



Commission on the 21ST Century Economy

Commission Tax Proposal
September 29, 2009

Commission Proposal

- **Increases tax revenue stability and reliability**
- **Promotes long-term economic prosperity and competitiveness**
- **Reduces complexity of tax system and individual taxes**
- **Retains fairness of existing tax system**



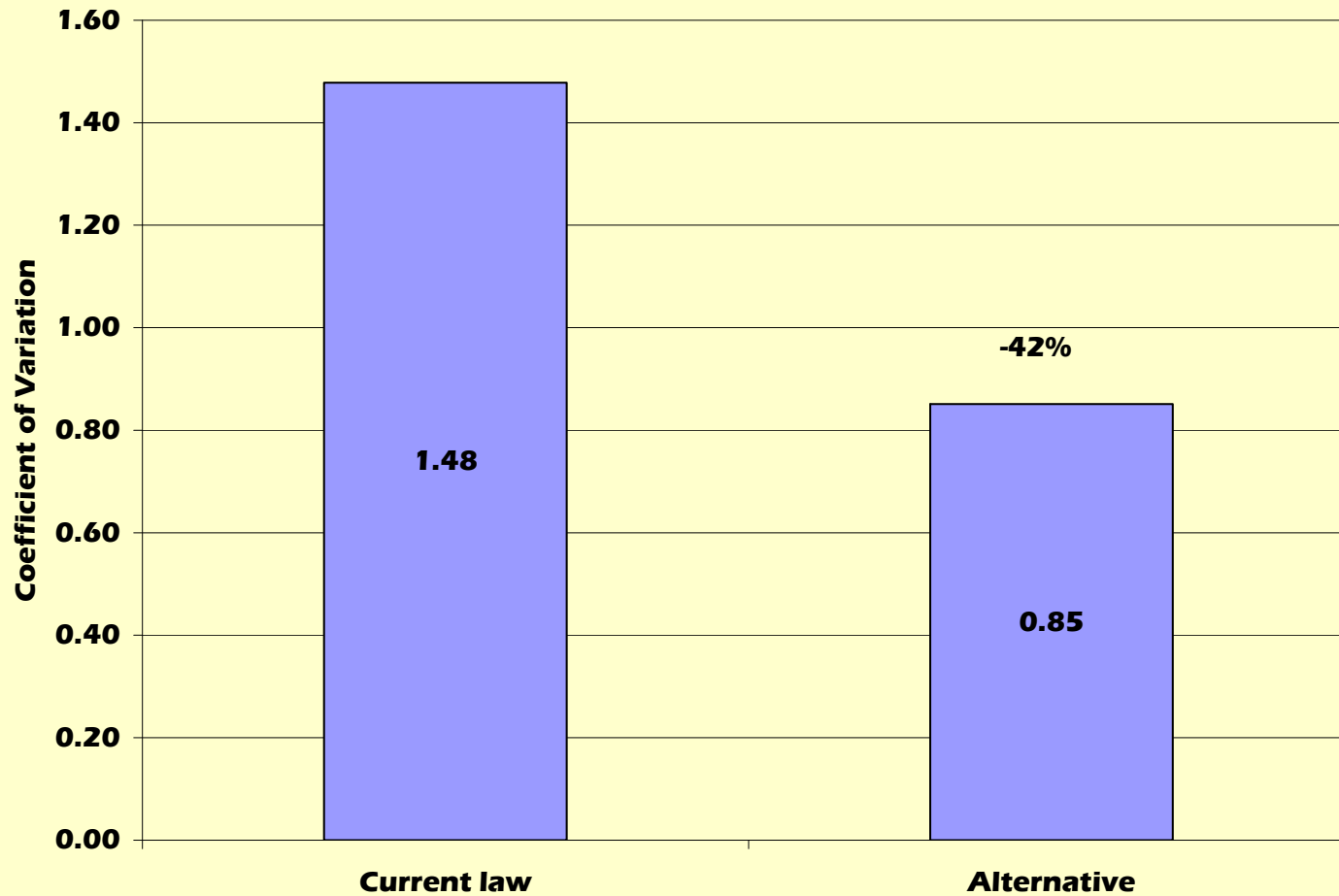
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Reduces Volatility

