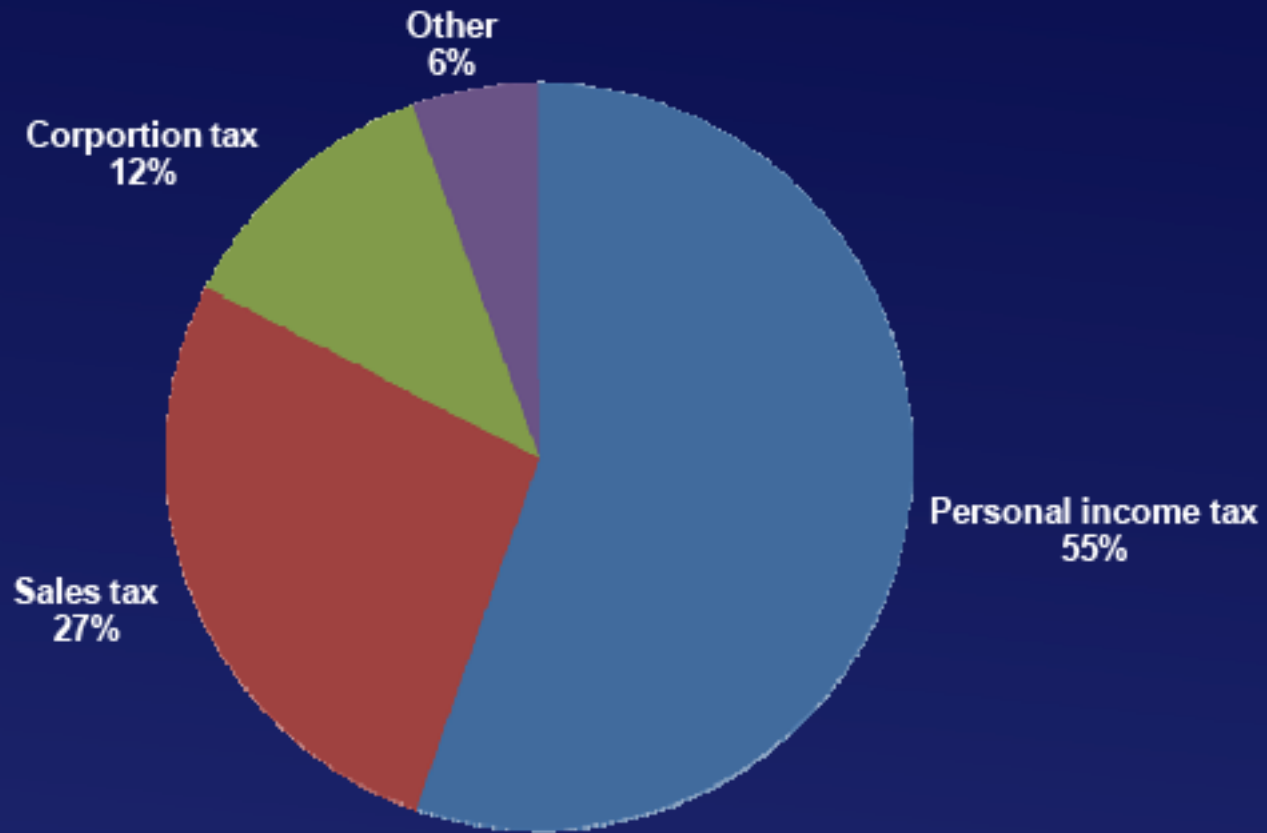


# Overview of the California Tax and Revenue System

**Phil Spilberg**  
*Chief, Financial Research*  
*Department of Finance*

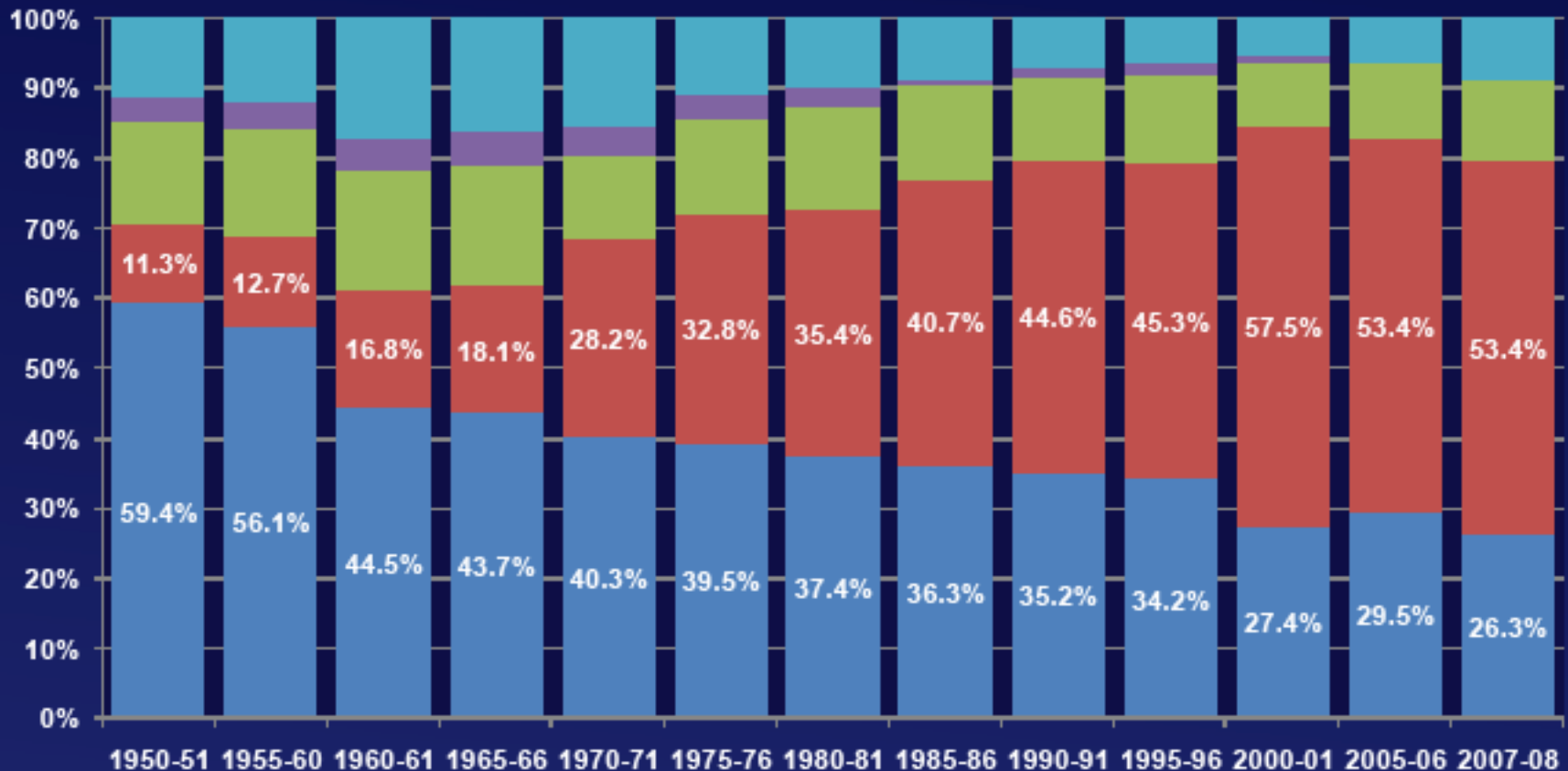
January 22, 2009

# General Fund Revenue Sources 2007-08



# California State Revenues by Source

(\$ Billions)



- Retail Sales and Use Tax
- Personal Income Tax
- Corporation Tax
- Estate Tax
- Other

# Sales and Use Tax Rates

7.25% Total Statewide Sales/Use Tax Rate

- 5.00% State General Fund
- 0.25% State Fiscal Recovery Fund (for repayment of Economic Recovery Bonds)
- 0.50% Local Revenue Fund (for health and social service programs)
- 0.50% Local Public Safety
- 0.75% City and County operations
- 0.25% County transportation

Up to 2% additional local sales tax rate, subject to voter approval

Total effective statewide sales tax rate is currently about 7.95%.

