



Commission on the 21ST Century Economy

Tax Goals, Principles and Options

- Commission Goals**
- Tax Principles and Objectives**
- Alternative Structures**

Background Issues

Tax Principles and Objectives

- Economic Efficiency
- Economic Growth
- Administrative Feasibility
- Revenue Stability and Sufficiency
- Distributional Fairness



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Tax Alternative

Eliminate, Flatten and Exempt

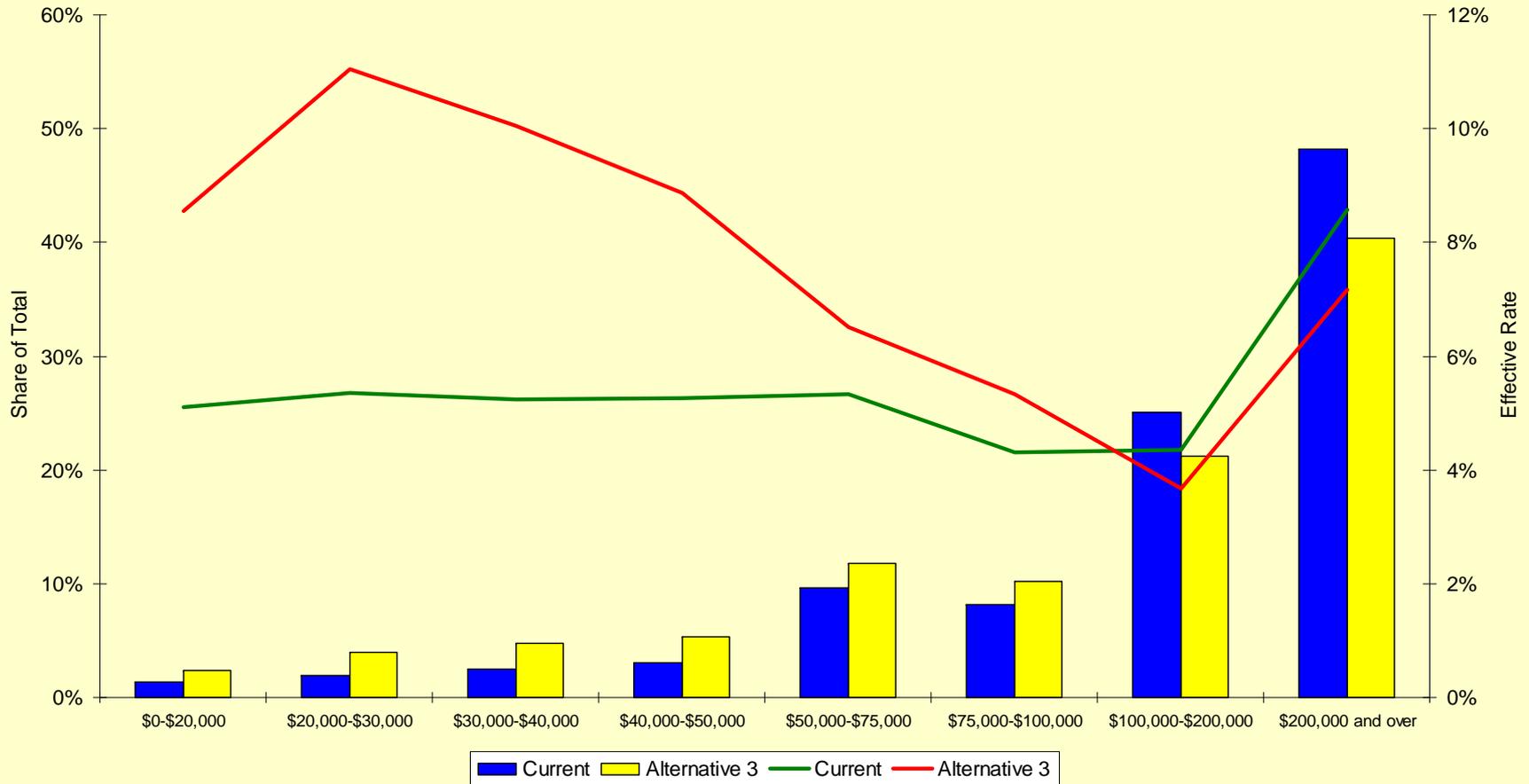
- Revenue neutral over the trend line
- Eliminate 5% state sales tax
- Flatten personal income tax rate to 8% on all income
- \$500 exemption credit for all tax filers



