

Thoughts from Becky Morgan

August 19, 2009

In response to the invitation from our Chairman, Gerry Parks, I'm sending along my thoughts for Sections 1, 2, & 3 of our report to the Governor and Legislature.

Section 1

Under the items in the staff proposals, I agree with 2 rates of 2.5% and 7% and to the 3 deductions for those who itemize. With standard deductions of \$22,500 for individuals and \$45,000 for couples, I support a 1% of AGI minimum tax. After 3 decades working in the public sector, it's my opinion that people appreciate that to which they make a contribution, however small. (I just talked with a friend who ran a Children's Museum who said she had much greater attendance at events when she charged \$2 rather than having it free) Take a couple making \$60,000 with the \$45,000 deduction. They would then pay 1% on \$15,000 or \$150 in income taxes. This is not too much to ask in, my opinion, for the schools, roads, services available to them as California residents.

I support the elimination of the Corporate tax, replacing it with BNRT but hope this can happen in less than 5 years. I understand the need to run figures on '08, '09 & 2010 tax returns to determine the revenue neutrality of this major change but hope it will be a strongly supported recommendation for the sake of simplicity, fairness and inclusion of all businesses.

I hope the 5 cent sales tax can be removed in stages but very soon. If it isn't, the next Governor and Legislature will find a need for the revenue from this tax before all 5 cents have been removed as we've been promised by DOF is possible and revenue neutral. (I understand that our base year is 2007 for calculations of future revenue but am still waiting to learn the population and inflation growth figures being used before making final commitments)

I feel strongly that the R & D tax credit should remain for corporations. Research is the basis for new products and new jobs (and more tax revenue) and this incentive is VERY important to businesses in Silicon Valley.

Section 2

The establishment of a "Reserve for Economic Uncertainties" (rainy day fund) in the Constitution must be recommended with the language of Prop 1A OR the requirement that funds cannot be removed unless e.g. the percentage of Population growth and inflation exceeds growth in new revenue by 5% or more in any given year. Use language from the March proposition for amount to put into Reserve each year until it reaches a certain percentage. Another possibility, at a time of low Capital Gains would be to put the equivalent of all taxes from Capital Gains into the Reserve until the Reserve reaches 12% of the General Fund budget.

Commission should recommend a "Tax Dispute Resolution Forum/Court" or such an independent body outside of FTB and BOE to hear appeals.

Section 3

If a split roll is to be introduced through a Constitutional Amendment to Prop 13, recommend a phase in, starting with the oldest buildings first and do in 5 year increments in order to distribute the workload for county Assessors who do not now have the staff to accommodate an immediate change.

If the vote on the budget is to change to a simple majority make it ONLY IF budget in current year is less than a 5% growth over previous year or less than 5% of the population and inflation growth. Increases in fees should remain at a 2/3rds vote.

Remove the requirement for 58 County Offices of Education from the Constitution and use the billions for classroom costs. Let the Superintendent of Schools and Board of Education determine the number of Regional Offices of Education that may be needed for smaller counties as recommended in a Commission on Education report of several years ago. Saving some of the \$ 5 BILLION that now goes into the county offices is equivalent to new revenue that could be used in classrooms.

Incentivize school districts to merge. We do not need +- 1,000 and districts with only one school.

Form one tax body through merger of BOE and FTB for the administration of all taxes. Set up an the appeals process as suggested in Section 2 without representation of members of the merged group to avoid the current conflict of interest. Be fair to the taxpayer.

Remove the Capital Gains tax from sale of a home for anyone over 65 who moves out of state. The annual Property Tax revenue from the new home owner should more than make up for the one-time loss.

Establish statewide insurance for all school systems to save money and reduce the workload of school administrators.

Look at the number of "for-profit" enterprises within faith based organizations and other NGOs and tax them at the corporate level unless all funds go directly to the affiliated non-profit.

Set up a Commission for 2010 that looks at State-Local (County and city) Revenue relationships.

Make the revenues from Prop 172 (Public Safety) visible. How much/what percentage of the total budget really goes into public safety from the state revenues?

Change the 1972 law that says imbedded software cannot be tax, subject to the results of the Orange County vs. Cardinal Health court case.

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Taxing Internet Sales. If the Federal government doesn't take action by end of 2010, California should find a way.

Await federal government action on Cap and Trade for uniformity throughout the country.
Fuel/pollution/gas tax is additive and must have a separate vote in the Legislature, in my opinion.

Thank you for reading this. I'm sorry I can't be at the meeting on September 10 in person.

Questions:

The National Taxpayers Union Foundation says in its "Capital Ideas" magazine that Individuals and Corporations spend \$300 Billion on tax compliance currently. Is this true? If so, it's a great argument for simplification.

The Bay Area News Group reported that the BOE estimates that \$1.2 Billion could be raised if marijuana were made legal and taxed like alcohol and tobacco. True? If so, I think it's time for this.

What's the status of the single sales factor tax apportionment for corporations and how does the BNRT affect this? Is the Unitary Tax still in effect and how does the BNRT tax affect this?