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SHARING THE BURDEN OF ECONOMIC RECOVERY 10 TAX POLICIES FOR \$20 BILLION

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With the state facing a current deficit and ongoing yearly deficits of \$20 billion, the survival of basic services and a healthy public sector is at stake. To address this looming future, the burden of recovery must be shared fairly—in contrast to the current path by which public services, the poor and education have taken the largest cuts and the middle-class has borne the increased tax burden.

The following summarizes 10 measures which will spread the burden in a way which arguably have a minimal impact on economic growth and recovery. These include eliminating new loopholes recently opened, taxing untaxed windfalls, ending tax breaks with no benefits, imposing taxes on the very rich, and increasing sin taxes.

In addition, without *adding* to the current burden of taxes for the general public, the state could maintain some part of the previous increases for broader-based taxes, such as keeping the vehicle license fee increase and lowering the sales tax only ½ cent, rather than the expected 1 cent. Taken together, these continued taxes can avoid cuts which are damaging to the recovery and to our future, and arguably would have little negative impact on economic recovery.

Note: The revenues are not the same in every year, since some do not take effect until Fiscal Year 2011-12. The Legislative Analyst’s Office calls for a long-term workout, and these revenues would provide that. For a more complete explanation of tax options, see <http://caltaxreform.org/?p=101>.

10 Tax Policies for \$20 billion

Revenue Option	(\$ in Billions)
Oil Severance Tax at 9.9% (Governor’s proposal)	\$1.2
Eliminate Secret Corporate Loopholes (full effect FY 2011-12)	\$1.7-\$2
Broaden Tax Base to Include Untaxed Commodities	\$2 plus
Reinstate Top-Income Tax Brackets	\$4
Close Corporate Property Tax Loopholes (rough estimate)	\$2
Maintain Vehicle License Fee at Permanent 1% (starts FY 2011-12)	\$1.3
Close Corporate Tax Loopholes with No Economic Value	\$1
Increase Tobacco and Alcohol Taxes	\$2.4
Improve Tax Collections (initial revenue, diminishes)	\$1.5
Lower Current Sales Tax by ½ Cent (starts FY 2011-12)	\$2.5
TOTAL :	\$19.6-\$19.9

PROPOSALS

1. **Enact an Oil Severance Tax at 9.9% (\$1.2 billion)**

California is the only state, and the only place in the world, that does not tax oil production. 9.9% is the rate proposed by Governor Schwarzenegger. Contrary to oil industry claims, California has the lowest tax on oil in the nation—about 60 cents per barrel—when other states are at \$6-\$7 per barrel or more at current prices. This tax will have no effect on the price of gasoline or on oil production.

2. **Eliminate Secret Corporate Tax Loopholes (\$1.7 -2 billion) Enacted in Recent Budget Agreements**

The Legislature passed new permanent corporate loopholes in secret—loss carry-backs, credit sharing, and an elective single-sales factor, that will all take effect in 2011. These are de-stabilizing and costly, and repealing them now would not increase any taxes. They are also egregious, giving multinational corporations the ability to manipulate the system to lower their tax burden.

3. **Broaden Sales Tax Base to Include Untaxed Commodities (\$2 billion or more)**

There is virtually unanimous agreement that our sales tax base is too narrow. The Governor has supported broadening it, and the first steps should include taxes on entertainment, admissions, parking, golf and skiing, hotels (i.e., the temporary rental of space), and digital products—all of which are commodities easily subject to tax and would result in \$2 billion. Beyond that, sales taxes on telecommunications, cable and satellite would generate an additional \$2 billion. And beyond those, there are many services which arguably should be taxed, for billions more.

4. **Reinstate Top Income Tax Brackets to 11% (\$4 billion)**

The top 1% of earners earn an unprecedented 25% of income in California. While that may decrease due to the recession, the recovery of the stock market means capital gains for the wealthy are likely to recover, while ordinary incomes in a slow economy are not. State income taxes have no impact on the location of the wealthy or investment in California, and this revenue will grow faster than economic recovery.

5. **Close Corporate Property Tax Loopholes (\$2 billion)**

Statutory definitions of change of ownership are thoroughly loophole-ridden. CTRA research has identified numerous cases where properties have not been reassessed at market value following a change in ownership. We estimate that tightening corporate property tax loopholes would raise \$2 billion. The Legislature can act by statute to close this loophole.

6. **Maintain Vehicle License Fee (VLF) at 1% (\$1.3 billion)**

The VLF is supposed to be an in-lieu property tax, but was cut from 2% to .6%, then raised temporarily to the current rate of 1.15%. A long-term resolution of this issue would put the VLF at the Proposition 13 rate, 1%, beginning in FY 2011-12.

7. **Close Useless Corporate Tax Loopholes (\$1 billion)**

Enterprise zones have been demonstrated to have no impact on jobs (\$500 million). Avoidance of capital gains on commercial property sales—so-called like-kind exchanges—are driven by federal, not state considerations (\$350 million). Placing offshore tax havens in the water's edge stops blatant tax manipulation (\$150 million). Impact on economic decisions: zero.

8. **Increase Tobacco and Alcohol Taxes (\$2.4 billion)**

Taxing products with negative impacts on society has positive effects. Enacting a tax at 10 cents per alcoholic drink would generate \$1.4 billion. Proposals to increase tobacco taxes have been estimated to generate \$1 billion.

9. **Improve Tax Collections (\$1.5 billion initially, less ongoing)**

Governor Schwarzenegger vetoed legislation which would have provided an initial \$1.5 in improvements in collections, including withholding on independent contractors, tightening nexus (Amazon issue), and proposing a bank records match. That amount would fall as others, above, phase up.

10. **Lower Current Sales Tax by ½ Cent (\$2.5 billion)**

The temporary 1-cent sales tax increase will expire July 2011. Extending—but lowering—the sales tax to ½ cent would grow revenues to \$3 billion, particularly with a broader base. This could phase down by ¼ cent/year as the state's fiscal condition recovers.

Many of these tax changes would have little or no negative economic impact, particularly when contrasted to a state unable to finance infrastructure, that allows its higher education system and schools to deteriorate, that forces cutbacks in local government, and that shreds its safety net for its poorest citizens.