



# Commission on the 21<sup>ST</sup> Century Economy

**Assembly Committee on  
Revenue & Taxation  
October 8, 2009**

# **Commission Proposal**

- **Increases tax revenue stability and reliability**
- **Promotes long-term economic prosperity and competitiveness**
- **Reduces complexity of tax system and individual taxes**
- **Retains fairness of existing tax system**



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# Reduces Volatility

- **Revenues have been more volatile than the economy.**
- **Volatility has been increasing over time.**
- **The Commission's tax proposal would greatly reduce volatility.**
- **The system would result in a decline in volatility of over 40%.**
- **The structure would have substantially cushioned recent budget reductions**

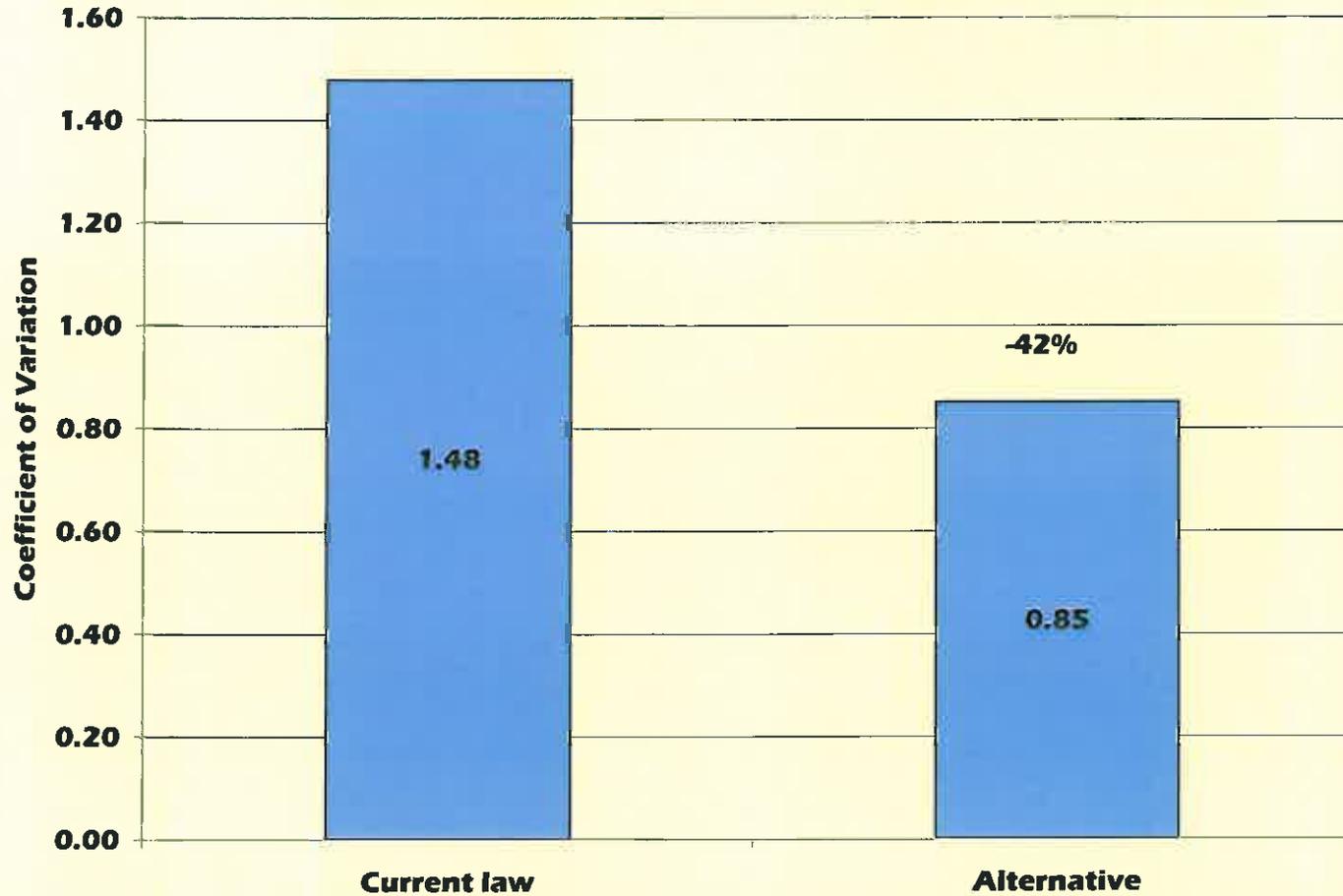


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# Tax Proposal Would Reduce Volatility



