LEAGUE OF WOMEN VOTERS® OF CALIFORNIA

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July 15, 2009

Gerald Parsky, Chair
Commission on the 21st Century Economy
915 L Street, 8th Floor
Sacramento, CA 95814

Re: Tax Packages

Dear Chairman Parsky and Commission Members:

The League of Women Voters of California, including 65 local Leagues, has a long-established position on state and local finances that calls for revenues that are both **sufficient** and **flexible** enough to meet changing needs for state and local government services, and a system of public finance that emphasizes **equity and fair sharing** of the tax burden, including ability to pay. This position was first adopted in 1969 and has been updated with membership review and agreement five times since then.

Your Commission's mandate is to recommend a revenue structure that is more stable and reflective of the California economy. We are very concerned that in the tax packages you have been considering, the emphasis on achieving stability is taking undue precedence over other issues, such as achieving a fair and equitable structure and adhering to principles of an effective tax system such as simplicity, efficiency, predictability and ease of compliance and administration.

We are, of course, also concerned about the ongoing structural deficit within the state budget. We believe it must be addressed if your charge to promote the long-term economic prosperity of the state and its citizens and to improve California's ability to successfully compete for jobs and investments is to be fully satisfied, but that is not the focus of our remarks here.

We believe the goals of fairness are best met if the overall system of state and local revenues is progressive. We disagree with the various proposals to flatten the income tax structure to three or even fewer brackets. In our view, flattening tax rates in the name of stability is a step in the wrong direction. California is experiencing an economy in which the rich are getting much richer, the poor are struggling for even basic necessities, and the middle class are increasingly finding it difficult to maintain their standard of living and give their children an opportunity to make the most of their lives. We should not increase the burden on low- and middle-income Californians by increasing the regressivity of an already regressive tax structure.

We agree that our **tax base needs to be broadened**, for instance, by extending sales taxes to some services, instead of relying solely on products. We do recognize the difficulty that arises over differences of opinion on which kinds of services should be included and the relative impact on the economy or on different groups of consumers. We understand that the Business Net Receipts Tax is designed in part to tax the increasing services sector of the economy, although its

effectiveness in this regard is only secondary to its role as a substitute for corporate income taxes.

We still support increasing collections from the existing sales tax. One area we believe should be considered is **taxing Internet sales within the parameters available to individual states**. We realize that the best solution would be a uniform approach at the federal level, but that does not mean that California cannot join other states that are beginning to impose taxes on some of those types of sales. Untaxed Internet sales disadvantage California businesses that sell the same items and are paying business and property taxes here. When established book stores are closing in cities like Berkeley and Los Angeles while Amazon prospers, there does appear to be a problem that should be addressed.

A "split roll" property tax is another reform of the tax system which the League favors. In order to make the local property tax more equitable, we would support redefinition of the "change of ownership" rules that determine when investment property is reassessed, or the periodic reassessment of nonresidential property at market value. A split roll would not only increase fairness in taxation of commercial properties but would also help diversify our revenue sources.

We also think **the question of tax expenditures should be considered more fully**. This is revenue to which the state is entitled that is forgone through tax credits, deductions, exemptions, or other breaks in order to benefit certain groups and/or encourage certain behaviors or activities. As a February 2008 report from the Legislative Analyst's Office (LAO) said, tax expenditure programs "should be evaluated using the same approach as for direct expenditure programs—namely, asking whether they are achieving their stated purpose in an effective and cost-efficient manner, or are of low priority."

Unfortunately, the purpose of a tax break is often broadly stated, and no clear standard is set forth to determine the extent to which it is actually meeting its stated goal. The tax agencies or the Department of Finance are not required to provide consolidated information to the Legislature on what the public cost and benefit are from tax expenditure programs so that a decision can be made as to whether they are in the public interest.

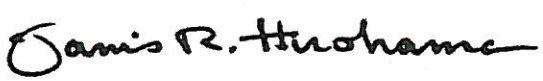
We understand that, in a difficult economy, there must be concern about a healthy business environment. But that does not mean that the public should not be assured that what they are getting is worth the tax dollars forgone for public services. For example, it does little good to give tax breaks to business for creating jobs, if the number of jobs created turns out to be less than those lost by cutting public services. In fact, better public education to produce a workforce with the needed skills, and an infrastructure to provide the transportation, water, energy and other facilities needed, are public services that business interests press for.

We strongly believe that it makes no sense to continue to approve tax breaks by a simple majority, while requiring a two-thirds vote to rescind them. This, coupled with the lack of regular and adequate review, makes formulating rational tax policy impossible.

In order to ensure flexible government processes, the League believes that **adoption of budgets, appropriations, taxes, other revenue sources, and changes in rates and schedules should all be done by a simple majority vote**. The two-thirds vote requirement has been a major factor in bringing our state to nearly complete budget dysfunction. It means that the vote of a legislator opposing a measure counts for twice as much as that of one voting yes. This has allowed a small minority to tie up the budget process for increasing periods, while members of the majority, on the other hand, have been able to avoid compromise by pointing to the minority's ability to stall the process. It is time to make this long-needed change.

We urge the Commission to broaden your inquiry beyond simply trying to stabilize existing taxes and consider these points. The charge you have undertaken is weighty, but significant improvements in California's fiscal situation can be made if you address it with an eye toward the larger goal of a sufficient, flexible, equitable system of revenues for our state.

Sincerely,



Janis R. Hirohama
President