

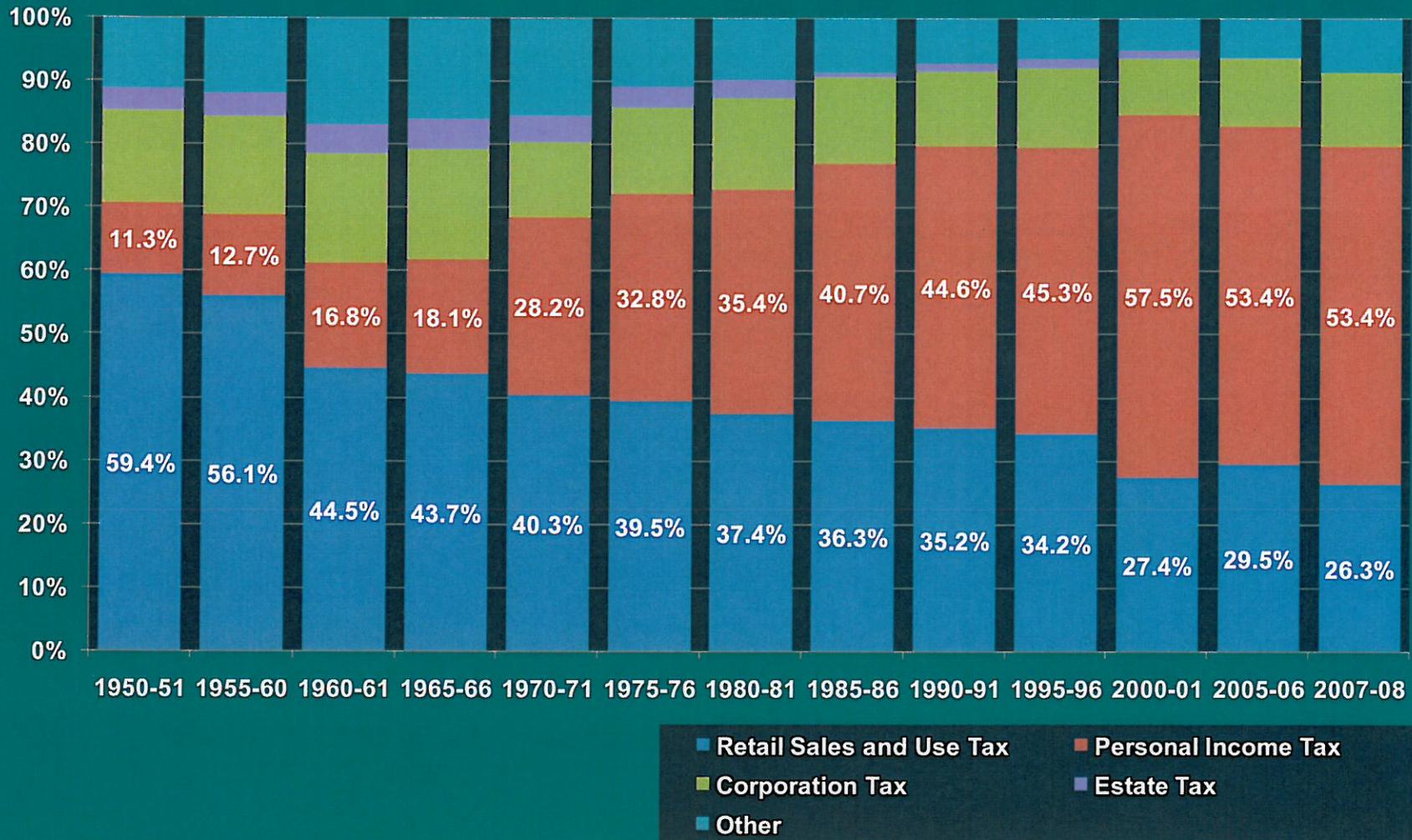


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