



Commission on the 21ST Century Economy

Tax Structure Alternative

September 10, 2009

Tax Structure Alternative

- **Reduce the personal income tax**
- **Eliminate the corporation tax and minimum tax**
- **Eliminate the state general purpose sales tax**
- **Establish business net receipts tax**
- Institute new Rainy Day reserve fund



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Tax Structure Alternative Evaluation

Economic Growth

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

Volatility

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

Fairness

- **Modestly reduces progressivity overall and maintains progressivity of the PIT**
- **Increases number of taxpayers**

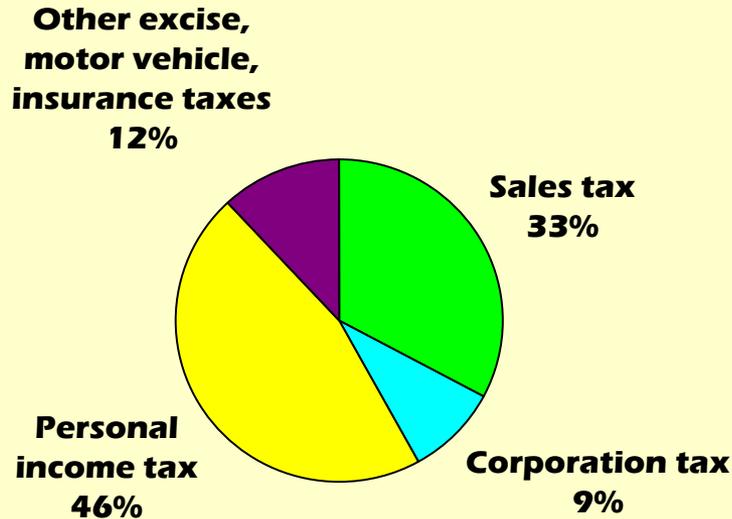
Simplicity

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

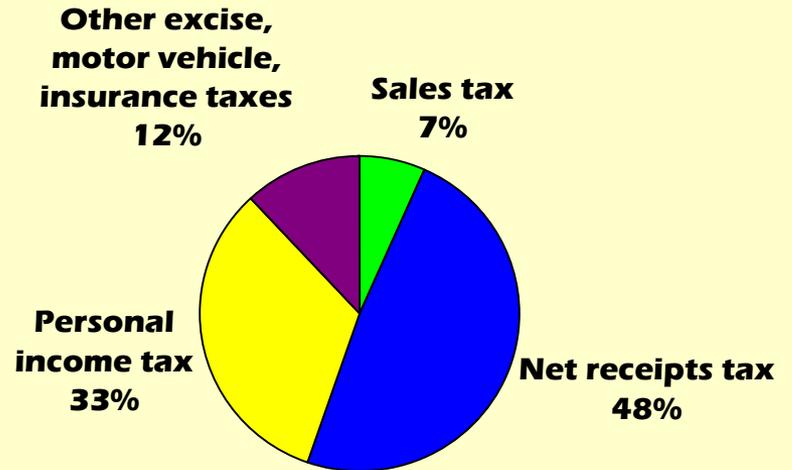


Tax Structure Revenue Sources

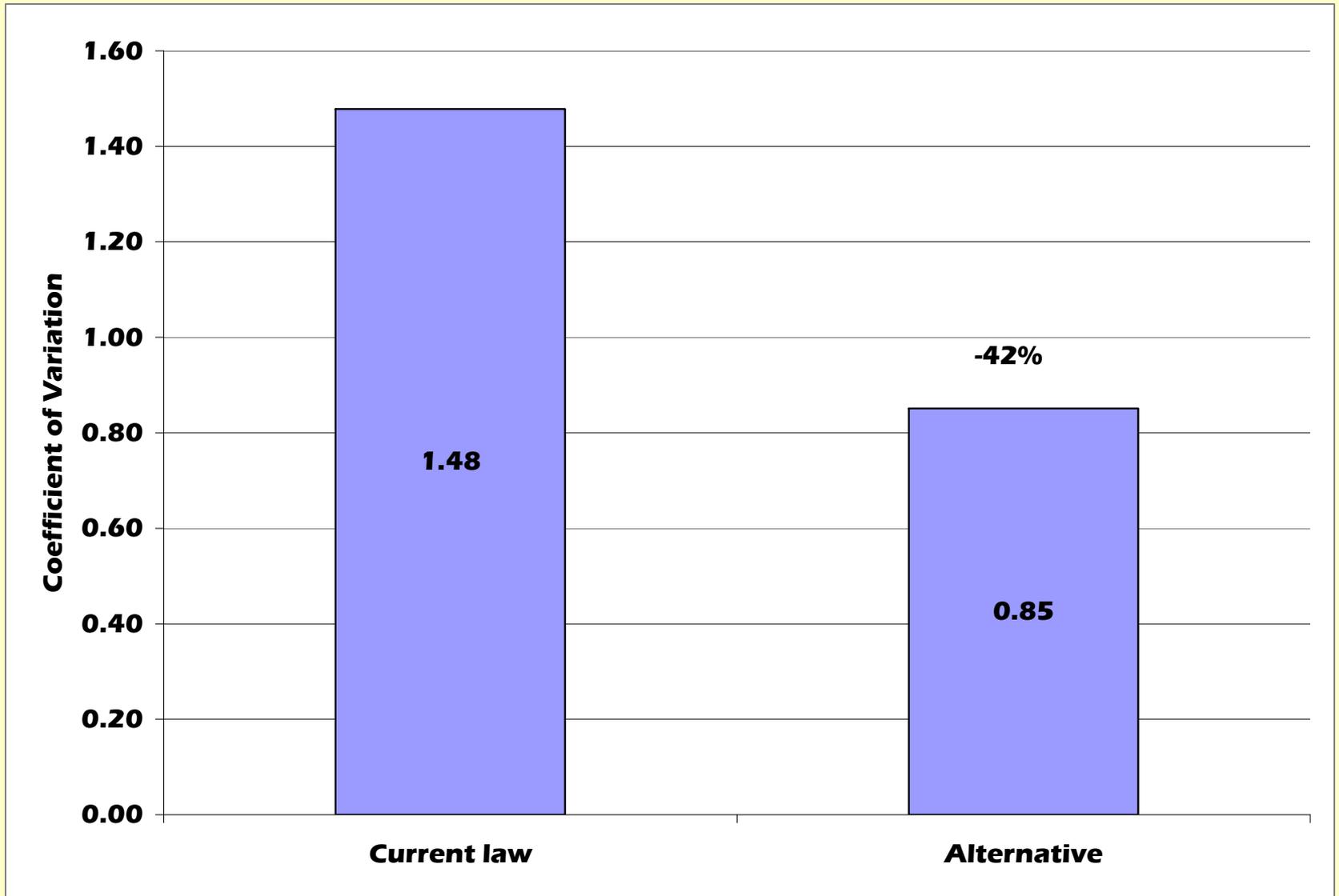
Current Law



Alternative



Volatility of Alternative Structure



Personal Income Tax

- **Two rates: 2.75% up to \$28,000 single/ \$56,000 joint; 6.5% above those levels**
- **Standard deduction of \$22,500 single/ \$45,000 joint**
- **Itemized deductions for mortgage interest, property tax, and charitable contributions**



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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	-19,474,016	-1.8%	\$196	(\$4)
50,000 - 75,000	1,786,925	2,302,534,219	-338,799,533	-14.7%	\$1,289	(\$190)
75,000 - 100,000	1,287,551	3,902,263,960	-1,171,224,060	-30.0%	\$3,031	(\$910)
100,000 - 200,000	2,597,114	19,372,380,804	-5,961,968,024	-30.8%	\$7,459	(\$2,296)
200,000 - 1,000,000	461,319	12,409,483,082	-3,541,552,097	-28.5%	\$26,900	(\$7,677)
1,000,000 - infinity	37,201	13,004,159,906	-4,052,073,386	-31.2%	\$349,569	(\$108,925)
Total	16,337,738	52,084,827,145	-15,101,360,862	-29.0%	\$3,188	(\$924)

