CALIFORNIA BUDGET PROJECT

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Corporate Tax Cuts Included in Recent Budget Agreements Will Result in $2 Billion a Year in Lost Revenues

SACRAMENTO – At a time when deep cuts are being proposed to education, health care, and human services, a new analysis by the California Budget Project (CBP), a nonpartisan public policy research group, finds that corporate tax cuts included in the September 2008 and February 2009 budget agreements will result in a loss of $2 billion a year, and potentially as much as $2.5 billion a year, in tax revenues, an amount equal to nearly a quarter of the income tax dollars currently paid by California corporations. The changes to the state's corporate income tax laws were made without public hearings, and result in very large tax cuts for a few California businesses.

The CBP's analysis, *To Have and Have Not*, examines three changes to California's corporate income tax laws in two recent budget agreements that mark a significant departure from longstanding policy, and the effect they will have on the state's tax revenue collections. These changes:

- Allow corporations to choose between two methods for determining the share of their profits that will be taxed in California. This change, known as elective single sales factor apportionment, will take effect beginning January 1, 2011;

- Allow corporations to transfer tax credits among related corporations. This change will apply to tax credits earned on or after July 1, 2008, or eligible credits earned in prior years, but shared credits can not be used to reduce a corporation's taxes until 2010; and

- Allow corporations to claim refunds on taxes they've already paid, known as net operating loss carrybacks. This change will allow losses to be "carried back" and used as a deduction in a prior year beginning in 2011

"These tax cuts were slipped into budget deals at the last minute, with no public input, during the worst budget crisis in the state's history," said Jean Ross, executive director of the CBP. "As lawmakers consider eliminating health coverage for over a million children and slashing funding for education, voters should ask whether we can afford billions of dollars of permanent tax breaks."

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The three proposals will result in large tax cuts for a very small number of large corporations:

- Nine corporations, dubbed the "lucky nine" in the CBP's analysis, will receive tax cuts averaging $33.1 million each in 2013-14 due to the adoption of the elective single sales factor apportionment, according to estimates by the Franchise Tax Board.

- Eighty percent of the benefits of elective single sales factor apportionment will go to the 0.1 percent of California corporations with gross incomes over $1 billion.

- Six corporations will receive tax cuts averaging $23.5 million each in 2013-14 from the adoption of credit sharing.

- Eighty-seven percent of the benefits of credit sharing will go to the 0.03 percent of California corporations with gross incomes over $1 billion.

The $2 billion a year revenue loss from the three permanent tax reductions is approximately equal to the 2009-10 combined savings from the Governor's proposals to eliminate the CalWORKs and Healthy Families Programs and to cut SSI/SSP grants.

A copy of *To Have and Have Not* is available at www.cbp.org.

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The California Budget Project (CBP) engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions. Please visit the CBP's website at www.cbp.org.