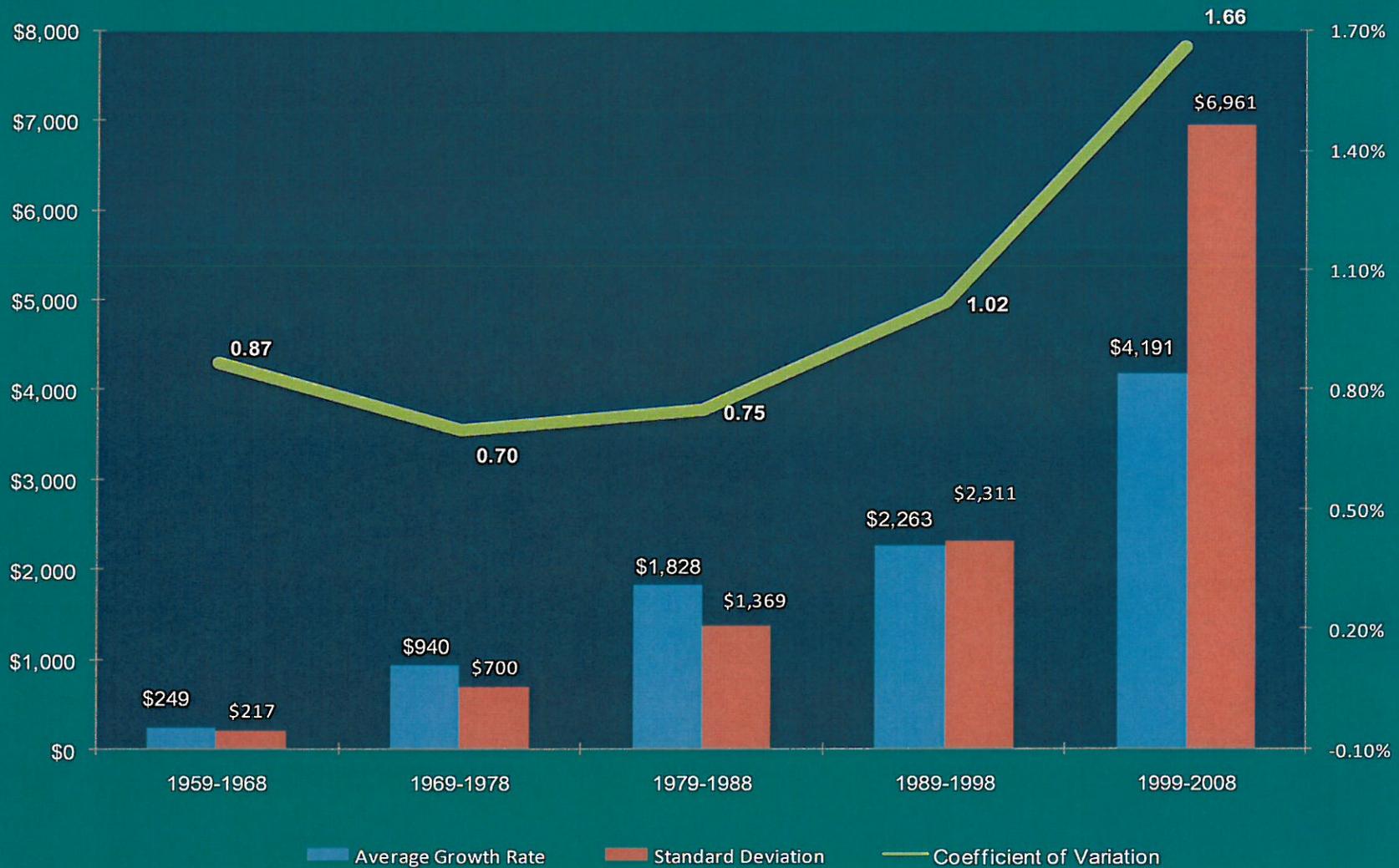
Tax Structure Options

July 16, 2009

California State Revenues by Source (\$ Billions)