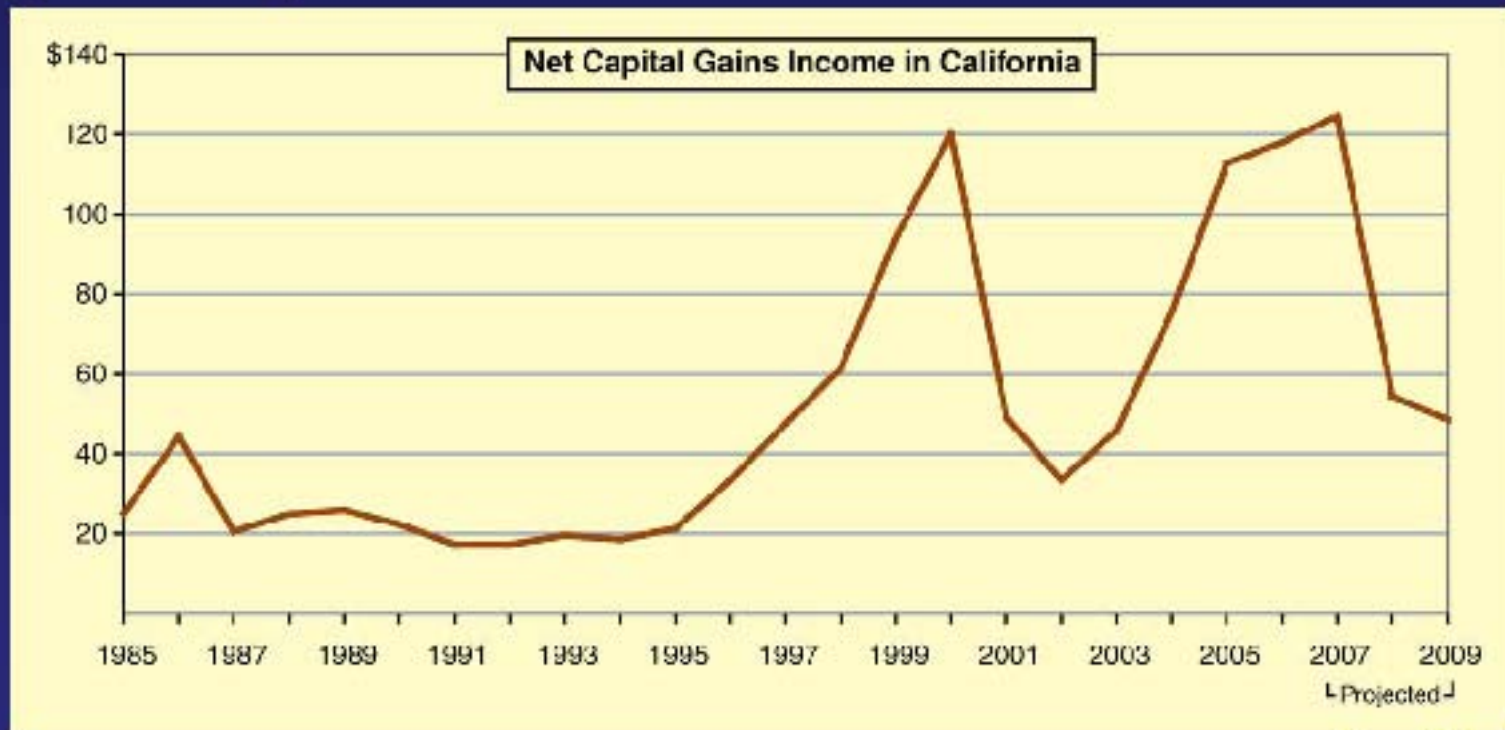
# Personal Income Tax Distributions of AGI and Tax

(2006 Tax Year)

Interval	Returns (000)	Lower AGI of Internal	AGI in interval	Tax in Interval
Top 1%	144	\$480,940	24.9%	47.9%
Top 5%	719	\$178,185	39.8%	68.3%
Top 10%	1,438	\$124,081	50.2%	78.5%
Top 20%	2,877	\$82,684	64.3%	88.5%
4th 20%	2,877	\$45,942	17.5%	8.4%
3rd 20%	2,877	\$27,254	10.2%	2.5%
2nd 20%	2,877	\$14,064	5.8%	0.5%
Bottom 20%	2,877	\$0	2.1%	0.1%