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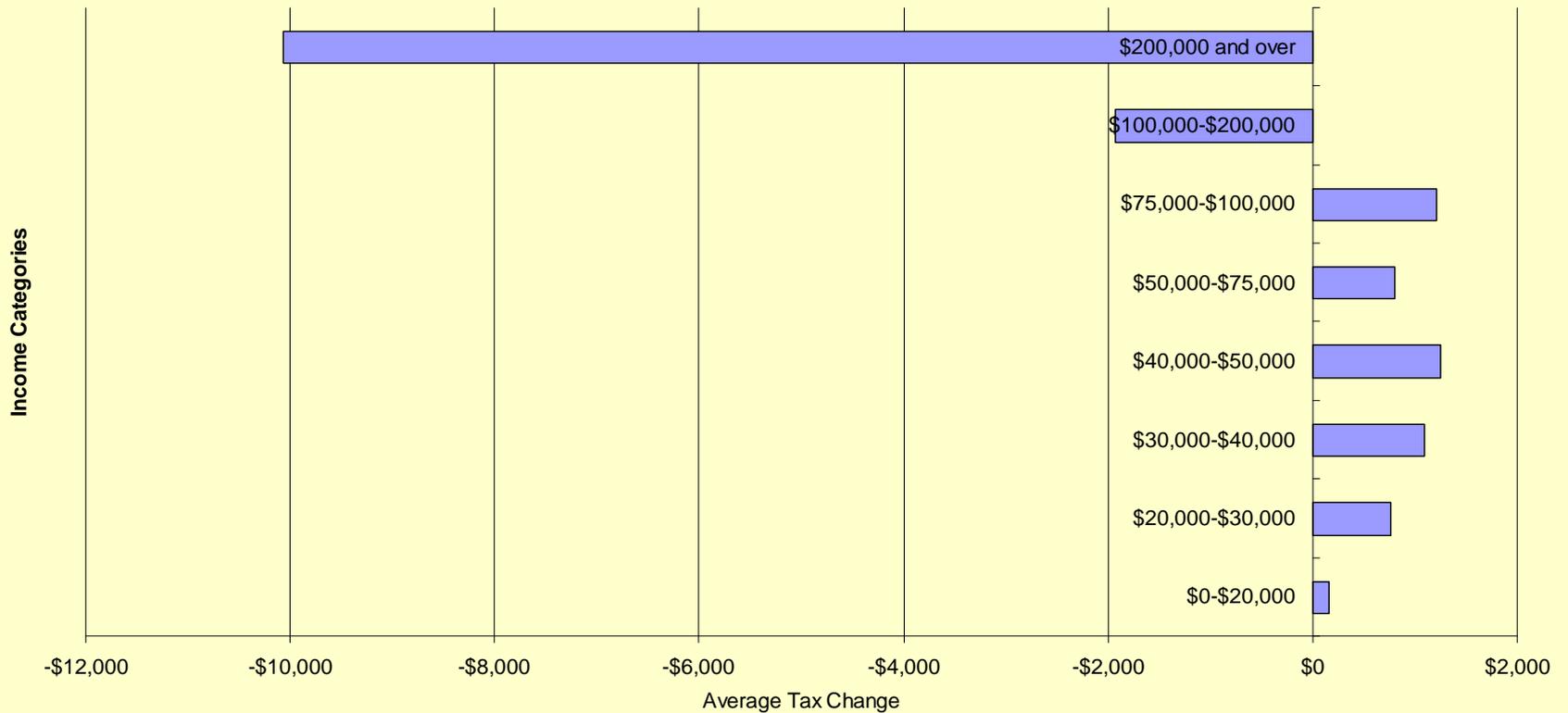
Tax Alternative

Effective Tax Rates and Share of Total



Tax Alternative

Average Tax Change



Total State and Local Revenues

- **State Revenues**
 - Personal Income Tax \$55 billion
 - Sales and Use Tax \$28 billion
 - Corporation Tax \$11 billion
 - Gas Excise Tax \$3 billion
- **Local Revenues**
 - Sales and Use Tax \$17 billion
 - Property Tax \$43 billion
- **Total Approximate Revenues \$157 billion**



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California Flat Rate Tax on National Income and Product Accounts (NIPA) Income

- Subtract imputed rents and transfer payments from NIPA
- NIPA personal income without imputed rents and transfer payments is about 30% higher than adjusted gross income

Tax Return Mock-up for NIPA Personal Income Tax Without Imputed Rents and Transfer Payments

Federal Adjusted Gross Income

- + Employer contributions to retirement plans
- + Employee contributions to: 401K plans, 457 plans, Keogh/SEP plans and IRA contributions
- + Earnings of retirement plans and annuities, including:
 - Annual earnings of defined benefit plans such a PERS and private plans
 - Annual earnings in defined contribution plans such as 401K, 457, Keogh/SEP, and IRA
 - Life insurance policy earnings
 - Annuity earnings
- + Employer provided health care
- + Other employer nontaxable fringe benefits
- + Half of self employment tax
- + Tax exempt interest on Federal and California obligations
- = Total Income
- Deductions: (such as) charitable contributions and mortgage interest
- = Taxable income
- * Flat tax rate
- = Tax liability

Net Receipts Tax

- Gross Receipts
 - Less purchases
 - Equals Net Receipts
 - Times California Apportionment
 - Equals Taxable Net Receipts
 - Times Tax Rate
 - Equals Net Receipt Tax
- Would apply to all business types, though small businesses could be excluded

Net Receipt Tax

	(\$Billions)	
Gross Receipts		\$ 35,901.0
less		
Cost of Goods Sold Purchases	25,711	
Purchases of buildings and equipment	484	
Other purchases	407	
Total purchases		\$ 26,601.9
Net receipts		\$ 9,299.1
California apportionment	8.3%	\$ 775.1
Tax liability(7%)	7%	\$ 54.3
Tax liability(1%)	1%	\$ 7.8
Current law tax liability for C Corporations		\$ 7.8

Franchise Tax Board, 2005 Tax Year

C Corporations

Source: 2006 Annual Report