Calculations and Reconciliation

*Ending the Revenue Rollercoaster*, Pacific Research Institute (PRI)

Calculations Reconciled to Staff Flat Tax Rate Estimates

- Staff calculated that a broad base personal income tax (PIT) with a 4.3% tax rate would have generated similar tax liability as was reported in 2006.
- PRI estimates that a broad base 3.36% income tax rate applied to PIT and corporation income would be revenue neutral.

Reconciliation

- PRI reports a 2005 PIT tax base of $964.5 billion.
  - Multiplied by 3.36% this generates a $32.6 billion tax.
  - In Table 6, PRI reports that PIT revenues for the 2005-06 fiscal year were $49.9 billion, for a difference of -$13.3 billion.
- PRI personal income tax base is broader than staff’s tax base.
  - PRI does not allow current law federal adjustment to income and California net subtractions.
    - Largest adjustments:
      - Keogh/SEP retirement plan contributions,
      - Half of self employment income,
      - Health Insurance for self employed,
      - IRA adjustment,
      - Alimony paid.
  - Largest subtractions:
    - Tax exempt interest,
    - Social security income,
    - Unemployment compensation.
  - Offsetting difference:
    - The numerator for the PRI tax rate equation covers a larger tax base than the denominator.
    - Denominator for tax rate calculation is for self assessed 2005 tax year for California full year residents.
    - In addition to full year residents, numerator includes revenues from:
      - Estates and trusts,
      - Non residents and part year residents,
      - Audit revenues, and
      - Revenues from 2005 and 2006 tax years.
        - 2006 tax year liability was $4.6 billion higher than 2005.
• PRI reports for 2005 a $737.1 billion corporate tax base.
  • Multiplied by 3.36% this generates a $27.2 billion tax.
  • In Table 6, PRI reports that corporation revenues for the 2005-06 fiscal year were $10.3 billion, for a difference of $16.9 billion.
  • Reason for difference.
    • Corporate deductions are reduced by 75%.
      • Largest corporate deductions:
        • Salaries and wages, and compensation of officers,
          • But deductions for wages within cost of goods sold are allowed,
        • Depreciation/amortization,
        • Other deductions,
          • Primarily due to corporations who do not itemize their deductions on the deduction tax form.
    • S-Corp income is taxed at the same rate as C-Corp income, 3.36%
      • The current tax rate for S-Corp income is 1.5%.
      • S-Corp income is also reported and taxed on PIT tax returns.
    • Tax credits
      • In 2005, tax credits were $1.4 billion.
    • The numerator covers a larger tax base than the denominator.
      • Audit revenues are included in the numerator but not the denominator
      • Revenues in the numerator include partial payments of 2005 and 2006 tax year liabilities.
        • Tax liability was $1.4 billion higher in 2006 than in 2005.