



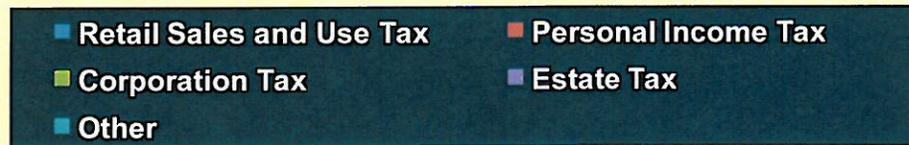
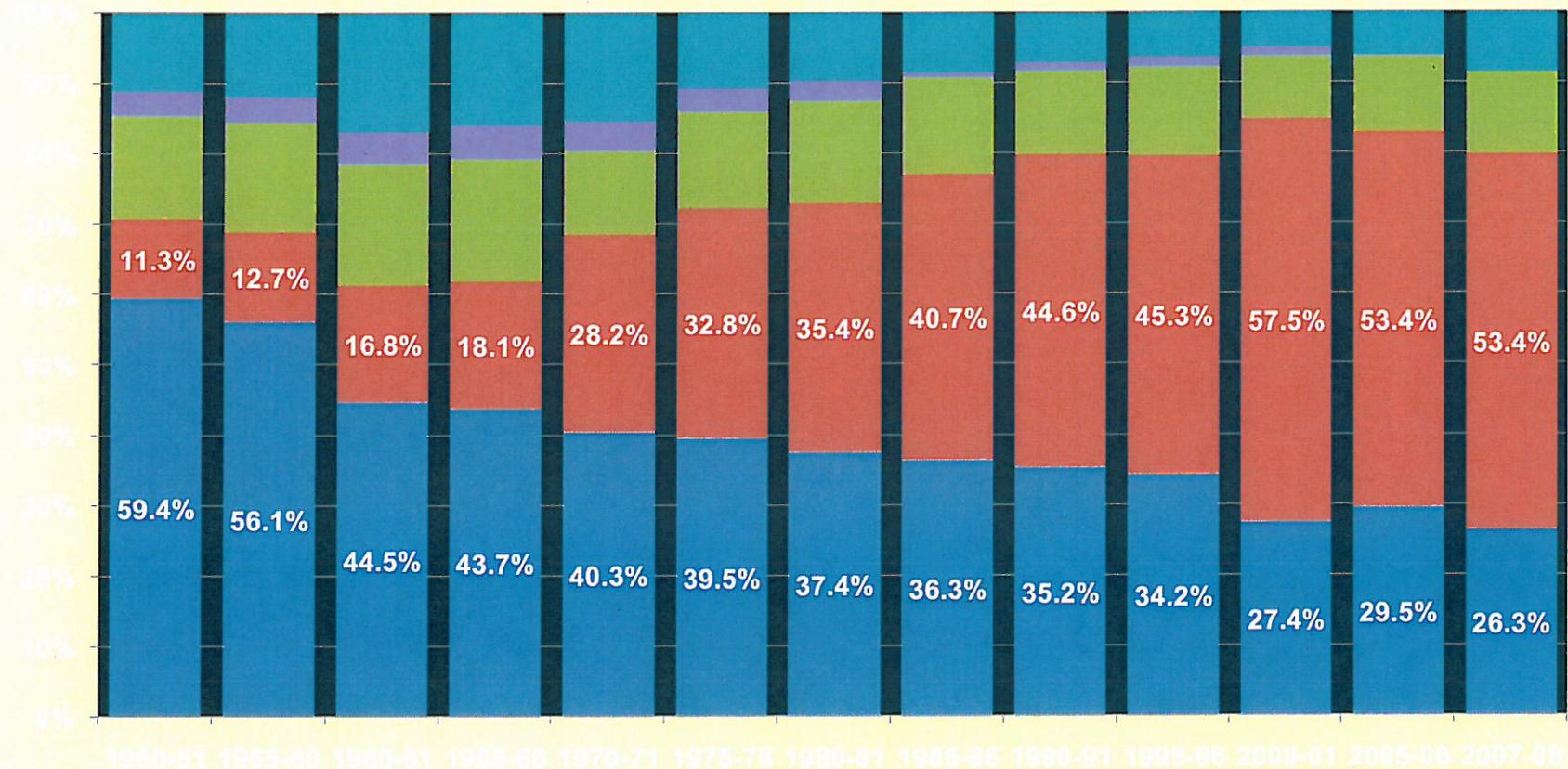
# Commission on the 21<sup>ST</sup> Century Economy

## Tax Structure Alternatives

- Background
- Tax Packages
- Volatility
- Tax Options

# California State Revenues by Source

(\$ Billions)



# Revenue Neutrality

- Revenues over a business cycle 2012 through 2016 were estimated.
- Each Package was calculated to generate the same amount of revenues over the period.
- Distributional impacts by income class were estimated for the midpoint of the cycle 2014.
- Major state taxes were included in the distributional analysis of each tax package.



---

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

---

# Business Cycle

## Avg Annual Growth Rates for 1994-03

Pers	Capital	Taxable	Corp
Income	Gains	Sales	Profits
5.5%	11.9%	5.4%	6.9%

## Avg Annual Growth Rates for 2003-14

Pers	Capital	Taxable	Corp
Income	Gains	Sales	Profits
4.4%	4.2%	2.8%	6.4%

Annual Growth Rates							
	Pers Income		Capital Gains		Taxable Sales		
		3.4%		34.0%		8.7%	2003-04
1994-95	7.1%	6.6%	22%	60.1%	5.2%	7.4%	2004-05
1995-96	3.5%	6.1%	58%	47.4%	6.7%	4.2%	2005-06
1996-97	6.2%	7.7%	39%	4.4%	6.2%	0.2%	2006-07
1997-98	8.8%	5.2%	24%	10.5%	5.2%	-6.9%	2007-08
1998-99	6.8%	2.5%	58%	-60.0%	10.0%	-10.3%	2008-09
1999-00	10.5%	-1.0%	29%	-30.0%	11.9%	2.2%	2009-10
2000-01	2.9%	1.4%	-57%	30.0%	-0.1%	7.4%	2010-11
2001-02	1.1%	3.9%	-30%	-15.0%	-0.1%	7.0%	2011-02
2002-03	3.4%	4.9%	34%	10.0%	4.3%	6.6%	2012-13
		5.5%		30.0%		6.3%	2013-14