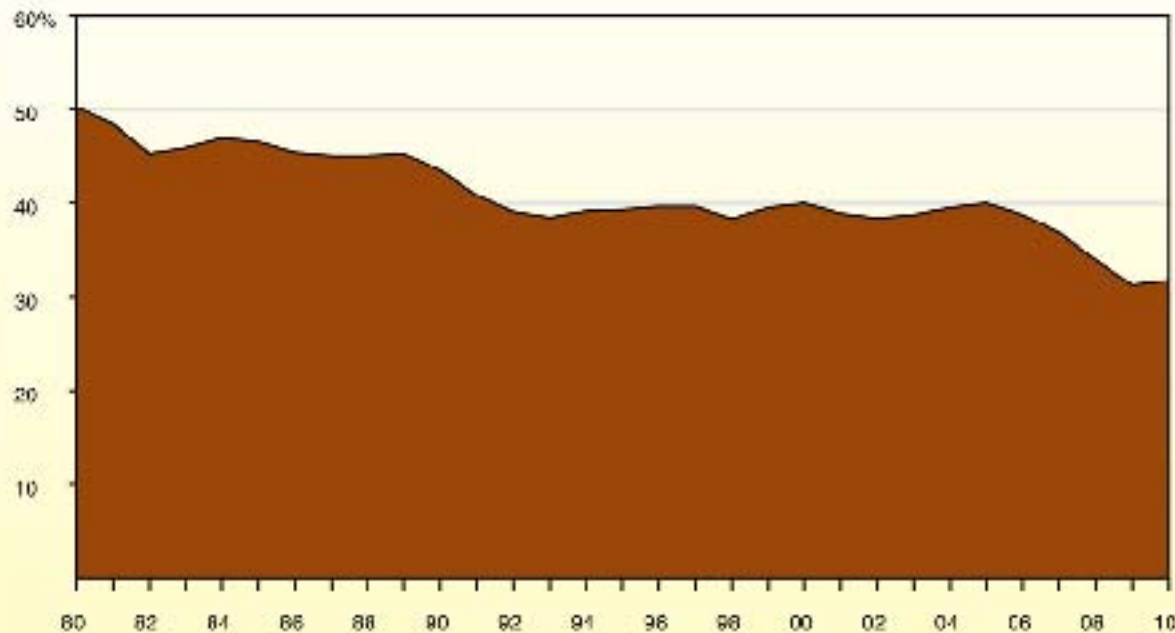
# Volatility— Capital Gains Are the Main Story

(In Billions)



# Base Broadening— Declining Sales Tax Base

Taxable Sales as a Percent of Personal Income



# Base Broadening— High Marginal Rates

---

## **PIT—Highest Rate in the Country**

- Top rate starts at low income

## **Sales Tax—Highest Uniform Rate In the Country**

## **Corporate Tax—One of the Highest In the Country**



# Commission on the 21<sup>ST</sup> Century Economy

**Proposed Tax Structure**  
**September 14, 2009**

# **Proposed Tax Structure**

- **Reduce the personal income tax**
- **Eliminate the corporation tax**
- **Eliminate the state general purpose sales tax**
- **Establish business net receipts tax**
- **Initiate new rainy day reserve fund**
- **Institute tax appeals dispute resolution**



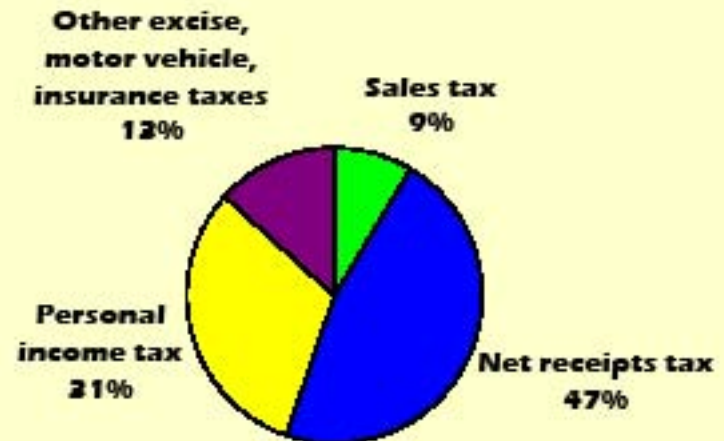
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# Current and Proposed Revenue Sources

