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Is a Tax Break the Best Way to Reward California's Teachers?

Governor Davis' May Revision includes a proposal to exclude teachers' salaries from state personal income taxation. Credentialed teachers and administrators in California's public elementary and secondary schools would not pay taxes on the income they receive from teaching. Excluding teachers' income from taxation would cost \$545 million in 2000-01.

The Governor's proposal provides vastly disparate benefits to similarly situated teachers.

The benefit received by individual teachers would depend on whether they are married, the income earned by a spouse (if any), whether they have children, whether they own or rent, and whether they itemize deductions for state and federal purposes. Take, for example, three teachers at the same school earning the exact same salary of \$45,000 per year:

☆ Roberto is a single parent of one child, a renter, and does not itemize his deductions. He receives a benefit worth \$709.

☆ Meredith is single, a renter, and does not itemize her deductions. She receives a benefit worth \$2,170.

☆ Susanna is married to a paramedic who also earns \$45,000 per year. They have two children, are buying their house, and claimed the average amount of itemized deductions for taxpayers in their income group. She receives a benefit worth \$2,705.

Does it make sense to provide vastly different benefits to teachers with the same experience, in the same schools, who earn exactly the same income?

The Governor's proposal establishes a precedent for providing similar treatment to other occupations. If enacted this year for teachers, other worthy professionals are sure to ask for similar treatment next year. Is it fair to tax police, firefighters, health care workers, and others and not tax teachers? The revenue loss from extending similar treatment to other groups of workers would significantly increase the loss to the state budget and limit the funds available to support education and other essential programs in future years.

The Governor's proposal could actually reduce school funding. Under certain circumstances, the Proposition 98 school funding guarantee depends on the growth in state General Fund revenues. Since the teacher pay tax break would reduce state revenues, it could under these circumstances reduce the amount of money that goes to support education.

All things being equal, higher paid teachers stand to benefit more. Because of California's progressive tax structure, higher paid teachers will receive larger benefits than lower paid teachers. To the extent new teachers earn lower salaries, the exclusion provides minimal incentive for individuals to enter the teaching profession.