

TO: John Cogan, cogan@hoover.stanford.edu
FROM: Bob McIntyre
RE: Income tax volatility under a flat tax (2 pages)
DATE: April 13, 2009

As you requested, here is (slightly rough) information on how replacing the progressive California personal income tax with a revenue-neutral flat tax would have affected California income tax revenues from 1997 to 2007.

The hypothetical flat tax would have applied to total reported income, with no adjustments, deductions or credits. I set the flat-tax rate to have raised the same total revenues as actual law over the 1997 to 2007 period.

In sum, flat-tax revenues would have been less volatile than actual law.

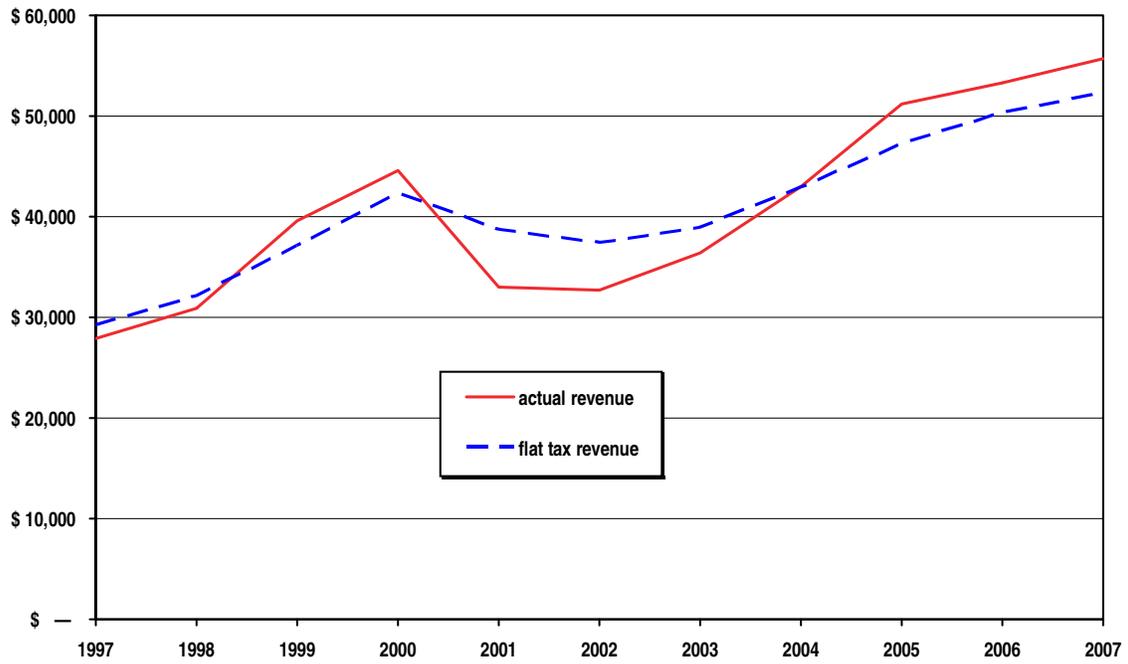
Of course, the distributional effects of switching to a flat tax would have been severely regressive (as my testimony outlines).

California income tax revenues, actual and under a revenue-neutral flat tax (\$-million)

year	actual revenue	flat tax revenue	year to year changes in revenues	
			actual	flat tax
1997	\$ 27,925	\$ 29,242		
1998	30,891	32,132	+11%	+10%
1999	39,575	37,053	+28%	+15%
2000	44,614	42,326	+13%	+14%
2001	33,047	38,710	-26%	-9%
2002	32,710	37,418	-1%	-3%
2003	36,399	38,861	+11%	+4%
2004	42,992	42,861	+18%	+10%
2005	51,220	47,247	+19%	+10%
2006	53,349	50,303	+4%	+6%
2007	55,746	52,315	+4%	+4%
totals	\$ 448,467	\$ 448,467		

Note: revenues are by fiscal years. 1997 = fy 97-98, etc.

California income tax revenues, actual and under a revenue-neutral flat tax (\$-million)



Annual Changes in California Personal Income Tax Revenues