General Fund Variability



Tax Packages

Criteria for Evaluation

Economic Growth

- Jobs and Investment

Revenue Volatility

- Improves Stability

Fairness

- Distribution of Tax Burden

Simplicity

- Compliance and Administration



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Major State Revenues

Personal income tax

Sales and use taxes

Corporation tax

Motor vehicle taxes

Fuels taxes

Insurance tax

Other excise taxes



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Revenues From Major Taxes

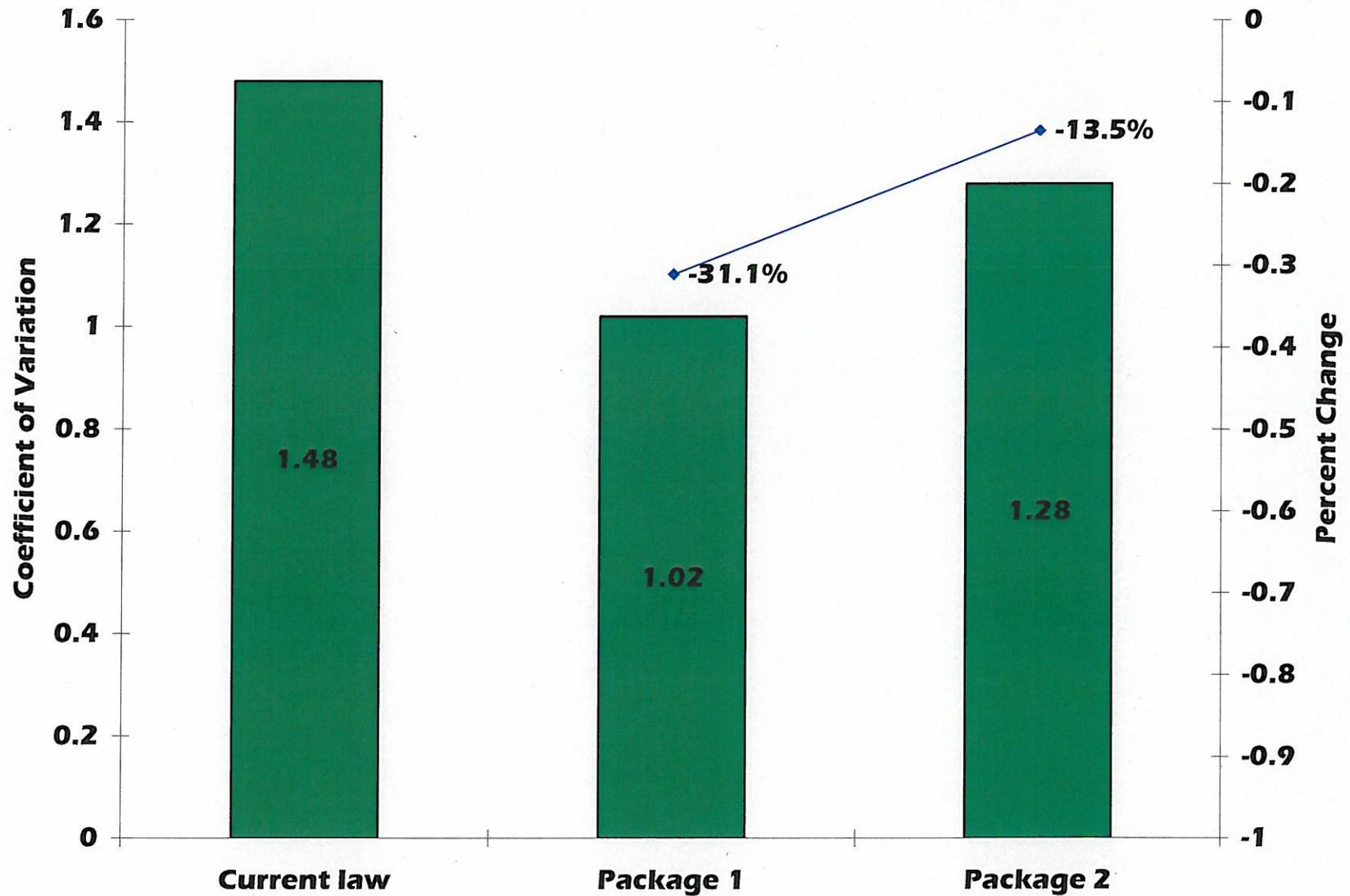
(In Billions \$)