# Income Distribution 2003 and 2014

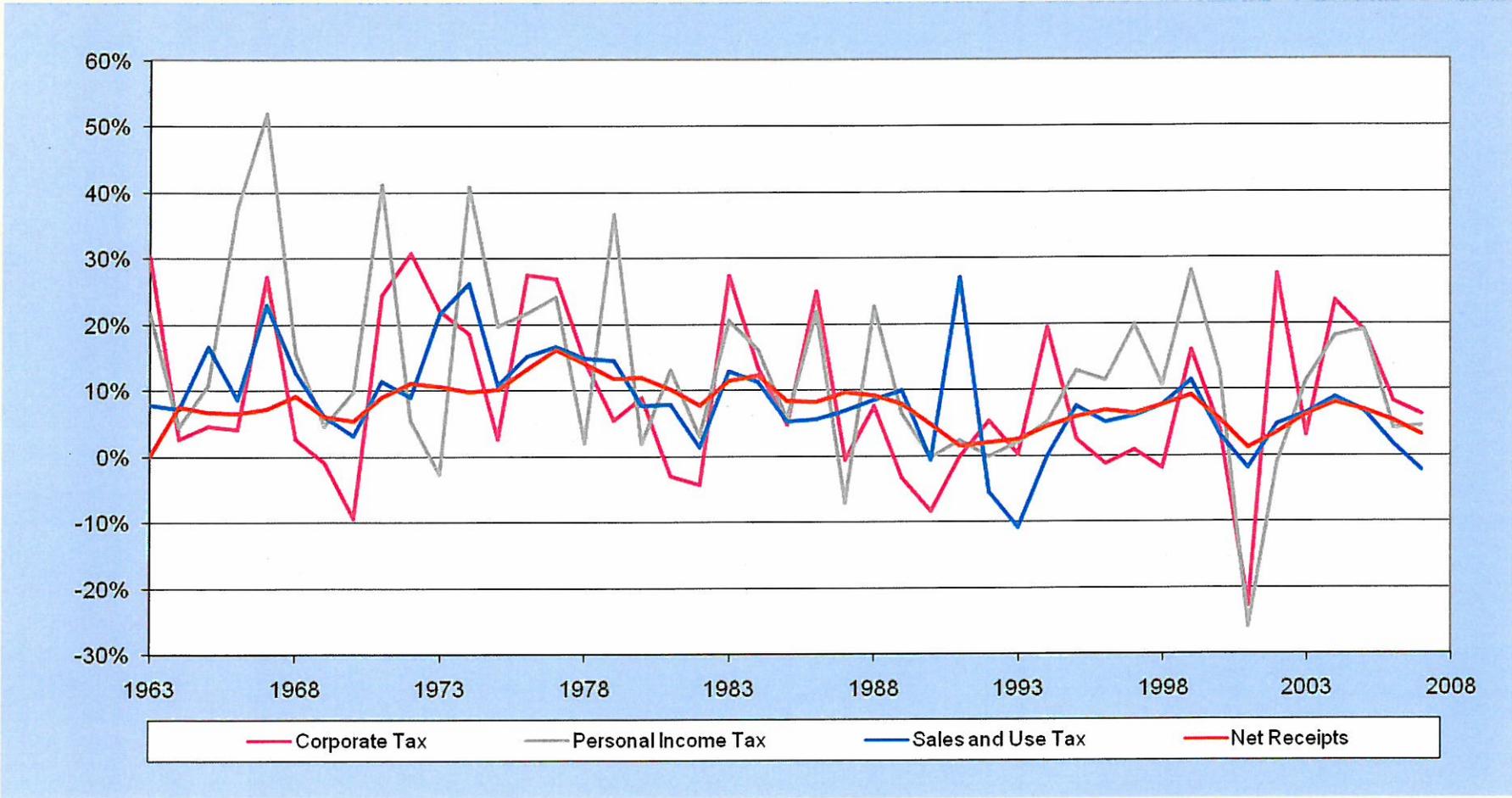
Adjusted Gross Income (AGI) Bracket	Percent of Total		
	2003 Tax Year 1/	2014 Tax Year	2014 minus 2003
<b>0 -- 20,000</b>	3.8%	3.8%	0.0%
<b>20,000 -- 40,000</b>	9.1%	7.3%	-1.8%
<b>40,000 -- 80,000</b>	19.2%	16.8%	-2.4%
<b>80,000 -- 150,000</b>	24.1%	29.8%	5.7%
<b>150,000 -- 300,000</b>	18.4%	19.4%	1.0%
<b>300,000 -- 500,000</b>	6.9%	7.2%	0.3%
<b>500,000 -- 1,000,000</b>	4.8%	3.8%	-1.0%
<b>1,000,000 -- 5,000,000</b>	7.5%	3.7%	-3.8%
<b>Over 5,000,000</b>	6.2%	8.2%	2.0%
<b>Total</b>	100.0%	100.0%	0.0%

1/ For comparison. 2003 AGI was adjusted to 2014 for inflation, using the consumer price index (CPI).



