



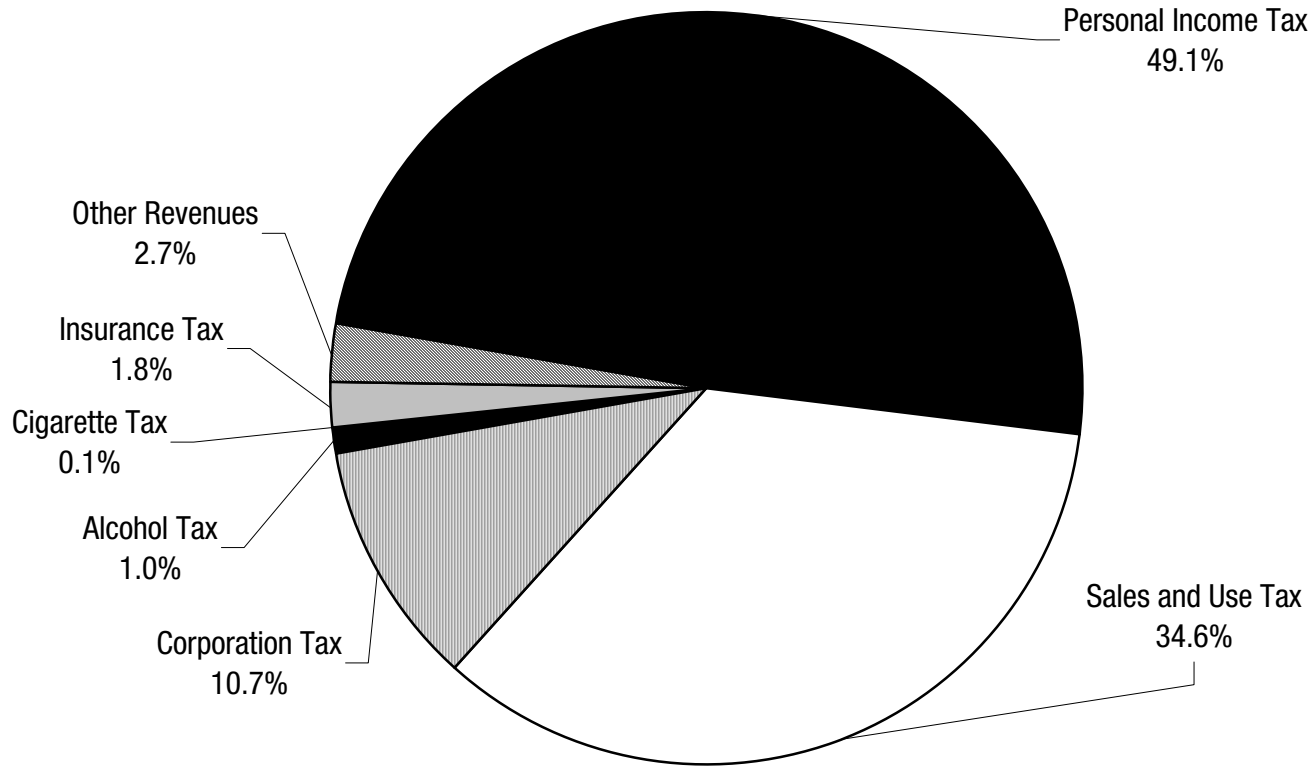
CALIFORNIA BUDGET PROJECT

California's Tax System

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THE CALIFORNIA BUDGET PROJECT
February 2009