Tax Year	Current	Package 1	Package 2
2012	\$102	\$105	\$104
2013	\$110	\$112	\$111
2014	\$119	\$120	\$120
2015	\$129	\$129	\$129
2016	\$143	\$139	\$141
5-Year Total	\$604	\$604	\$604



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Volatility of Tax Packages



Tax Structure Package 1

- **Personal income tax**
 - **Uniform personal income tax rate of 6%**
 - **Standard deduction of \$15,000 single/\$30,000 joint**
 - **Itemized deductions for mortgage interest, property tax, and charitable contributions, phased out at higher income levels**
- **Eliminate corporation tax**
- **Eliminate state sales tax**
- **Impose net receipts tax**



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Tax Structure Package 1

Economic Growth

- **Eliminating corporation tax and reducing personal income tax rate encourages investment and improves efficiency**
- **Broadening base improves efficiency and neutrality**
- **Eliminating sales tax reduces taxes on business inputs**

Volatility

- **Substantially reduces volatility due to new tax and drop in tax rate**

Fairness

- **Reduces progressivity**
- **Increases number of taxpayers**

Simplicity

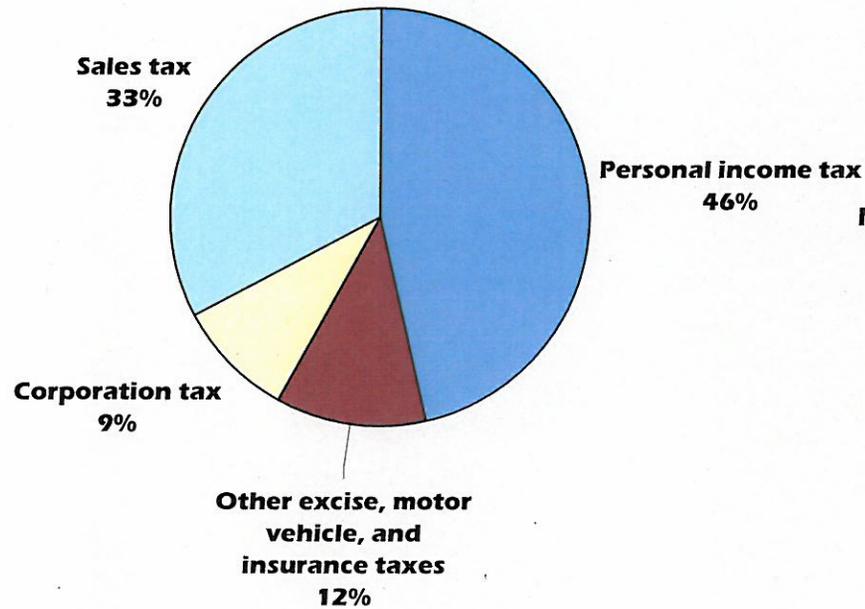
- **Reduces number of personal income tax rates**
- **Eliminates a tax but adds a new one**



