CALIFORNIA BUDGET PROJECT

June 3, 2009

Options for Closing the Budget Gap

Basic Principles:

1. **California's budget gap is too large to be closed through cuts alone.** The reductions proposed by the Governor would endanger California's long-term economic competitiveness and dismantle the state's safety net for poor families and children.

2. **The May election results should not be interpreted as a vote against taxes or as support for an "all cuts" solution to the state's budget crisis.** Public opinion research shows that a majority of the "no" voters on Proposition 1A support additional revenues and the "no" votes on Propositions 1D and 1E demonstrate support for health and children's services.

3. **When you are in a hole, stop digging.** The permanent tax cuts enacted in September 2008 and February 2009 with no opportunity for public comment or review will worsen California's ongoing budget crisis, will significantly weaken the integrity of the state's corporate income tax, and sends the wrong message to voters at a time when critical services are facing deep budget cuts. Impose a moratorium on the passage of bills that reduce revenues until the budget is restored to balance.

Options for Raising Additional Revenues

1. **Repeal the September 2008 and February 2009 tax cuts.** Repeal of tax credit sharing will raise 2009-10 revenues by $80 million, over time, the permanent tax cuts will cost the state $2.0 billion to $2.5 billion. Eliminating the temporary tax cuts enacted in February will raise $363 million in 2009-10.

2. **Reinstate 10 percent and 11 percent tax rates to 1991 levels, adjusted for inflation.** The February tax increases disproportionately affect low- and middle-income taxpayers. Reinstatement of the top brackets would restore balance to the state's tax system and raise $4 billion to $6 billion in additional revenues.

3. **Impose on oil severance tax.** California is the only oil producing jurisdiction in the world without a severance tax. A tax of 9.9 percent, such as that proposed by the Governor, would raise upwards of $1 billion dollars.

1107 9th Street, Suite 310
Sacramento, California 95814
P: (916) 444-0500
F: (916) 444-0172
cbp@cbp.org
www.cbp.org

4. **Impose a "nickel a drink" tax or fee on alcoholic beverages.** Alcoholic beverage taxes have not been increased since 1991 and, since they are imposed on a per gallon basis, now represent a smaller share of the purchase price. A tax or fee of this amount would raise $585 million.

5. **Phase-out of the enterprise zone program.** Research reports continually find that the enterprise zone program fails to produce identifiable benefits in a cost effective manner. A phase out of the program would raise $100 million in 2009-10 and larger amounts thereafter.

6. **Extend the sales tax to selected services.** Options include repair services, entertainment and recreation, cable TV and other pay-per-view programming. The revenues raised could range into the billions of dollars.

7. **Limit mortgage interest deductions to owners' primary residences.** At a time when essential services are faced with deep spending cuts, the state can't afford to provide subsidies to vacation homes and boats. Elimination of this loophole would raise approximately $85 million per year.

8. **Consider options for "swapping out" special fund for General Fund taxes.** General Fund revenues could be increased by lowering taxes that are dedicated to special funds and raising taxes that support general state programs and services.

9. **Take advantage of all available avenues for boosting tax compliance.** As part of improving the efficiency and effectiveness of state government, the Legislature should boost collection of taxes that are owed under current law. Measures that aim to boost compliance with existing tax laws include AB 178 (Skinner), AB 711 (Calderon), and AB 469 (Eng). Requiring withholding on payments to independent contractors would boost ongoing revenues by several hundred million dollars. In the long-term, requiring corporations to reconcile book and taxable income would increase transparency and corporate income tax revenues.