# **Promote Long-Term Economic Prosperity**

- **Eliminating the corporate tax and reducing personal income tax rates encourages investment and improves efficiency**
- **Broadening the tax base improves efficiency and neutrality**
- **Eliminating the state sales tax reduces taxes on business inputs and “double taxation”**

# **Improve California's Competitiveness**

- **California's income, corporate, and sales tax rates are among the highest in the country**
- **Commission's recommendations would reduce or eliminate these taxes:**
  - **Maximum personal income tax rate would be reduced from 9.3% to 6.5% (not including 1%)**
  - **Corporate tax would be eliminated**
  - **State 5% general purpose sales tax rate would be eliminated**
- **A broad based tax at a low rate would replace the revenues**

# Comparison of State Marginal Tax Rates

## Western States

	<u>Income Tax</u>	<u>Corporate Tax</u>	<u>Sales Tax</u>
Arizona	4.5%	7.0%	5.6%
<b>California</b>	<b>10.3%</b>	<b>8.8%</b>	<b>7.3%</b>
Colorado	4.6%	4.6%	2.9%
Nevada	no tax	no tax	6.5%
Oregon	9.0%	6.6%	no tax
Utah	5.0%	5.0%	4.7%
Washington	no tax	gross receipts	6.5%

## Large States

	<u>Income Tax</u>	<u>Corporate Tax</u>	<u>Sales Tax</u>
<b>California</b>	<b>10.3%</b>	<b>8.8%</b>	<b>7.3%</b>
Illinois	3.0%	7.3%	6.3%
Maryland	5.5%	8.3%	6.0%
Massachusetts	5.3%	9.5%	5.0%
Minnesota	7.9%	9.8%	6.5%
New Jersey	9.0%	9.0%	7.0%
New York	6.9%	7.5%	4.0%
Ohio	6.2%	8.5%	5.5%
Pennsylvania	3.1%	10.0%	6.0%
Texas	no tax	gross receipts	6.3%

Notes: Effective March 2009. In April 2009 California temporarily increased its statewide sales tax rate to 8.25% and its maximum personal income tax rate to 10.55%. Sales tax rate includes statewide state and local.

## **Simplicity**

- **Personal income tax simplified**
  - **Reduces the number of income tax deductions to three**
  - **Reduces the number of tax rates from six to two**
- **Corporate tax would be eliminated**

## **Fairness**

- **Retains “ability to pay” for the personal income tax**
- **Taxes business base on “benefits principle”**
- **Decrease in tax burden on Californians**

**Tax Proposal  
Tax Change for California Residents  
by AGI Class  
(In billions of \$)**

<b>\$0-\$20</b>	<b>\$0.0</b>
<b>\$20-\$50</b>	<b>\$0.1</b>
<b>\$50-\$75</b>	<b>-\$0.2</b>
<b>\$75-\$100</b>	<b>-\$0.6</b>
<b>\$100-\$200</b>	<b>-\$2.1</b>
<b>\$200-\$1,000</b>	<b>-\$1.7</b>
<b>Over \$1,000</b>	<b>-\$2.2</b>
<b>Total Residents</b>	<b>-\$6.8</b>
<b>Nonresidents and business tax federal offset</b>	<b>\$6.8</b>

**Note: Does not include federal offset for personal income tax.**

# Personal Income Tax Change by AGI Class

## Personal Income Tax

2014 Tax Year

AGI Bracket	Number of Returns	Current Law Tax	Difference	Percent Difference	Current Law Tax per Return	Diff per Return
0 - 20,000	4,655,787	16,269,745	-16,269,745	-100.0%	\$3	(\$3)
20,000 - 50,000	5,511,843	1,077,735,430	-16,235,184	-1.5%	\$196	(\$3)
50,000 - 75,000	1,786,925	2,302,534,219	-333,798,329	-14.5%	\$1,289	(\$187)
75,000 - 100,000	1,287,551	3,902,263,960	-1,165,422,188	-29.9%	\$3,031	(\$905)
100,000 - 200,000	2,597,114	19,372,380,804	-5,904,723,901	-30.5%	\$7,459	(\$2,274)
200,000 - 1,000,000	461,319	12,409,483,082	-3,451,967,693	-27.8%	\$26,900	(\$7,483)
1,000,000 - and up	37,201	12,924,255,886	-4,065,680,151	-31.5%	\$347,421	(\$109,291)
<b>Total</b>	<b>16,337,738</b>	<b>52,004,923,125</b>	<b>-14,954,097,192</b>	<b>-28.8%</b>	<b>\$3,183</b>	<b>(\$915)</b>

Note: Distribution for residents only; includes Mental Health Services Tax.



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