

Investment in Communities Requires a Close Look at California’s Tax & Revenue System

MARCH 2022 | BY KAYLA KITSON

Californians deserve to have quality education and affordable health care, child care, and housing. To support such services, California’s tax and revenue system needs to generate adequate ongoing resources. Policymakers must regularly examine the state’s revenue system and revise it as needed to fairly raise enough revenue to support services and investments that help Californians thrive in their communities.

California largely relies on three revenue sources — the personal income tax, the sales and use tax, and the corporation tax. Together, they make up 95% of General Fund revenues. General

Fund money may be used for any purpose and is the primary source of state support for health and human services, K-12 education, and higher education.

The personal income tax provides more than two-thirds of General Fund revenue. Individuals are taxed on income from sources such as wages, salaries, investments, pensions, and certain types of businesses. Higher portions of income are subject to higher tax rates, ranging from 1% to 12.3%, plus a 1% surtax on income over \$1 million for a mental health services special fund.

CALIFORNIA’S GENERAL FUND MONEY IS THE PRIMARY SOURCE OF STATE SUPPORT FOR



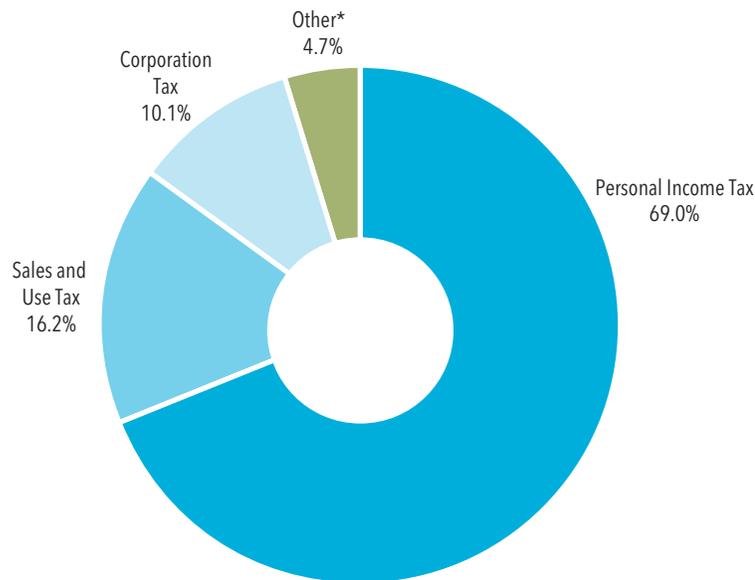
HEALTH AND HUMAN SERVICES



K-12 EDUCATION AND HIGHER EDUCATION

The Personal Income Tax, Sales and Use Tax, and Corporation Tax Provide 95% of California's General Fund Revenues

Projected General Fund Revenues in Enacted 2021-22 Budget = \$178.8 Billion



* Includes Insurance Tax, Alcoholic Beverage Taxes and Fees, Cigarette Tax, Motor Vehicle Fees, and other sources of revenue.
Source: Department of Finance

The next largest revenue source for California is the sales and use tax, making up about one-sixth of General Fund revenues. The sales and use tax is levied on purchases of tangible goods in the state — not services — or the in-state use of goods purchased elsewhere. The statewide sales and use tax rate is 7.25%, but local governments may levy additional taxes.

California's third-largest revenue source is the corporation tax, providing about one-tenth of General Fund revenues. This is a tax levied on the California profits of corporate businesses at a rate of 8.84%, or 10.84% for financial corporations. California generally taxes the share of a corporation's income equal to the proportion of their sales that are attributable to California. The

remainder of General Fund revenues come from taxes on insurance company premiums, alcoholic beverages, and cigarettes as well as non-tax revenue sources.

It is critical for policymakers and advocates to understand how California raises revenue and identify opportunities to improve the state's tax and revenue system to equitably generate enough revenues to support services Californians need to thrive. This *Fact Sheet* is one of a series of publications looking at: the state's tax and revenue system, tax breaks for the wealthy and large corporations, and how tax policies can better promote economic security for Black, Latinx, Asian, American Indian, and undocumented Californians, and families with low incomes.