new gross receipts tax of 2.3 percent, along with a 2.3 percent increase the state's sales tax (currently 7.25 percent), "along with exemptions and tax credits for small business owners and low-income families to promote tax-burden equity."

Those two tax hikes would generate an estimated $106 billion annually—far short of the $330 billion price tag attached to the HCA by the Amherst economists, so other tax hikes would also be required. Cost now is $370 billion

Still, the idea of funding a single-payer health care system with a new gross receipts tax should be a point against the creation of such a system, not one in its favor—no matter how much revenue the tax might produce.

Unlike regular sales taxes, which are imposed only at the final point of sale when a consumer purchases a product from a retailer, gross receipts taxes are applied at each and every transaction along a supply chain. In practical terms, you pay a sales tax when you purchase a widget from a store, and that's the only tax paid on the sale of that widget. Under a gross receipts tax, the widget-maker would pay 2.3 percent on the cost of the raw materials

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