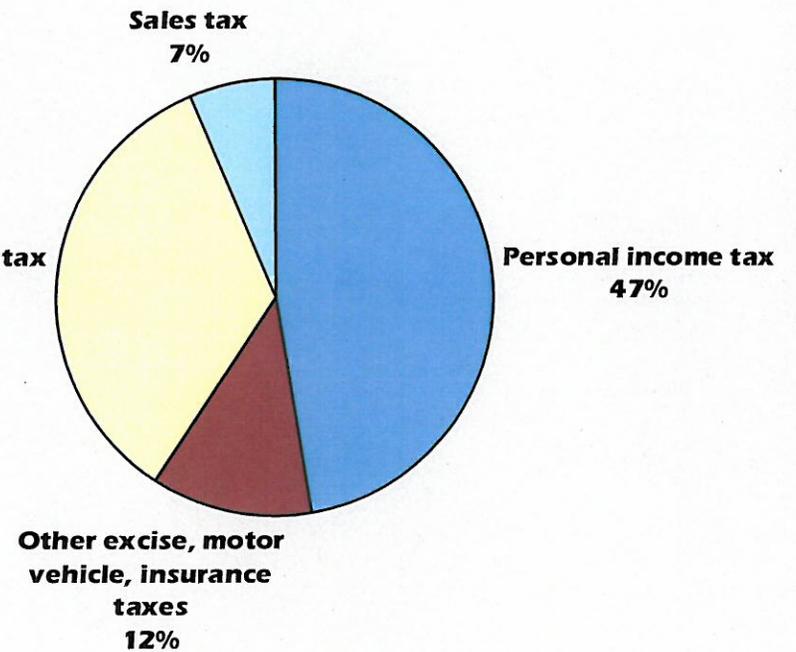
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Tax Structure Package 1