The Personal Income Tax Provides Nearly Half of 2009-10 General Fund Revenues

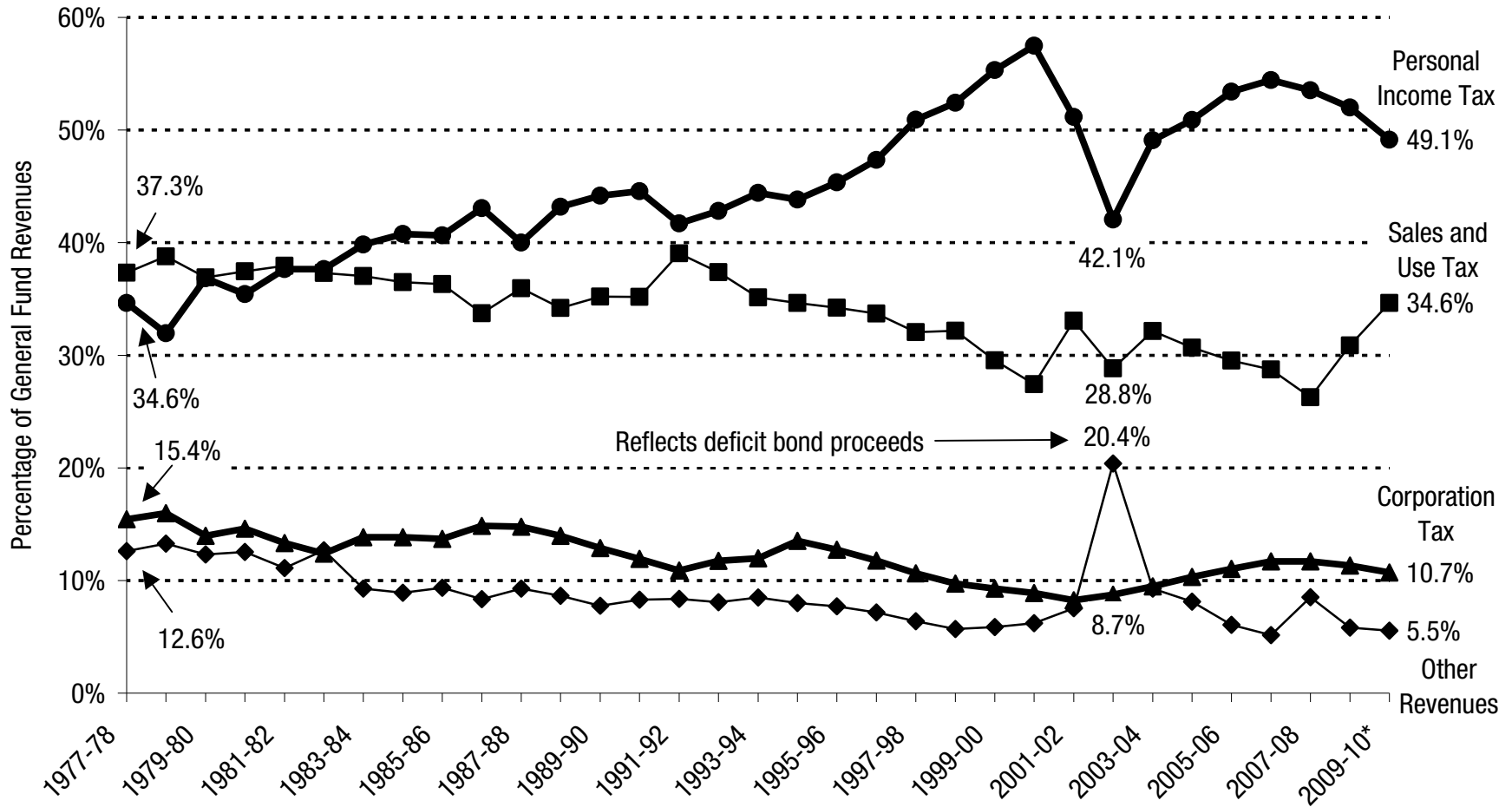


Projected 2009-10 General Fund Revenues = \$97.7 Billion

Note: Includes loans and transfers.
Assumes that all of the Governor's proposed 2008-09
and 2009-10 revenue changes are enacted.