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

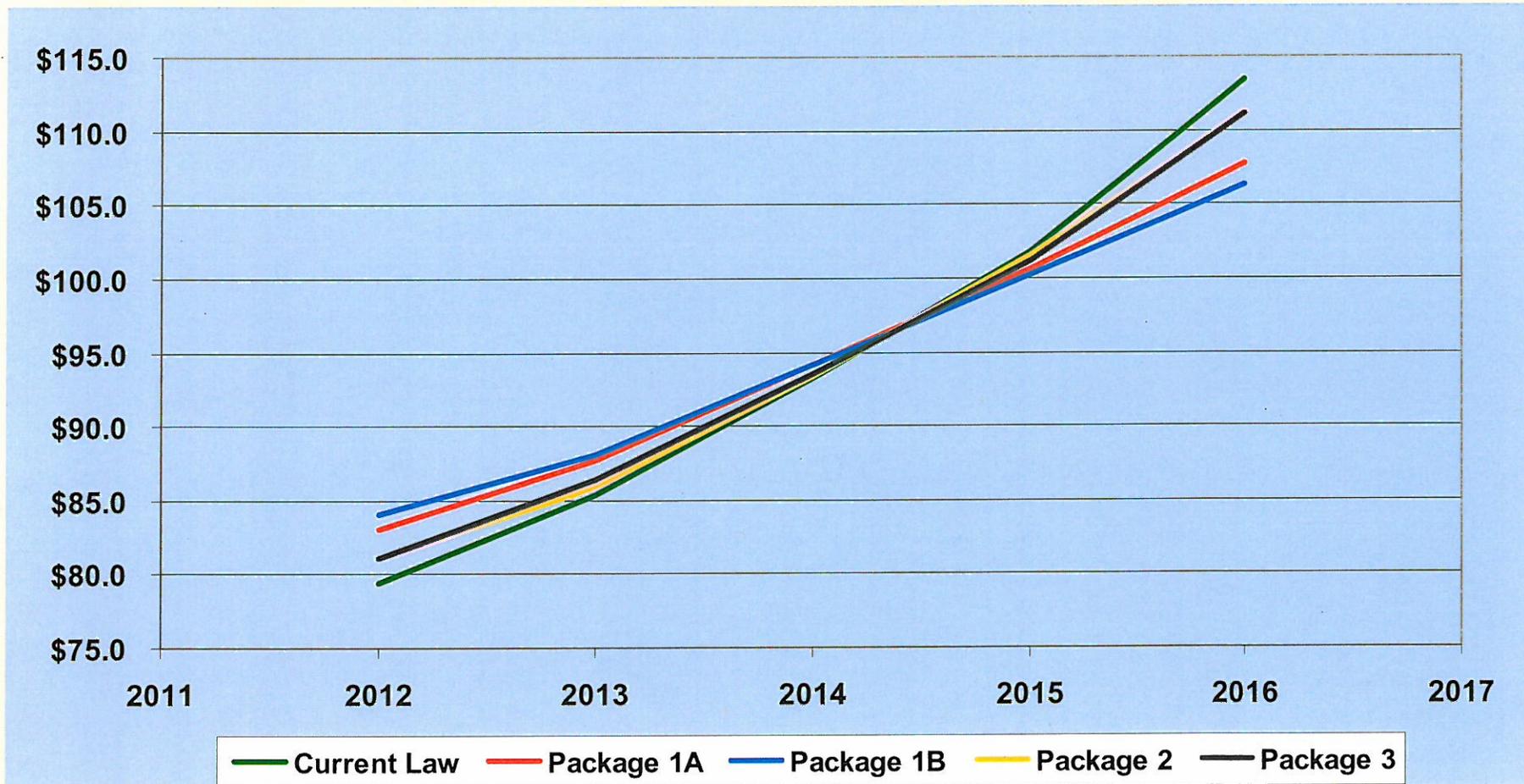
# Trends of Tax Revenue 1963-2008



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

# Tax Package Revenues

## Trends over 2012-2016 Forecast Period



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

# Adjusted Gross Income

## Start with Gross Income

- Income from all sources (unless exempt)—salaries, wages, commissions, tips, dividends, interest earnings, pensions, realized capital gains, partnerships and proprietorship income, etc.

## Deduct from Gross Income

- IRAs, Keogh Plans, 401Ks, Self Employed Health Insurance

## Equals Adjusted Gross Income (AGI)

# Tax Package 1

## Version A

Uniform Personal Income Tax rate of 6% with no deductions or credits

Eliminate Corporation Tax

Eliminate State General Fund Sales Tax

Business Net Receipts Tax

## Version B

Uniform Personal Income Tax rate of 6% with exemption amount, deductions for mortgage interest, charitable and property taxes