Current Law

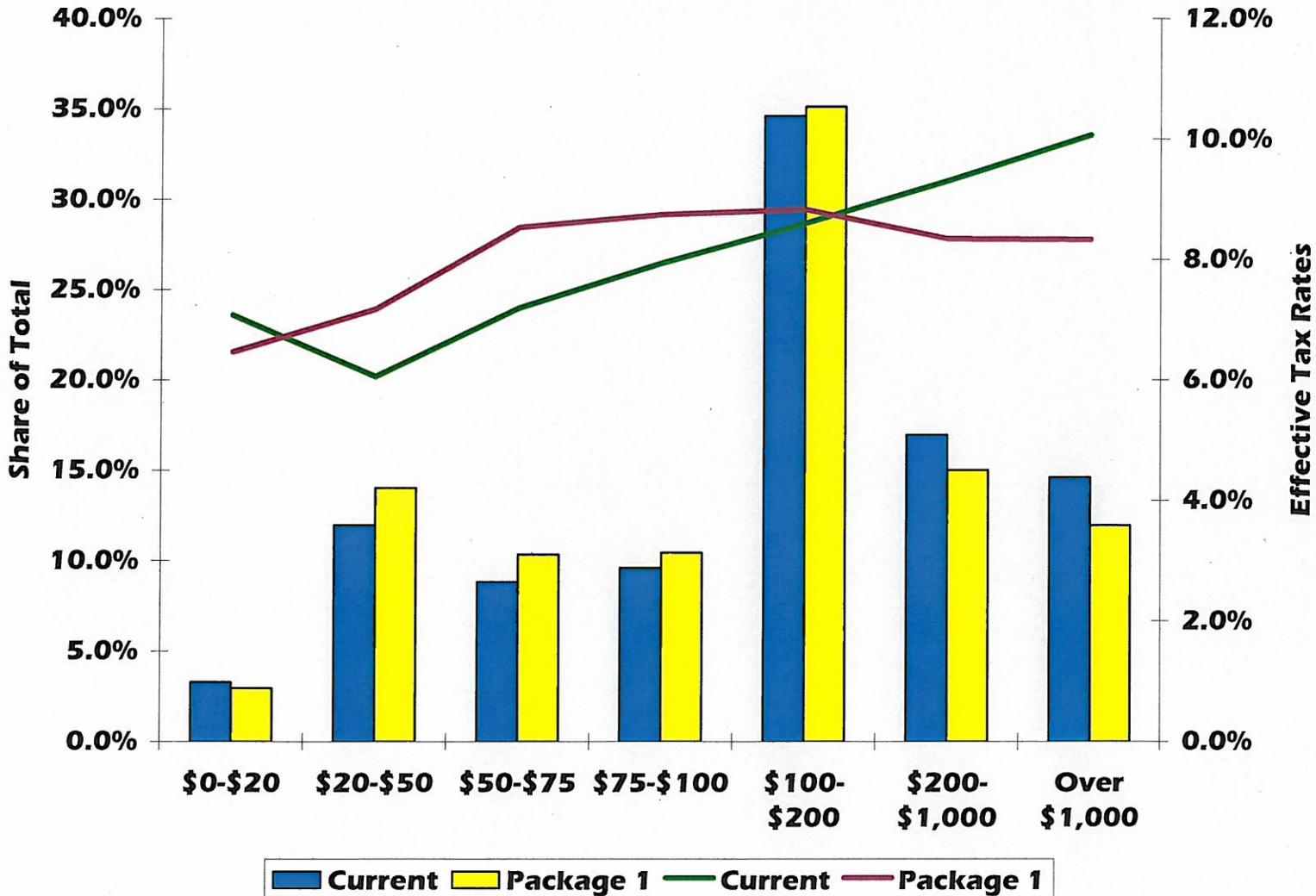


Package 1



Tax Package 1

Effective Tax Rates and Share of Total



Tax Package 1
Tax Change by AGI Class
(In billions of \$)

\$0-\$20	-\$0.3
\$20-\$50	\$2.3
\$50-\$75	\$1.7
\$75-\$100	\$1.0
\$100-\$200	\$1.0
\$200-\$1,000	-\$1.8
Over \$1,000	-\$2.6



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Tax Structure Package 2

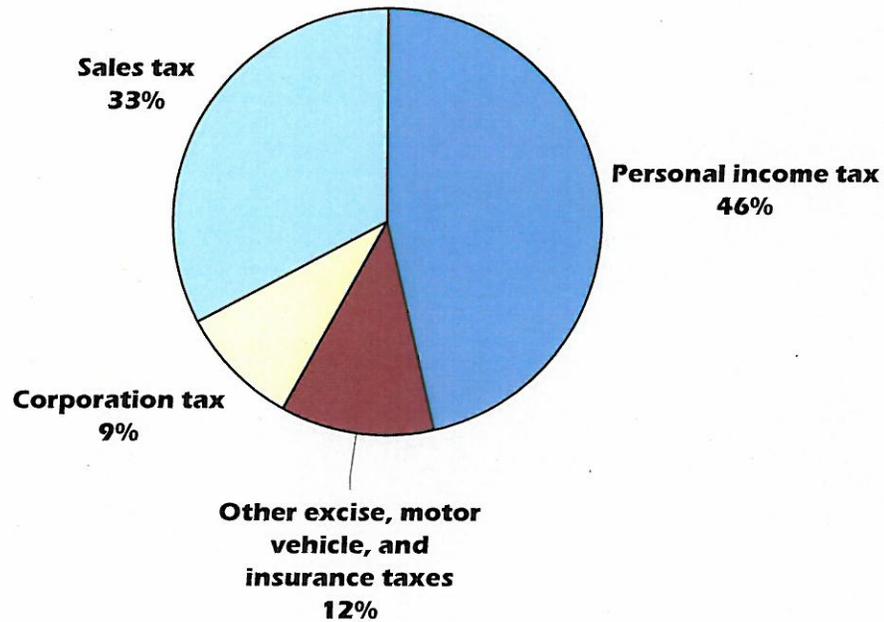
- **Personal income tax**
 - **Two rates: 3.75% up to \$25,000 single/\$50,000 joint, 7% at higher income levels**
 - **Standard deduction of \$15,000 single/\$30,000 joint**
 - **Itemized deductions for mortgage interest, property tax, and charitable contributions, phased out at higher income levels**
- **Reduce corporation tax rate to 7%**
- **Impose new fuels tax**



