Submitted by:
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SECTION 1. STATEMENT OF FINDINGS

(a) Our state Revenue and Taxation Code provides for the taxation of personal income, corporate income and gross receipts or sales price of tangible personal property sold in California or sold to a person for use in California.

(b) These three taxes, commonly referred to as the California Personal Income Tax, the Corporate Franchise/Income Tax and the Sales and Use Tax are not all of the taxes imposed by our California Legislature; but, these three are the only ones that are the subject of this Flat Tax Initiative.

(c) The statutory provisions for taxation of personal income are contained within Revenue and Taxation Code sections 17001 to 18181 inclusive.

(d) The general statutory provisions relating to returns of individuals, fiduciaries, banks, corporations and all persons, plus information returns, withholding and voluntary contributions are contained within Revenue and Taxation Code sections 18401 to 18872 inclusive.

(e) The statutory provisions for taxation of corporate income are contained within Revenue and Taxation Code sections 23001 to 25141, inclusive, and Revenue and Taxation Code sections 38001 to 38021, inclusive.

(f) The statutory provisions for taxation of gross receipts or sales price of tangible personal property are contained within Revenue and Taxation Code sections 6001 through 7176 inclusive.

SECTION 2. STATEMENT OF PURPOSE

(a) California law allows for the repeal of statutes by initiative.

(b) The California Personal Income Tax Law largely conforms to the federal Internal Revenue Code; yet over 550 separate statutes within the California Revenue and Taxation Code are still required to implement the California Legislature's variations, or departures from or conformity to federal law.

(c) California has the highest personal income tax rate in the country, i.e., 10.3%; and, no fewer than 7 tax rates ranging from 1% to 10.3%.

(d) California's high marginal tax rates discourage, rather than encourage hard work, savings, investment, risk taking and even residing in the state.

(e) California's overall personal income tax burden as measured by tax liabilities per $100 of personal income is $3.07 which is far above the average of $2.40 for all states.

(f) Over 70% of the tax liabilities are paid by married couples filing jointly.

(g) 15 million personal income tax returns are filed with the Franchise Tax Board (FTB) annually.

(h) According to FTB data, 350,000 PIT audits were conducted in 2006 and the FTB assessed taxpayers $845 million as a direct result of these audits.

(i) The FTB bureaucracy has grown to over 6,900 employees and there is no sign of this growth slowing.

(j) The FTB occupies an 82 acre campus at its Sacramento headquarters that includes 1.8 million square feet of office space and 4,341 parking spaces. It also has six field offices in Los Angeles, Oakland, Sacramento, San Diego, San Francisco and Santa Ana, and three out-of-state offices in Chicago, Houston and New York.

(k) California has no fewer than 4 other agencies that collect taxes, i.e., the State Board of Equalization (BOE), the Employment Development Department (EDD), the State Controller's Office (SCO) and the Department of Motor Vehicles (DMV) and these agencies employ over 17,850 employees.

(l) In sum, the California Personal Income Tax has become outdated, too complicated, unwieldy, highly progressive (meaning that the last dollar of income earned is subject to increasingly higher marginal tax rates as income increases until the last bracket is reached), too expensive to administer, too intrusive, punitive and grossly unfair.

(m) Neither the Legislature nor the FTB has done anything to correct this ongoing problem; and, in fact, have made our tax system more punitive to taxpayers via the alternative minimum tax and the 50% tax amnesty interest penalty.

(n) The Flat Tax will bring to an end state income tax withholding. Instead, we will all pay as we go.

(o) The proposed Flat Tax will be a significant blow to the underground economy that now thrives in our great state and resulted in the loss of $6.5 billion in tax revenue in 2004 according to the FTB's own calculations. This is commonly referred to as the "Tax Gap".

(p) Illegal aliens, drug dealers and tax cheats will finally pay the same tax to support California's infrastructure (government, highways, bridges, hospitals, state parks, education, clean water, health care, etc.) as the rest of us.

(q) The Flat Tax does not discriminate as it will apply to every person whether they are a citizen, resident alien, nonresident alien, illegal alien, visitor, small business or large corporation purchasing goods in California.

(r) The Flat Tax will eliminate the ability of the rich to avoid paying their fair share of taxes by exploiting loopholes in the Personal Income Tax Law.

(s) Repeal of the Personal Income Tax and replacing it with the Flat Tax will allow for a substantial reduction in the number of FTB employees, saving millions of taxpayer dollars related to salaries, office space, furniture, computers, software, state-owned vehicles, equipment, supplies, pensions and benefits.

(t) The Flat Tax will not require the hiring of any additional BOE tax auditors or BOE employees as the Sales and Use Tax is already collected by retailers or self-assessed by purchasers and remitted to the BOE on a monthly, quarterly or annual basis depending on the amounts collected. In other words, the tax collecting and audit infrastructure is already in place and works well. Thus, the Flat Tax will greatly simplify tax collection.

(u) The Flat Tax will eliminate the inherently volatile revenue swings that now occur almost every year due to uncertain stock options and capital gains.

(v) The California Legislature will finally be able to more accurately predict the tax revenues each year. Thus, the annual California budget process will be greatly enhanced.

(w) The Flat Tax will restore confidence in our tax collection structure and the reputations of the tax collection agencies and the California Legislature.

(x) The Flat Tax will result in reducing the General Fund revenues available to the California Legislature to spend. However, in 2004, the PIT generated $38 billion in revenue or 50% of the General Fund per the FTB; yet taxpayers only reported $30.37 billion in tax liability on their tax returns for 2004. The increase in the state portion of the sales and use tax rate is estimated to generate a similar amount of revenue, i.e., $30 billion.

(y) Because the Flat Tax will actually increase the tax burden of corporations doing business in California, a corresponding corporate franchise/income tax rate reduction and a sales and use tax exemption for manufacturing equipment is also part of this initiative in an attempt to make the "Flat Tax" more revenue neutral to the business community.

(z) Therefore the people of the state of California hereby enact the "California Flat Tax Act."

SECTION 3. AMENDMENTS TO CALIFORNIA REVENUE AND TAXATION CODE

(a) Revenue and Taxation Code sections 17001 to 18181, 18501 to 18572 and 18631 to 18872 are hereby repealed.

(b) Revenue and Taxation Code sections 6051 and 6201 are amended to increase the total state portion of the Sales and Use Tax rate by 5.5%; so, the combined state and local tax rate will then vary between 12.75% and 14.25% depending on the applicable sale and use tax rate imposed by a city, county, or city and county, or special taxing district within the state.

(c) Revenue and Taxation Code section 6377 is added to exempt tangible personal property purchased by use in any stage of the manufacturing process.

(d) Revenue and Taxation Code section 23151 is amended to reduce the tax rate paid by corporations by 1.84 percent or from 8.84 percent to 7 percent.

(e) Revenue and Taxation Code section 23455 is amended to reduce the tentative minimum tax rate paid by corporations by 1.13 percent or from 6.65 percent to 5.52 percent.

(f) Revenue and Taxation Code section 23802 is amended to reduce the tax imposed on S corporations by 0.3 percent or from 1.5 percent to 1.2 percent.

SECTION 4. IMPLEMENTATION AND AMENDMENT

This section shall be self-executing. No amendment to this section may be made except by a vote of the people pursuant to Article II.

SECTION 5. SEVERABILITY

The provisions of this section are severable. If any provision of this section or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

SECTION 6. EFFECTIVE DATE

This section shall become effective at 12:01 AM on January 1 following the election pursuant to section 10(a) of Article II.