Eliminate Corporation Tax

Eliminate State General Fund Sales Tax

Business Net Receipts Tax



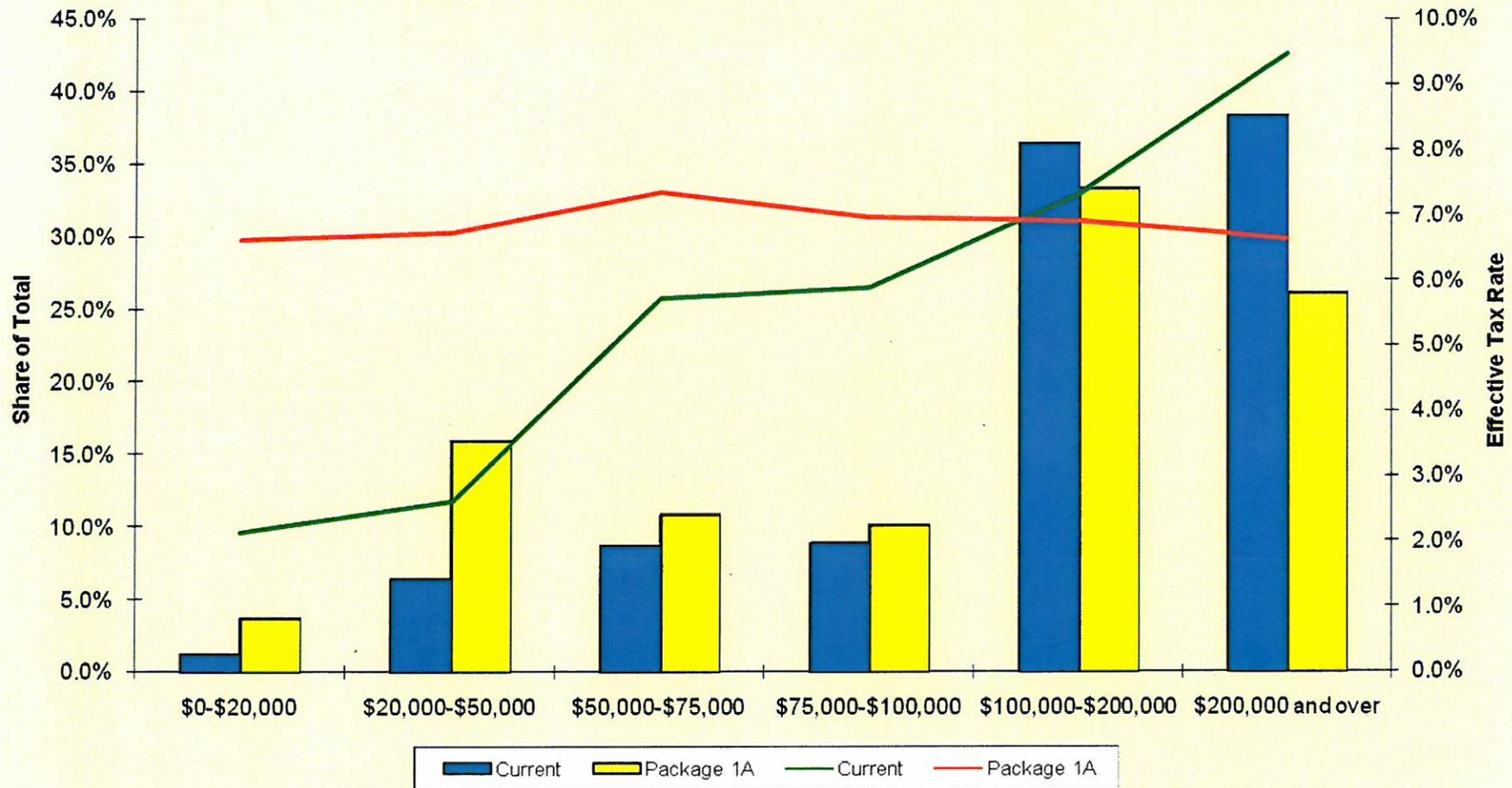
---

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

---

# Tax Package 1A

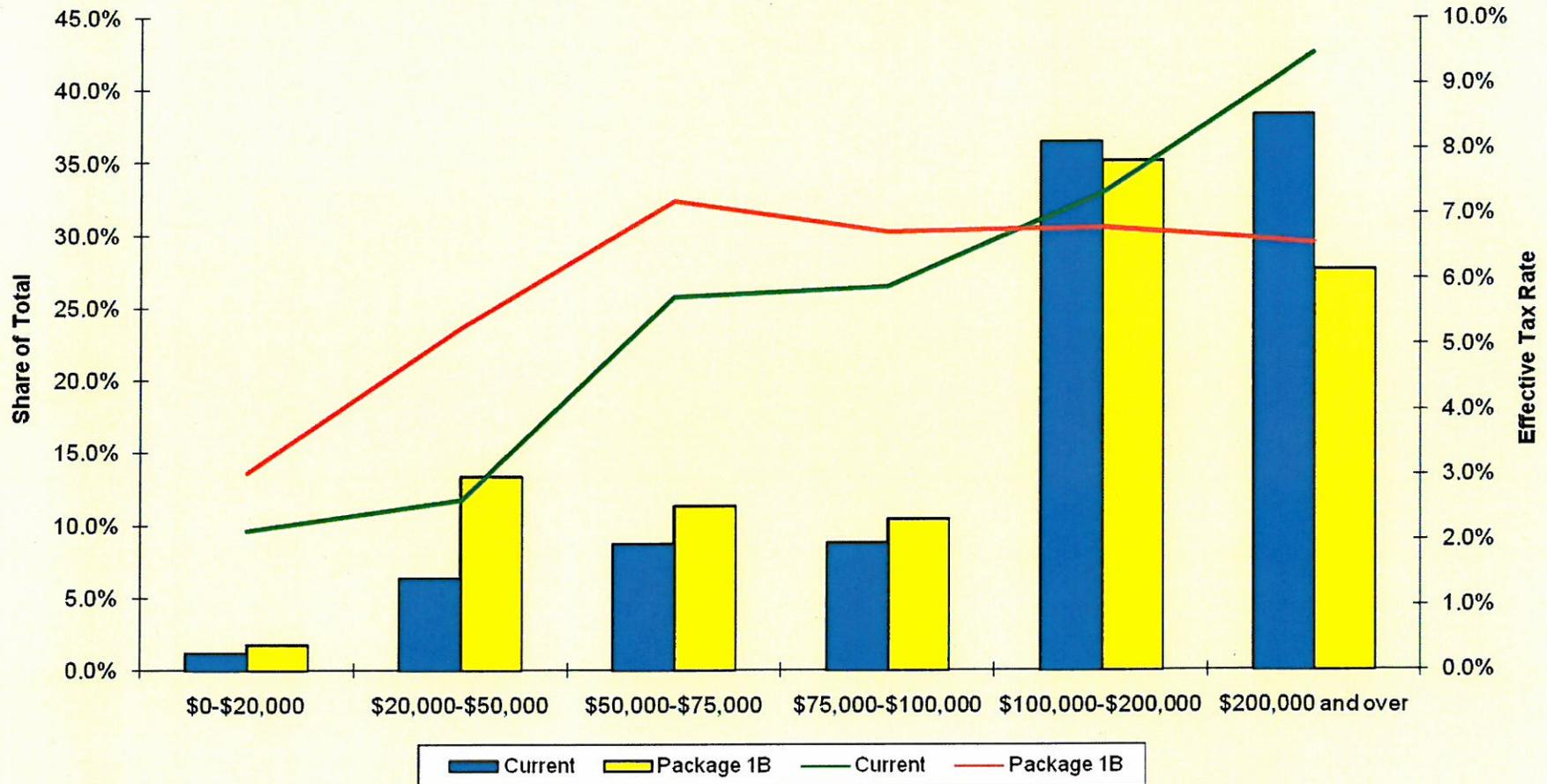
## Effective Tax Rate and Share of Total-Selected Taxes



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

# Tax Package 1B

## Effective Tax Rate and Share of Total-Selected Taxes



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

# Tax Package 2

- Simplified Personal Income Tax
  - Three brackets, rate of 0% for \$0-\$10,000, 4% to \$50,000, 7% over \$50,000)
  - Current Deductions and Credits
- Investment Tax Credit
- Reduce Corporation Tax Rate to 7%
- Reduce Sales and Use tax by 1%
- Business Net Receipts Tax



