

Calculations and Reconciliation

Ending the Revenue Rollercoaster, Pacific Research Institute (PRI)

Calculations Reconciled to Staff Flat Tax Rate Estimates

- Staff calculated that a broad base personal income tax (PIT) with a 4.3% tax rate would have generated similar tax liability as was reported in 2006.
- PRI estimates that a broad base 3.36% income tax rate applied to PIT and corporation income would be revenue neutral.

Reconciliation

- PRI reports a 2005 PIT tax base of \$964.5 billion.
 - Multiplied by 3.36% this generates a \$35.6 billion tax.
 - In Table 6, PRI reports that PIT revenues for the 2005-06 fiscal year were \$49.9 billion, for a difference of -\$13.3 billion.
- PRI personal income tax base is broader than staff's tax base.
 - PRI does not allow current law federal adjustment to income and California net subtractions.
 - Largest adjustments:
 - Keogh/SEP retirement plan contributions,
 - Half of self employment income,
 - Health Insurance for self employed,
 - IRA adjustment,
 - Alimony paid.
 - Largest subtractions:
 - Tax exempt interest,
 - Social security income,
 - Unemployment compensation.
 - Offsetting difference:
 - The numerator for the PRI tax rate equation covers a larger tax base than the denominator.
 - Denominator for tax rate calculation is for self assessed 2005 tax year for California full year residents.
 - In addition to full year residents, numerator includes revenues from:
 - Estates and trusts,
 - Non residents and part year residents,
 - Audit revenues, and
 - Revenues from 2005 and 2006 tax years.
 - 2006 tax year liability was \$4.6 billion higher than 2005.

- PRI reports for 2005 a \$737.1 billion corporate tax base.
 - Multiplied by 3.36% this generates a \$27.2 billion tax.
 - In Table 6, PRI reports that corporation revenues for the 2005-06 fiscal year were \$10.3 billion, for a difference of \$16.9 billion.
 - Reason for difference.
 - Corporate deductions are reduced by 75%.
 - Largest corporate deductions:
 - Salaries and wages, and compensation of officers,
 - But deductions for wages within cost of goods sold are allowed,
 - Depreciation/amortization,
 - Other deductions,
 - Primarily due to corporations who do not itemize their deductions on the deduction tax form.
 - S-Corp income is taxed at the same rate as C-Corp income, 3.36%
 - The current tax rate for S-Corp income is 1.5%.
 - S-Corp income is also reported and taxed on PIT tax returns.
 - Tax credits
 - In 2005, tax credits were \$1.4 billion.
 - The numerator covers a larger tax base than the denominator.
 - Audit revenues are included in the numerator but not the denominator
 - Revenues in the numerator include partial payments of 2005 and 2006 tax year liabilities.
 - Tax liability was \$1.4 billion higher in 2006 than in 2005.