**Current Law**



**Alternative**



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# **Major and Proposed State Revenues**

- Personal income tax
- Sales and use tax
- Corporation tax
- Fuels taxes
- Insurance tax
- Other excise taxes
- Business net receipts tax



# Incidence and Distributional Analysis

- Personal income tax is straightforward
- Sales and use tax on consumers estimated using personal consumption expenditures
- Business taxes are corporation tax, business sales and use tax, business net receipts tax
  - More difficult to estimate since the tax is shifted by the business
  - No single unified view of the incidence of business taxes
  - Various incidence assumptions can have large distributional consequences

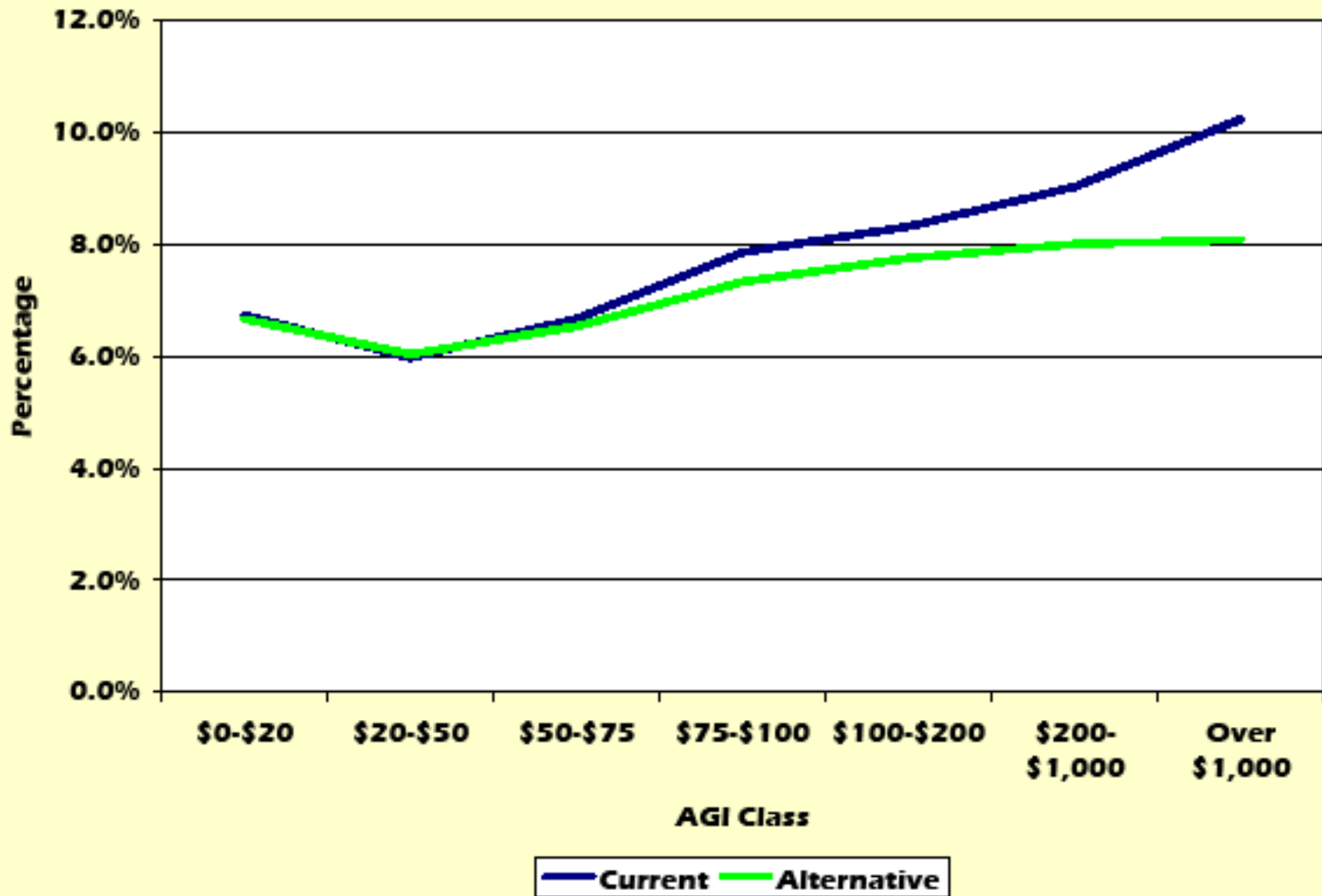


# **Tax Package Alternative Tax Change by AGI Class (In billions of \$)**

<b>\$0-\$20</b>	<b>\$0.0</b>
<b>\$20-\$50</b>	<b>\$0.1</b>
<b>\$50-\$75</b>	<b>-\$0.2</b>
<b>\$75-\$100</b>	<b>-\$0.6</b>
<b>\$100-\$200</b>	<b>-\$2.0</b>
<b>\$200-\$1,000</b>	<b>-\$1.7</b>