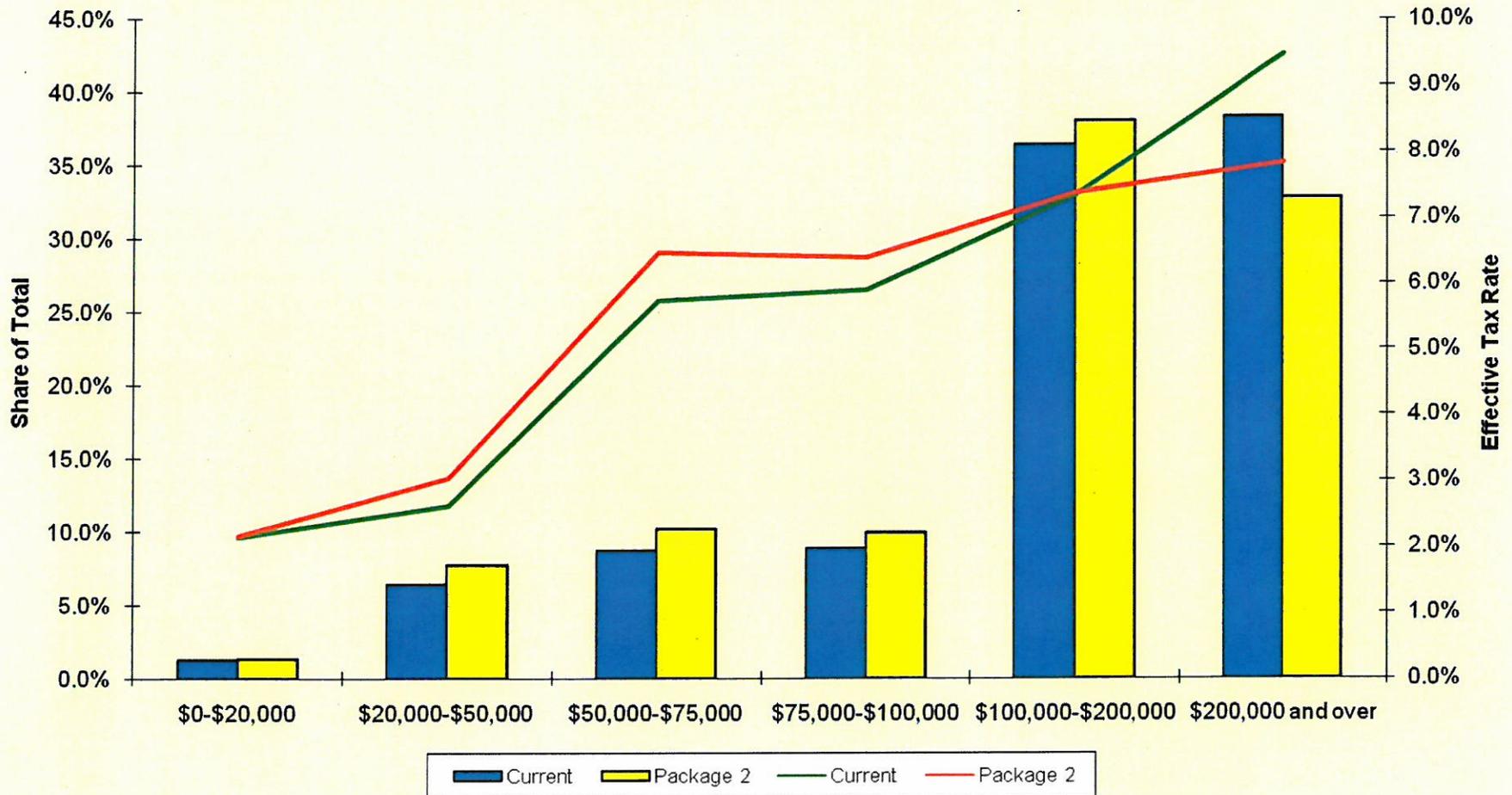
---

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

---

# Tax Package 2

## Effective Tax Rate and Share of Total-Selected Taxes



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

# Tax Package 3

- Simplified Personal Income Tax
  - Three brackets, rate of 0% for \$0-\$20,000, 4% to \$60,000, 7% over \$60,000)
  - Exemption amount, deductions for mortgage interest, charitable and property taxes
- Eliminate Sales Tax on Investment Purchases
- Reduce Corporation Tax Rate to 7%
- Reduce Sales and Use Tax by 1%
- Business Net Receipts Tax