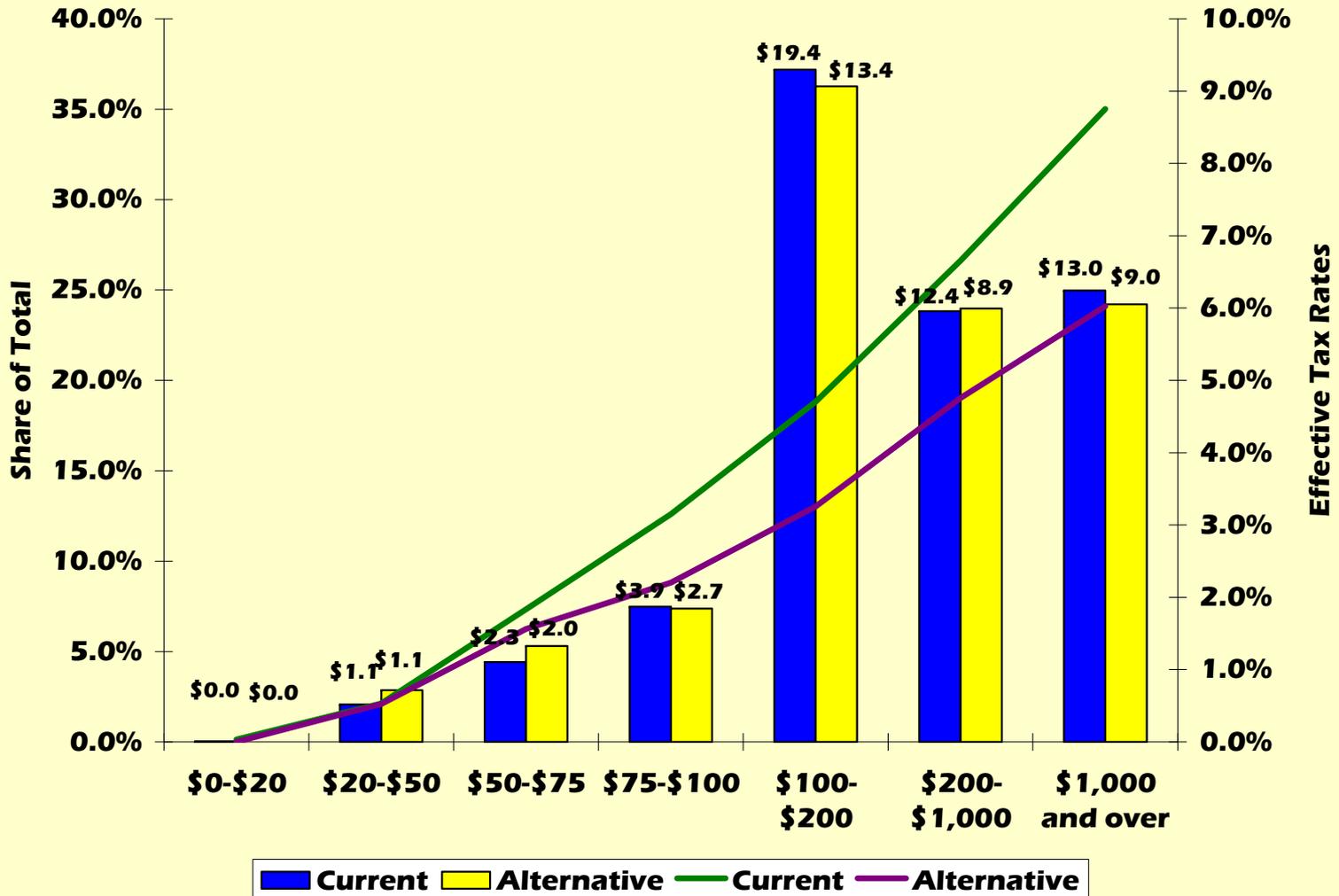
Note: Distribution for residents only; includes Mental Health Services Tax.



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Personal Income Tax

Effective Tax Rates and Share of Total



Business Net Receipts Tax (BNRT)

- **Business gross receipts from all sources less purchases from all other businesses times rate**
- **Applies to all businesses doing business in California**
- **Economic presence test**
- **Unitary method**
- **Transactions within a unitary group eliminated from BNRT calculation**
- **Water's edge basis**
- **Single-factor sales apportionment**
- **Phase-in BNRT rate of beginning at 1.6% and increasing over the phase-in period**
- **Establish Research & Development Credit conforming to federal and set at rate to maintain a percent of current usage**