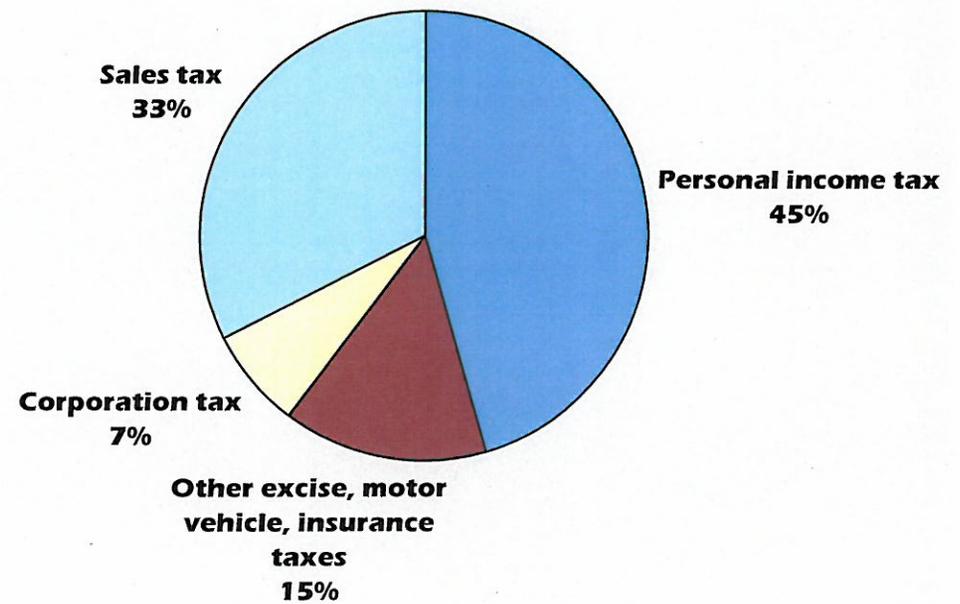
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Tax Structure Package 2