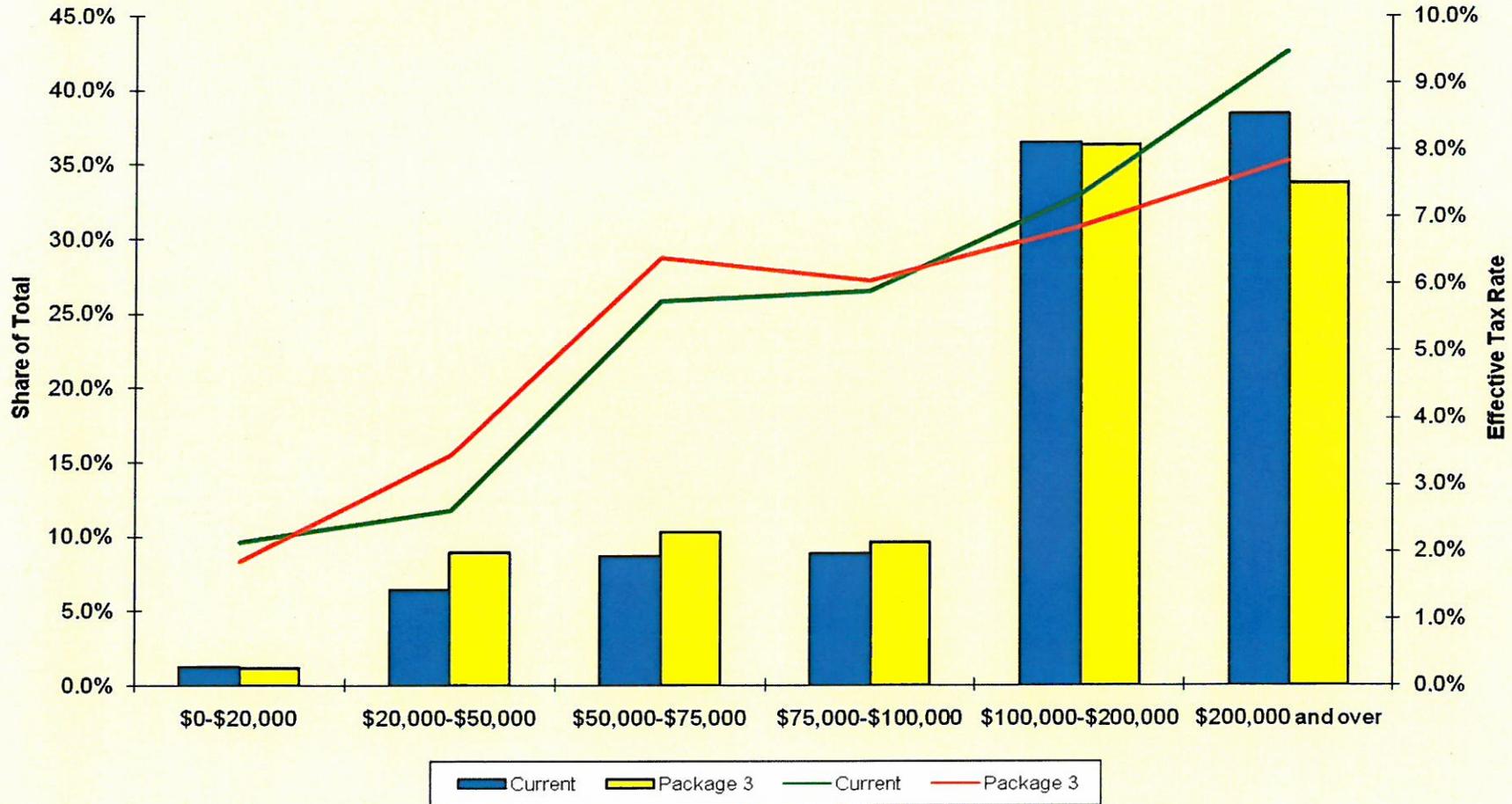
---

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

---

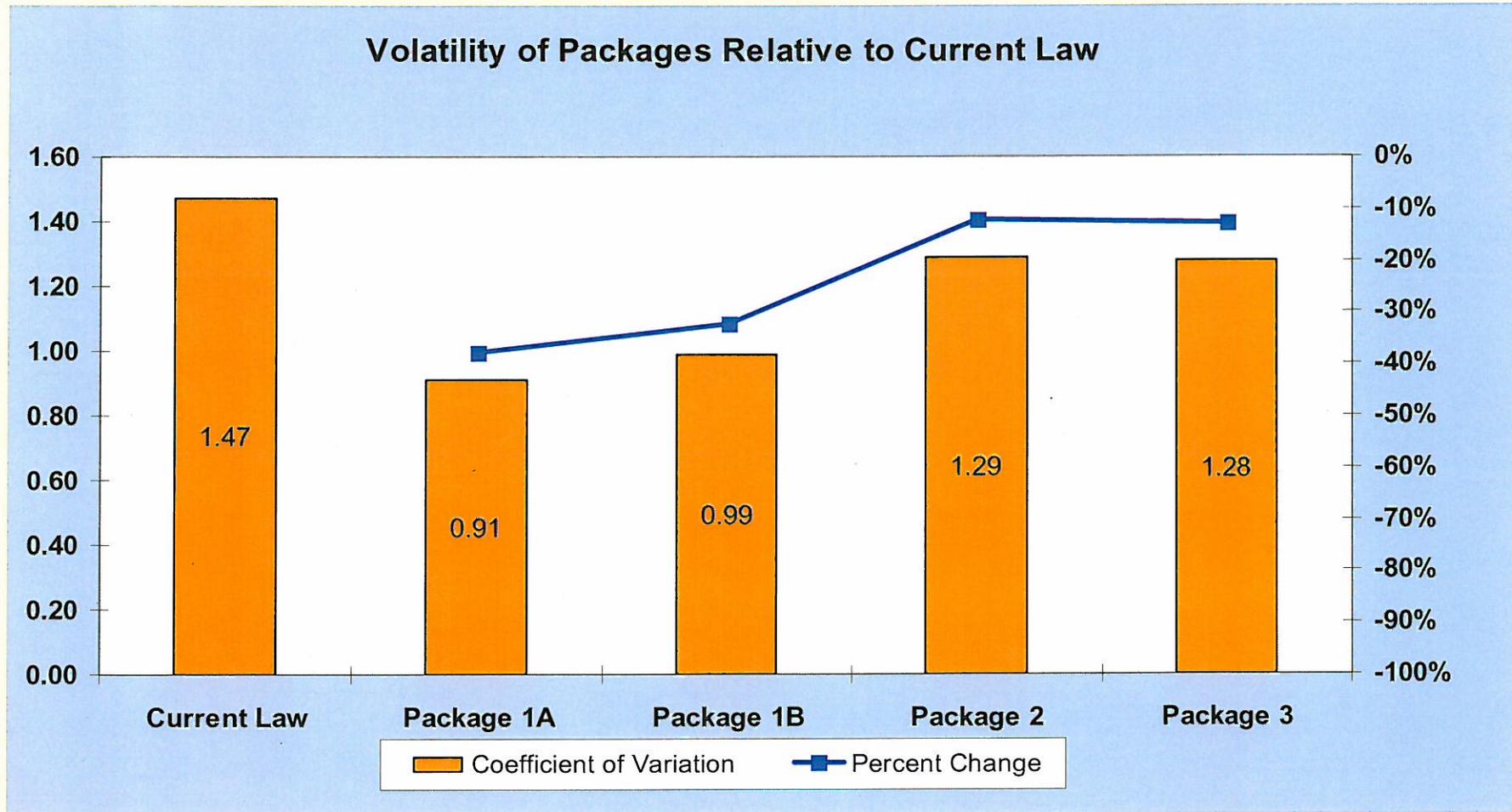
# Tax Package 3

## Effective Tax Rate and Share of Total-Selected Taxes



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

# Volatility of Tax Packages



# Option-Capital Gains Tax Reduction

- Capital Gains Income Varies Substantially
- Capital Gains Contribute Substantially to Volatility
- Capital Gains Have Become Increasingly Concentrated
- Tax Reduction Would Directly Benefit Higher Income
- Distribution of Benefits Would Vary By Year
- Reduction Would Reduce Volatility