Source: Legislative Analyst's Office

The Personal Income Tax Provides the Largest Share of General Fund Revenues

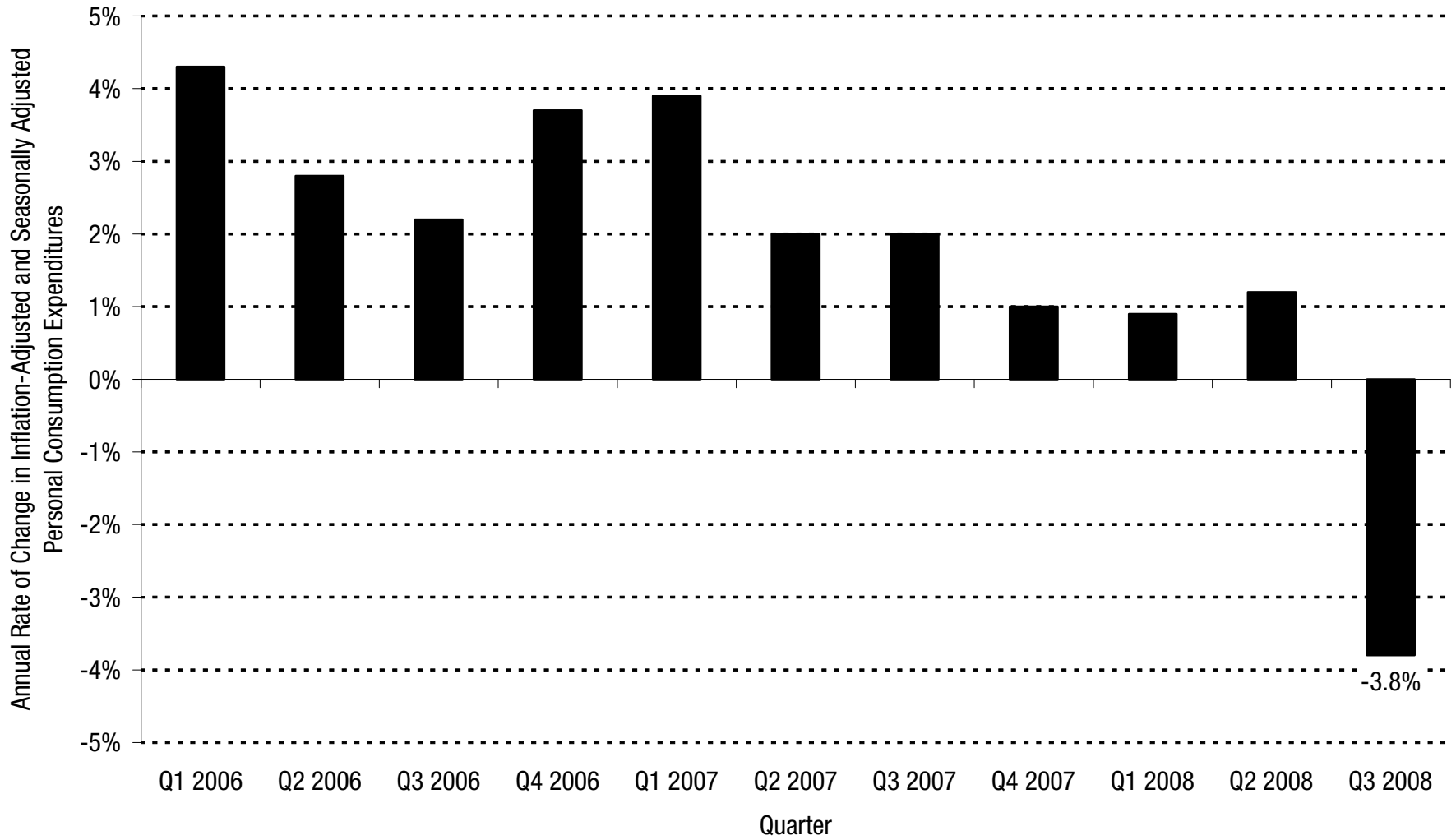


* 2008-09 estimated and 2009-10 projected.

