

UNITED CALIFORNIANS FOR TAX REFORM

July 1, 2009

To: Those listed

Re: A Flat Tax for California

Dear Fellow Californians:

United Californians for Tax Reform has been involved in efforts to reform and simplify our California tax code for over 20 years. It is with this background that we support serious consideration of a flat state income tax to supplement or replace the existing income-tax system.

To this end, we applaud the Governor for recently raising the possibility of a flat tax, and the Legislature for considering Senate Bill 328 (Dutton & Harman). While these proposals are in the conceptual stage and need to be fleshed out, they are a major step in the right direction.

We have examined the tax structure of the five states which employ a flat income tax as well as the revenue history of the California personal income tax over the past 20 years. It is with this background that we wish to share with you some of the results of our analysis.

Attached please find:

- 1) A graphical record of the California Adjusted Gross Income, Tax Receipts, and tax receipts as a percentage of AGI for the ten year period from 1995 to 2005
- 2) An analysis of the rates and revenue of five state flat tax programs along with an analysis of potential tax rates for a revenue neutral California flat tax.

United Californians for Tax Reform strongly encourages our Governor and Legislature to press forward in preparing a detailed flat tax proposal as soon as practicable. We stand ready to provide any technical support that may be needed..

Thank you for your consideration.

Sincerely,



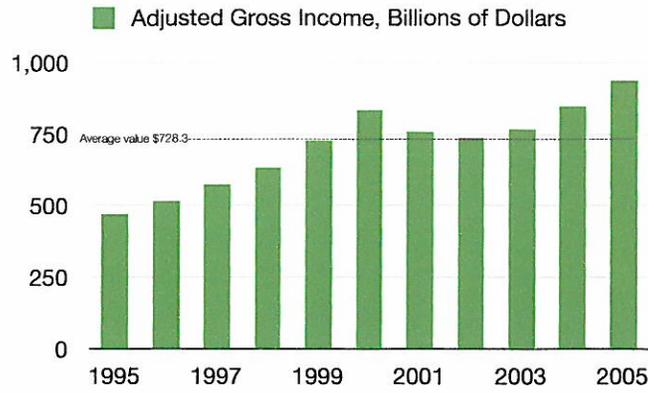
Roland A. Boucher
Chairman

UNITED CALIFORNIANS FOR TAX REFORM

To: The Honorable Arnold Schwarzenegger, Governor of California
The Honorable Darrell Steinberg, Senate President Pro Tempore
The Honorable Dennis Hollingsworth, Senate Minority Leader
The Honorable Karen Bass, Assembly Speaker
The Honorable Sam Blakeslee, Assembly Minority Leader
The Honorable John Chiang, State Controller and Chair, Franchise Tax Board
The Honorable Robert Dutton, Senator, 31st District
The Honorable Tom Harman, Senator, 35th District
The Honorable Mimi Walters, Senator, 33rd District
The Honorable Chuck DeVore, Assembly Member, 70th District
Mark Ibele, Ph.D., Director, Commission on the 21st Century Economy

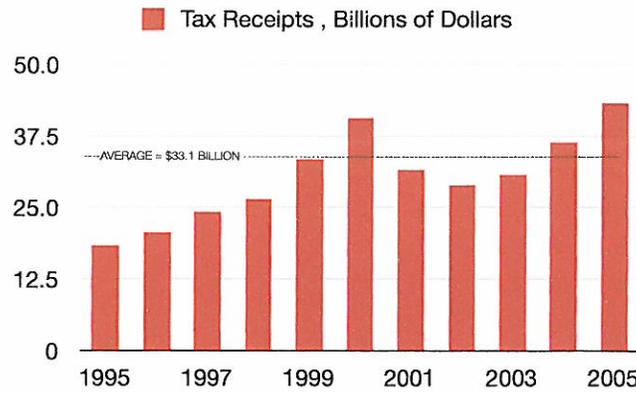
cc: Irvine Chamber of Commerce

CALIFORNIA PERSONAL INCOME OVER TEN YEAR PERIOD 1995 TO 2005



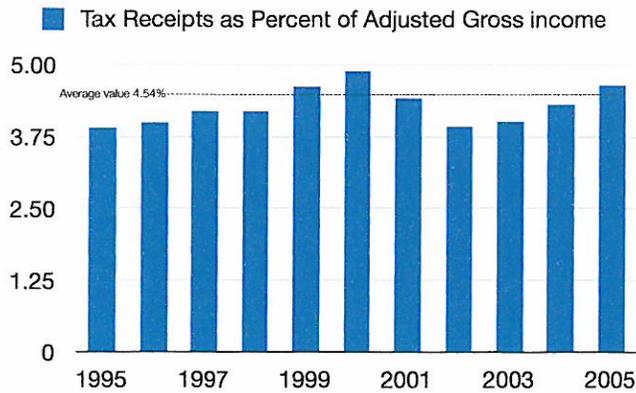
CALIFORNIANS REPORTED AN AVERAGE OF \$728.3 BILLION IN ADJUSTED GROSS INCOME OVER THIS TEN YEAR PERIOD

CALIFORNIA TAX RECEIPTS OVER TEN YEAR PERIOD 1995 TO 2005



CALIFORNIA COLLECTED AVERAGE OF \$33.1 BILLION OVER THIS TEN YEAR PERIOD

CALIFORNIA INCOME TAX AS A PERCENT OF AGI FOR PERIOD 1995 TO 2005



CALIFORNIANS PAYED AN AVERAGE TAX RATE OF 4.54% DURING THIS PERIOD

AN ANALYSIS OF EXISTING FLAT TAX PROGRAMS AND PROPOSED CA FLAT TAX

TABLE 1 EXISTING STATE FLAT TAX PROGRAMS

State	Tax Rate	Std Deduction	Dependents	Percent Tax
ILLINOIS	3.00%	\$2000S - \$4000M	\$2000 ea	2.77%
MASSACHUSETTS	5.30%	\$4400S - \$8800M	\$1000 ea	4.73%
MICHIGAN	4.34%	\$3500S - \$7000M	\$3500 ea	3.85%
PENNSYLVANIA	3.07%	NONE	NONE	3.07%
MAINE Proposed	6.50%	\$1250S - \$2500M	???????	6.31%
AVERAGE		\$2230S - \$4460M	\$1300 EA	4.15%

Today five states utilize flat income taxes with rates from 3.00 to 6.50 percent. Allowing for exemptions the revenue collected range from 2,77 to 6.32 percent of state adjusted gross income.

TABLE 2 SOME EXAMPLES OF A POSSIBLE FLAT TAX FOR CALIFORNIA

Tax Rates	Std Deduction	Dependents	Exemption	Percent Tax
Current Code 2005	\$3692S - \$7384M	\$309 credit	\$99 credit	4.63%
Flat 5.46%	Same	Same	Same	4.63%
Flat 5.20%	Same	Same	NONE	4.63%
Flat 5.04%	Same	NONE	NONE	4.63%
Flat 4.75%	Same	NONE	NONE	4.54% **
Flat 4.92%	\$5450S - \$10,900M	\$3,500 ded	NONE	4.54% **

Table 2 above shows Tax Receipts as a percent of Adjusted Gross Income for 2005 under a number of assumptions. The top line shows the current tax code for 2005. Lines 2,3,and 4 show the effect on tax rates of eliminating the personal and dependent exemptions. Lines 5 shows the effect of reducing the average tax collected to the 10 year average of 4.54 percent of Adjusted Gross income. The last row in bold print shows the tax rate required if federal values for the standard and dependent deductions are used.