<b>Over \$1,000</b>	<b><u>-\$2.6</u></b>
<b>Total Resident</b>	<b><u>-\$6.9</u></b>
<b>Nonresidents and Federal Offset</b>	<b><u>\$6.9</u></b>
<b>Total</b>	<b>\$0.0</b>

# Tax Package Alternative

## Effective Tax Rates





# Personal Income Tax Change by AGI Class

## Personal Income Tax

2014 Tax Year

AGI Bracket	Number of Returns	Current Law Tax	Difference	Percent Difference	Current Law Tax per Return	Diff per Return
0 - 20,000	4,855,787	18,289,745	-18,289,745	-100.0%	\$3	(\$3)
20,000 - 50,000	5,511,843	1,077,735,430	-19,474,016	-1.8%	\$198	(\$4)
50,000 - 75,000	1,786,925	2,302,534,219	-338,799,533	-14.7%	\$1,289	(\$190)
75,000 - 100,000	1,287,551	3,902,263,960	-1,171,224,060	-30.0%	\$3,031	(\$910)
100,000 - 200,000	2,597,114	19,372,380,804	-5,961,968,024	-30.8%	\$7,459	(\$2,296)
200,000 - 1,000,000	461,319	12,409,483,082	-3,541,552,097	-28.5%	\$26,900	(\$7,677)
1,000,000 - and up	37,201	13,004,159,908	-4,052,073,386	-31.2%	\$349,569	(\$108,925)
<b>Total</b>	<b>16,337,738</b>	<b>52,084,827,145</b>	<b>-15,101,360,862</b>	<b>-29.0%</b>	<b>\$3,188</b>	<b>(\$924)</b>