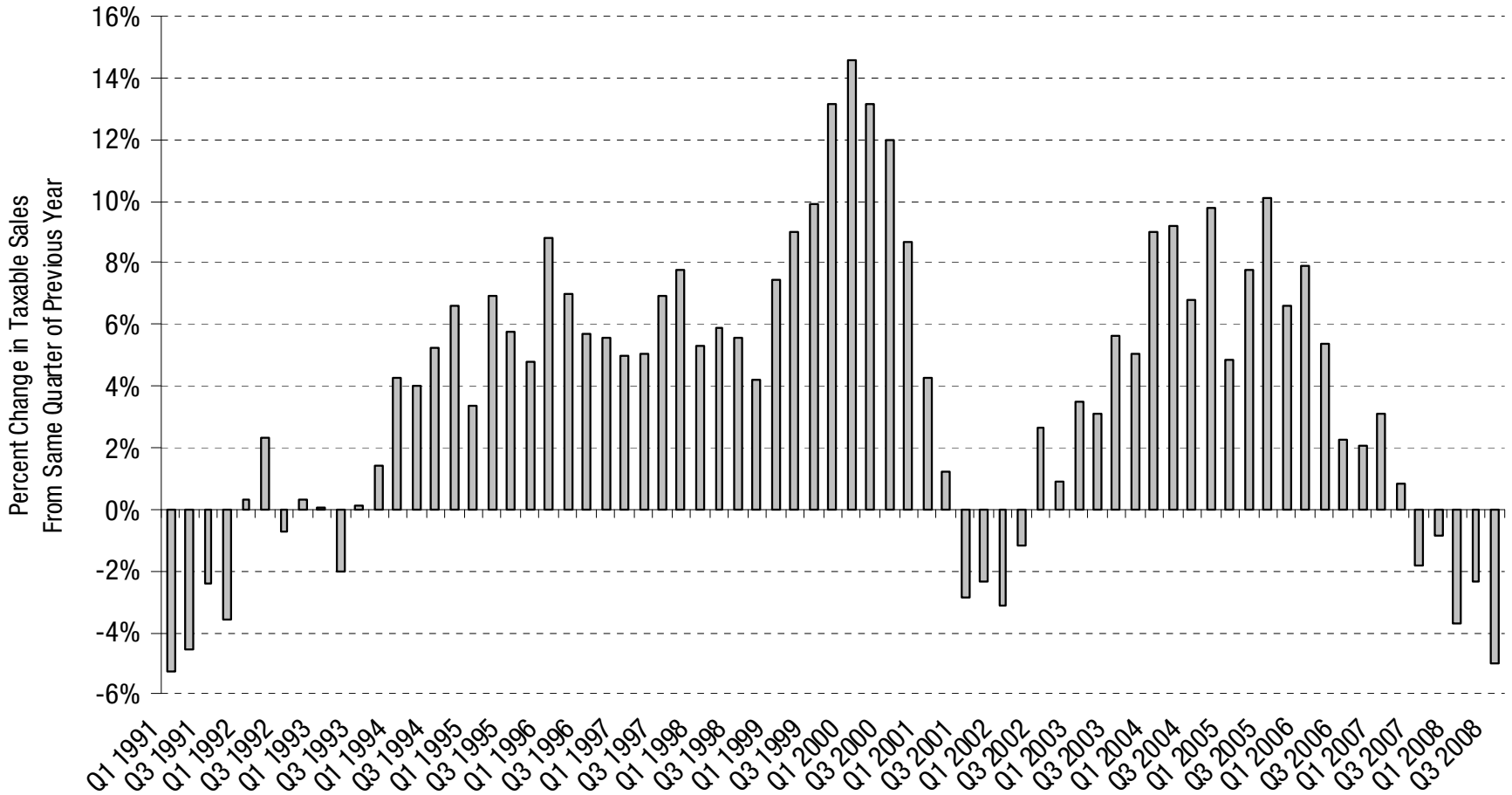
Note: Excludes loans and transfers. Assumes that all of the Governor's proposed 2008-09 and 2009-10 revenue changes are enacted.

Source: Legislative Analyst's Office

Personal Consumption Spending Fell in the Third Quarter of 2008 by the Largest Percentage Since 1980



California's Third Quarter 2008 Decline in Taxable Sales Was the Largest Since 1991