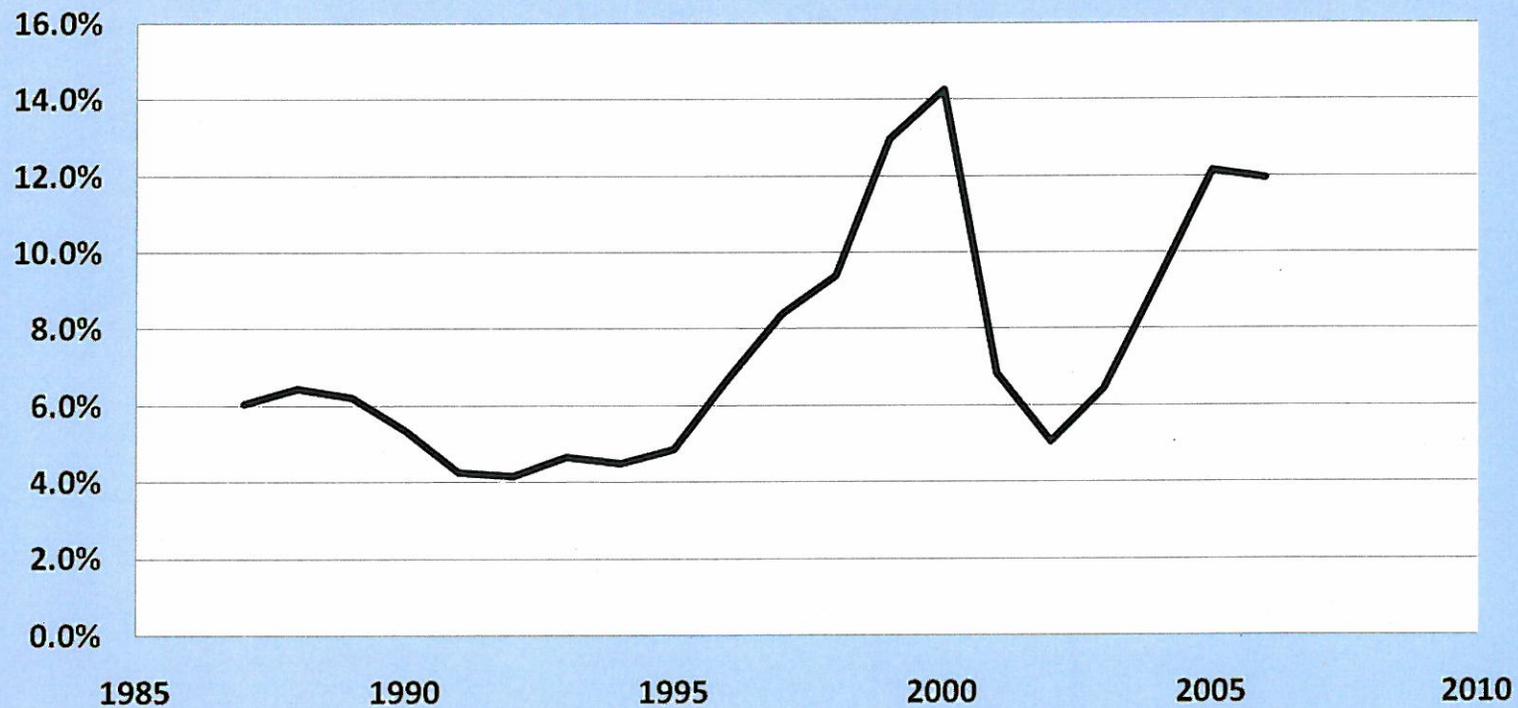
---

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

---

# Capital Gains Share of Income

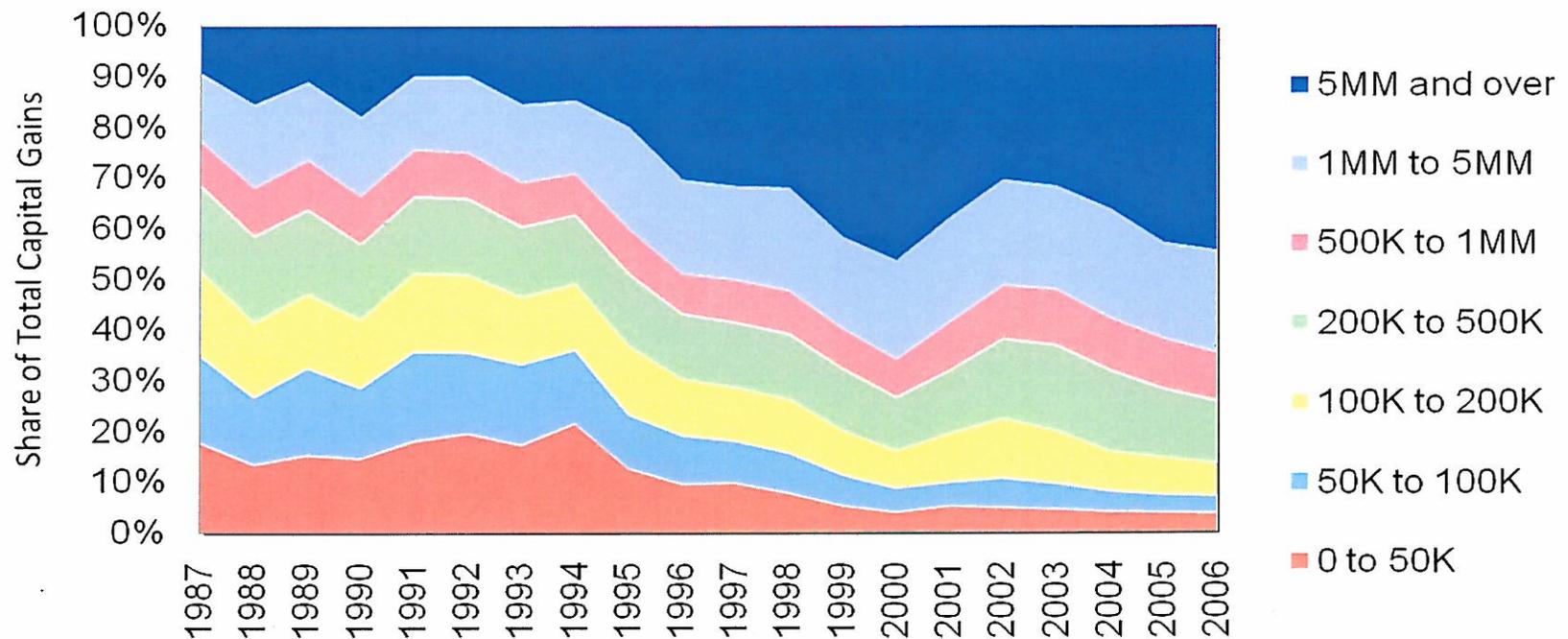
Share of Capital Gains in Personal Income