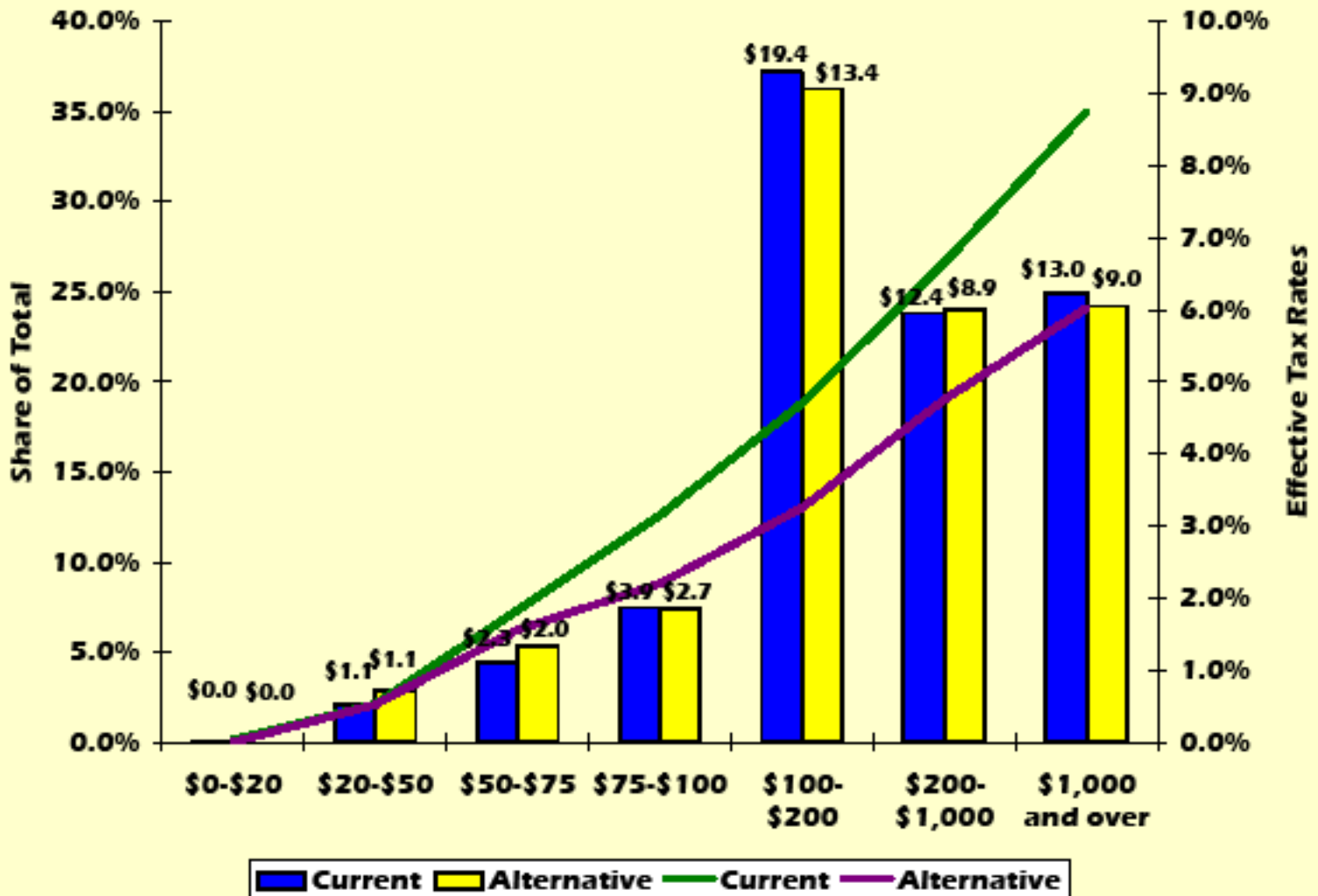
Note: Distribution for residents only; includes Mental Health Services Tax.



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# Personal Income Tax

## Effective Tax Rates and Share of Total



# **Business Net Receipts Tax (BNRT)**

- **Business gross receipts from all sources less purchases from all other businesses times rate**
- **Applies to all businesses doing business in California**
- **Economic presence test**
- **Unitary method**
- **Transactions within a unitary group eliminated from BNRT calculation**
- **Water's edge basis**
- **Single-factor sales apportionment**
- **Phase-in BNRT rate and increasing over the phase-in period**



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# Tax Package Phase In

## Year 1

- **Elimination of corporation tax**
- **Reduction in current law personal income tax**
- **Reduction of 1% in sales and use tax**
- **Establish business net receipts tax**

## Year 2

- **Reduction in current law personal income tax**
- **Additional reduction of 1% in sales and use tax**
- **Increase business net receipts**



# Tax Package Phase In

## Year 3

- **Conversion to new personal income tax**
- **Additional reduction of 1% in sales and use tax**
- **Increase business net receipt tax rate**

## Year 4

- **Additional reduction of 1% in sales and use tax**
- **Increase business net receipt tax rate**

## Year 5

- **Additional reduction of 1% in sales and use tax**
- **Final increase business net receipt tax rate**



# Rainy Day Reserve Fund Proposal

- **Increase the target for the reserve**
  - From 5% of revenues to 12.5% of revenues
  - Require revenues above 10-year trend be deposited in the reserve
- **Restrict the Governor's ability to suspend transfers into the reserve**
  - Transfers into reserve could only be suspended when revenues are insufficient to provide spending at prior year's level adjusted for changes in population and inflation
- **Create more stringent controls for the withdrawal of reserve funds. Reserve funds could only be used for:**
  - Natural disasters
  - To maintain spending at prior year's level adjusted for changes in population and inflation