Note: 2008 data are preliminary.
Source Department of Finance

California's Median Home Price Has Plunged Since Peaking in Spring 2007

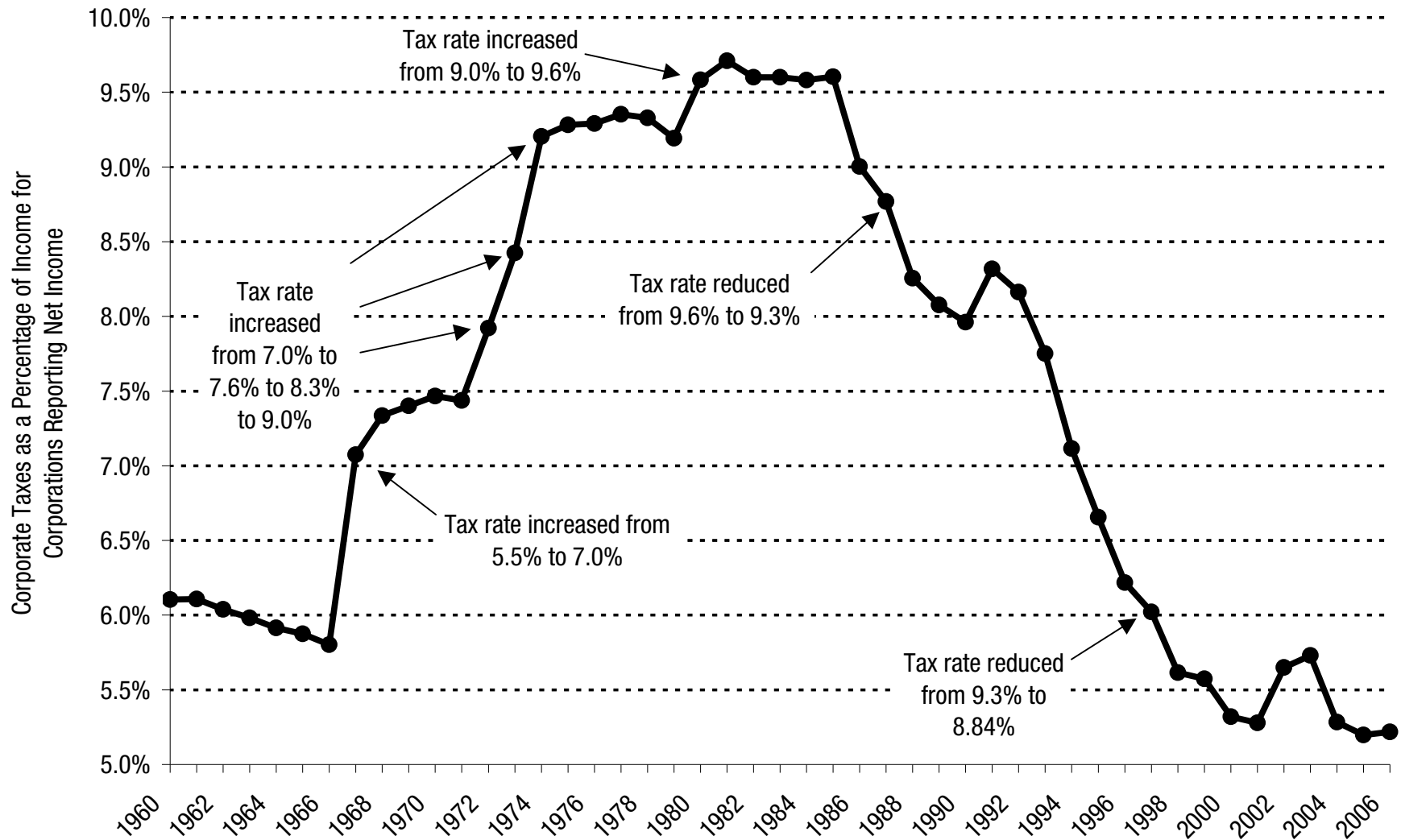


Note: Includes new and resale condominiums and single-family detached homes.
Source: MDA DataQuick