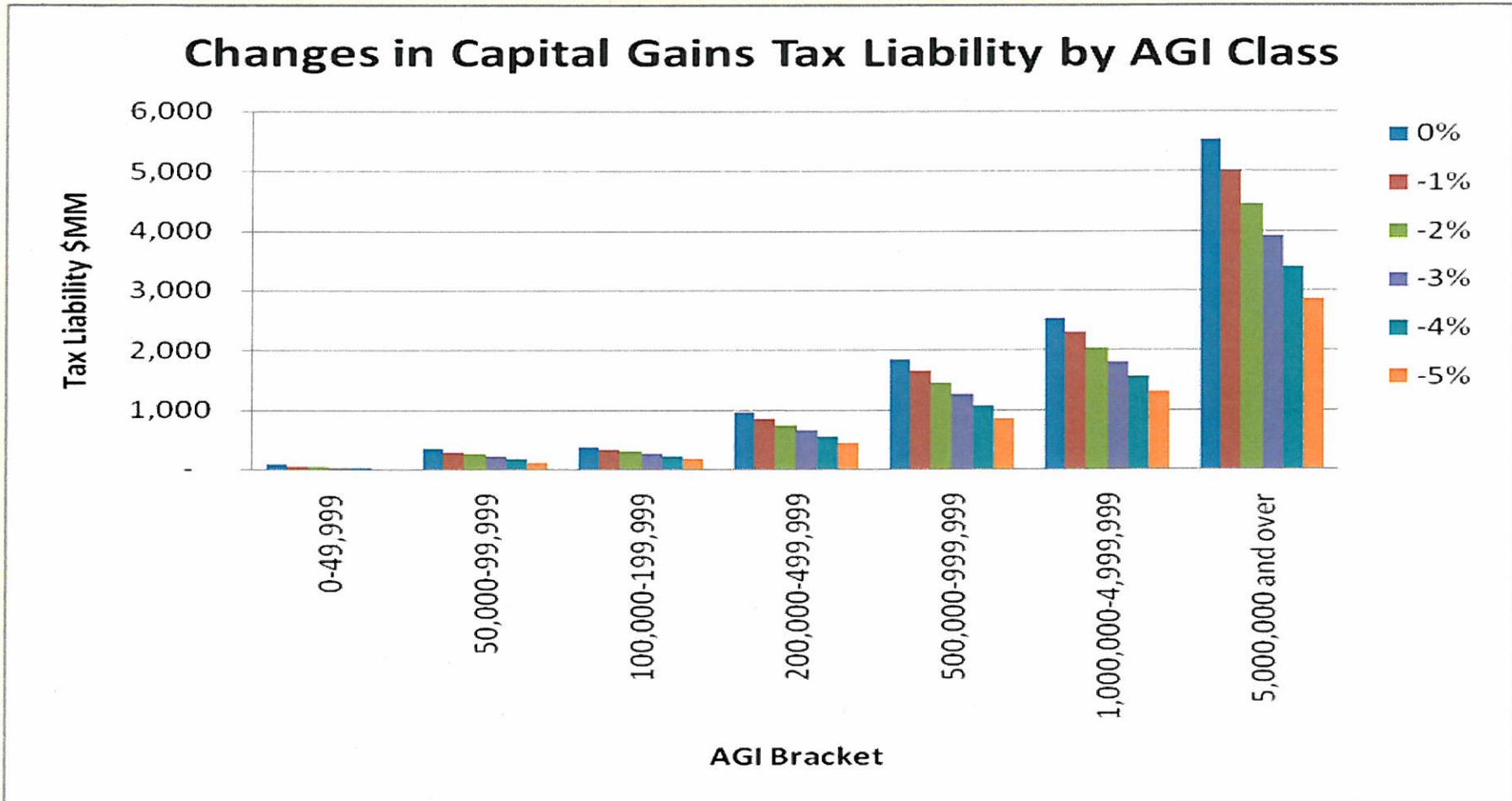
Commission on the  
21<sup>ST</sup> Century Economy

# Capital Gains Distribution

## Ownership of Capital Gains Income by AGI Class, 1987-2006



# Change in Capital Gains Tax Liability



# Option-Carbon Tax On Fuels

- Carbon Tax would be Regressive Based on Income and Similar to the Sales Tax
- Could Be Levied at the Point of First Distribution
- \$20/ton would result in \$0.18/gallon Tax on Gas, Diesel or Jet Fuel
- Would Raise About \$3.16b-\$3.28 Annually Over the Period
- Largest Business Impacts on Transportation (truck, air and rail), Business Services, Other
- Could reduce Top Rate for the PIT Under Any of the Considered Packages

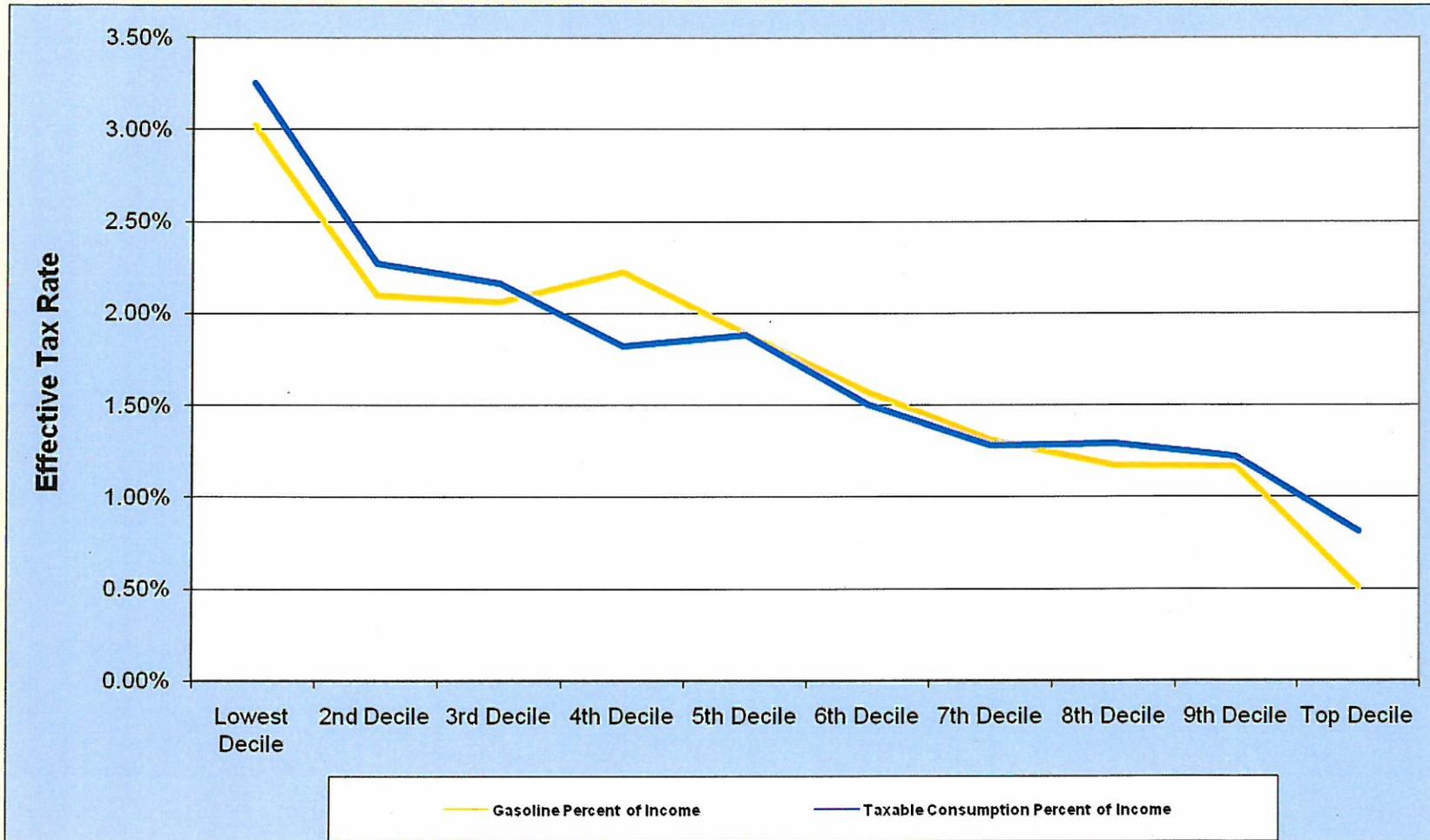


---

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

---

# Carbon Tax Distribution



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