Current Law

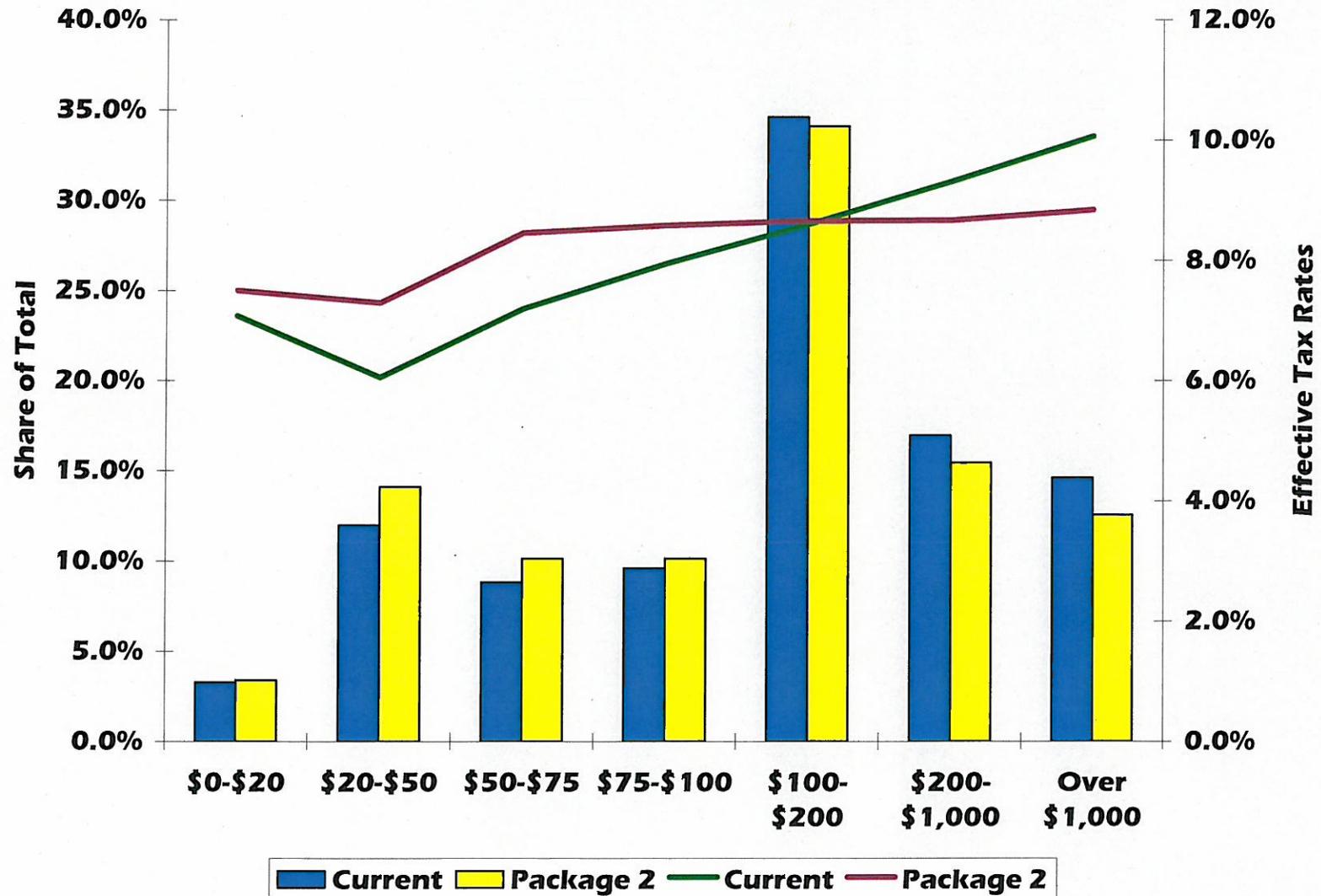


Package 2



Tax Package 2

Effective Tax Rates and Share of Total



Tax Package 2
Tax Change by AGI Class
(In billions of \$)

\$0-\$20	\$0.2
\$20-\$50	\$2.5
\$50-\$75	\$1.6
\$75-\$100	\$0.8
\$100-\$200	\$0.2
\$200-\$1,000	-\$1.2
Over \$1,000	-\$1.8



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Tax Package 2

PIT Tax Change by AGI Class-Phase Out (In billions of \$)

Personal Income Tax

2014 Tax Year

Package 2

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	42,694,071	262.4%	\$3	\$9
20,000 -	50,000	5,511,843	1,077,735,430	1,930,531,675	179.1%	\$196	\$350
50,000 -	75,000	1,786,925	2,302,534,219	1,233,599,484	53.6%	\$1,289	\$690
75,000 -	100,000	1,287,551	3,902,263,960	537,402,210	13.8%	\$3,031	\$417
100,000 -	200,000	2,597,114	19,372,380,804	-372,682,632	-1.9%	\$7,459	(\$143)
200,000 -	1,000,000	461,319	12,409,483,082	-1,194,995,289	-9.6%	\$26,900	(\$2,590)
1,000,000 -	infinity	37,201	12,004,159,906	-1,733,806,068	-14.4%	\$322,688	(\$46,607)
Total		16,337,738	51,084,827,145	442,743,450	0.9%	\$3,127	\$27

Note: Distribution for residents only. Does not include other states tax credit.



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Tax Package 2

PIT Tax Change by AGI Class-No Phase Out (In billions of \$)

Personal Income Tax

2014 Tax Year

Package 2

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	42,694,071	262.4%	\$3	\$9
20,000 - 50,000	5,511,843	1,077,735,430	1,930,531,675	179.1%	\$196	\$350
50,000 - 75,000	1,786,925	2,302,534,219	1,233,599,484	53.6%	\$1,289	\$690
75,000 - 100,000	1,287,551	3,902,263,960	537,402,210	13.8%	\$3,031	\$417
100,000 - 200,000	2,597,114	19,372,380,804	-372,682,632	-1.9%	\$7,459	(\$143)
200,000 - 1,000,000	461,319	12,409,483,082	-1,583,126,176	-12.8%	\$26,900	(\$3,432)
1,000,000 - infinity	37,201	12,004,159,906	-2,507,965,660	-20.9%	\$322,688	(\$67,417)
Total	16,337,738	51,084,827,145	-719,547,028	-1.4%	\$3,127	(\$44)

Note: Distribution for residents only. Does not include other states tax credit.



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Business Net Receipts Tax (BNRT)