- **Revenues have been more volatile than the economy.**
- **Volatility has been increasing over time.**
- **The Commission's tax proposal would greatly reduce volatility.**
- **The system would result in a decline in volatility of over 40%.**
- **The structure would have substantially cushioned recent budget reductions**



Tax Proposal Would Reduce Volatility



Promote Long-Term Economic Prosperity

- **Eliminating the corporate tax and reducing personal income tax rates encourages investment and improves efficiency**
- **Broadening the tax base improves efficiency and neutrality**
- **Eliminating the state sales tax reduces taxes on business inputs and “double taxation”**

Improve California's Competitiveness

- **California's income, corporate, and sales tax rates are among the highest in the country**
- **Commission's recommendations would reduce or eliminate these taxes:**
 - **Maximum personal income tax rate would be reduced from 9.3% to 6.5% (not including 1%)**
 - **Corporate tax would be eliminated**
 - **State 5% general purpose sales tax rate would be eliminated**
- **A broad based tax at a low rate would replace the revenues**

Comparison of State Marginal Tax Rates

Western States

	<u>Income Tax</u>	<u>Corporate Tax</u>	<u>Sales Tax</u>
Arizona	4.5%	7.0%	5.6%
California	10.3%	8.8%	7.3%
Colorado	4.6%	4.6%	2.9%
Nevada	no tax	no tax	6.5%
Oregon	9.0%	6.6%	no tax
Utah	5.0%	5.0%	4.7%
Washington	no tax	gross receipts	6.5%

Large States

	<u>Income Tax</u>	<u>Corporate Tax</u>	<u>Sales Tax</u>
California	10.3%	8.8%	7.3%
Illinois	3.0%	7.3%	6.3%
Maryland	5.5%	8.3%	6.0%
Massachusetts	5.3%	9.5%	5.0%
Minnesota	7.9%	9.8%	6.5%
New Jersey	9.0%	9.0%	7.0%
New York	6.9%	7.5%	4.0%
Ohio	6.2%	8.5%	5.5%
Pennsylvania	3.1%	10.0%	6.0%
Texas	no tax	gross receipts	6.3%

Notes: Effective March 2009. In April 2009 California temporarily increased its statewide sales tax rate to 8.25% and its maximum personal income tax rate to 10.55%. Sales tax rate includes statewide state and local.

Simplicity

- **Personal income tax simplified**
 - **Reduces the number of income tax deductions to three**
 - **Reduces the number of tax rates from six to two**
- **Corporate tax would be eliminated**

Fairness

- **Retains “ability to pay” for the personal income tax**
- **Taxes business base on “benefits principle”**
- **Decrease in tax burden on Californians**

Change in Tax Burden by Income Class (In billions of \$)

\$0-\$20	\$0.0
\$20-\$50	\$0.1
\$50-\$75	-\$0.2
\$75-\$100	-\$0.6
\$100-\$200	-\$2.1
\$200-\$1,000	-\$1.7
Over \$1,000	-\$2.2
Total Residents	<u>-\$6.8</u>
Nonresidents and federal offset	\$6.8
Total	\$0

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	-16,235,184	-1.5%	\$196	(\$3)
50,000 - 75,000	1,786,925	2,302,534,219	-333,798,329	-14.5%	\$1,289	(\$187)
75,000 - 100,000	1,287,551	3,902,263,960	-1,165,422,188	-29.9%	\$3,031	(\$905)
100,000 - 200,000	2,597,114	19,372,380,804	-5,904,723,901	-30.5%	\$7,459	(\$2,274)
200,000 - 1,000,000	461,319	12,409,483,082	-3,451,967,693	-27.8%	\$26,900	(\$7,483)
1,000,000 - and up	37,201	12,924,255,886	-4,065,680,151	-31.5%	\$347,421	(\$109,291)
Total	16,337,738	52,004,923,125	-14,954,097,192	-28.8%	\$3,183	(\$915)

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



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