California's Tax System Contributes to the Budget Gap

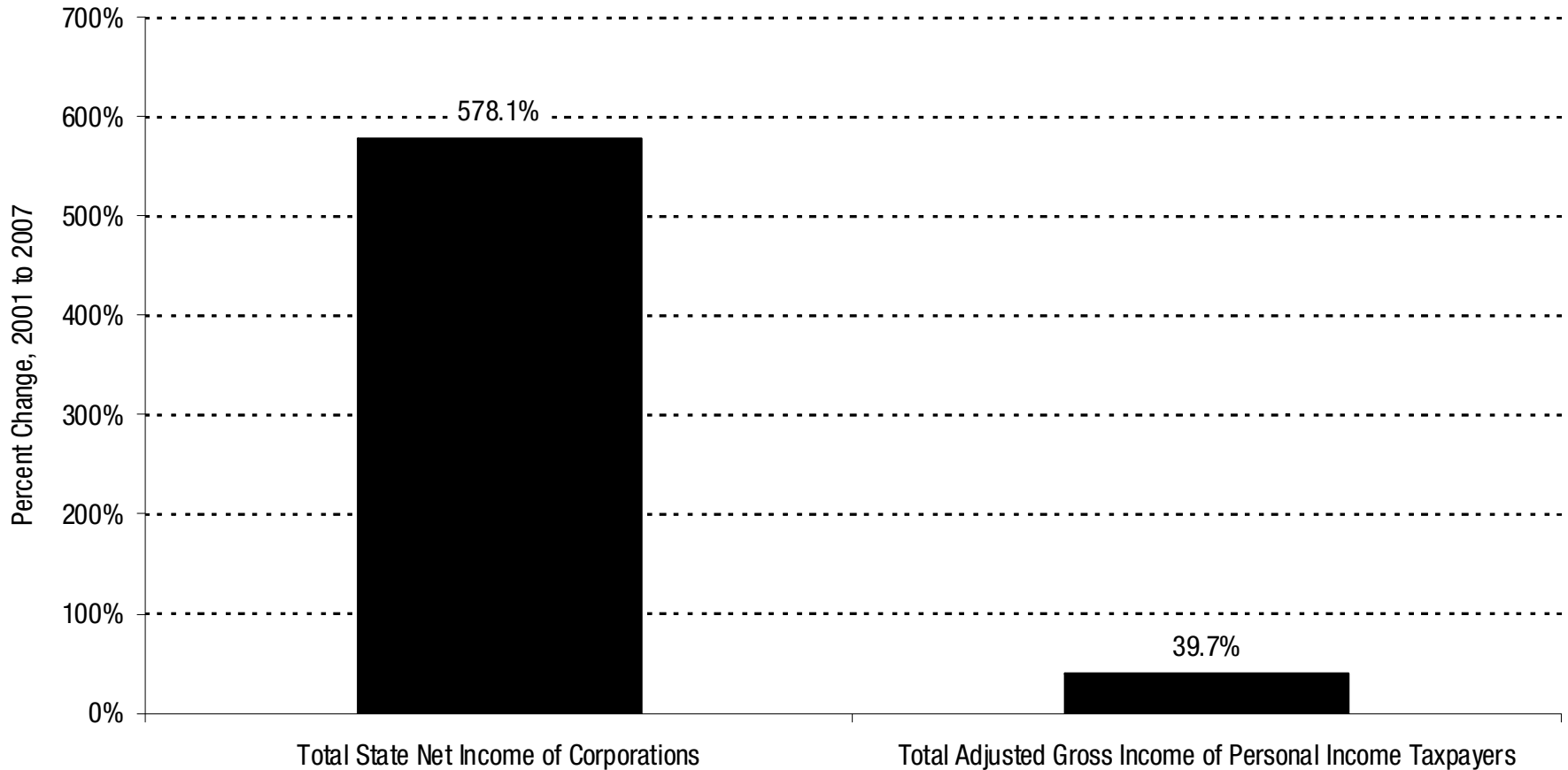
- Tax policies and economic trends contribute to the state's budget problems:
 - Corporate income taxes have declined over time as a share of General Fund revenues and as a share of corporate profits. If corporations had paid the same share of their profits in corporate taxes in 2006 as they did in 1981, corporate tax collections would have been \$8.4 billion higher.
 - The yield of the state's sales tax has declined over time, reflecting the shift in economic activity from goods to services and the rise of Internet and mail-order sales that escape taxation. If taxable purchases accounted for the same share of personal income in 2007-08 as they did in 1966-67, the state would have collected an additional \$16.4 billion in sales tax revenues.
 - The phase-out of the federal estate tax will cost the state over \$1.1 billion in 2009-10. Current law reinstates the tax in 2011; however, most experts believe that the state portion of the tax will not be restored.

The Share of Corporate Income Paid in Taxes Has Fallen by Nearly Half Since 1981



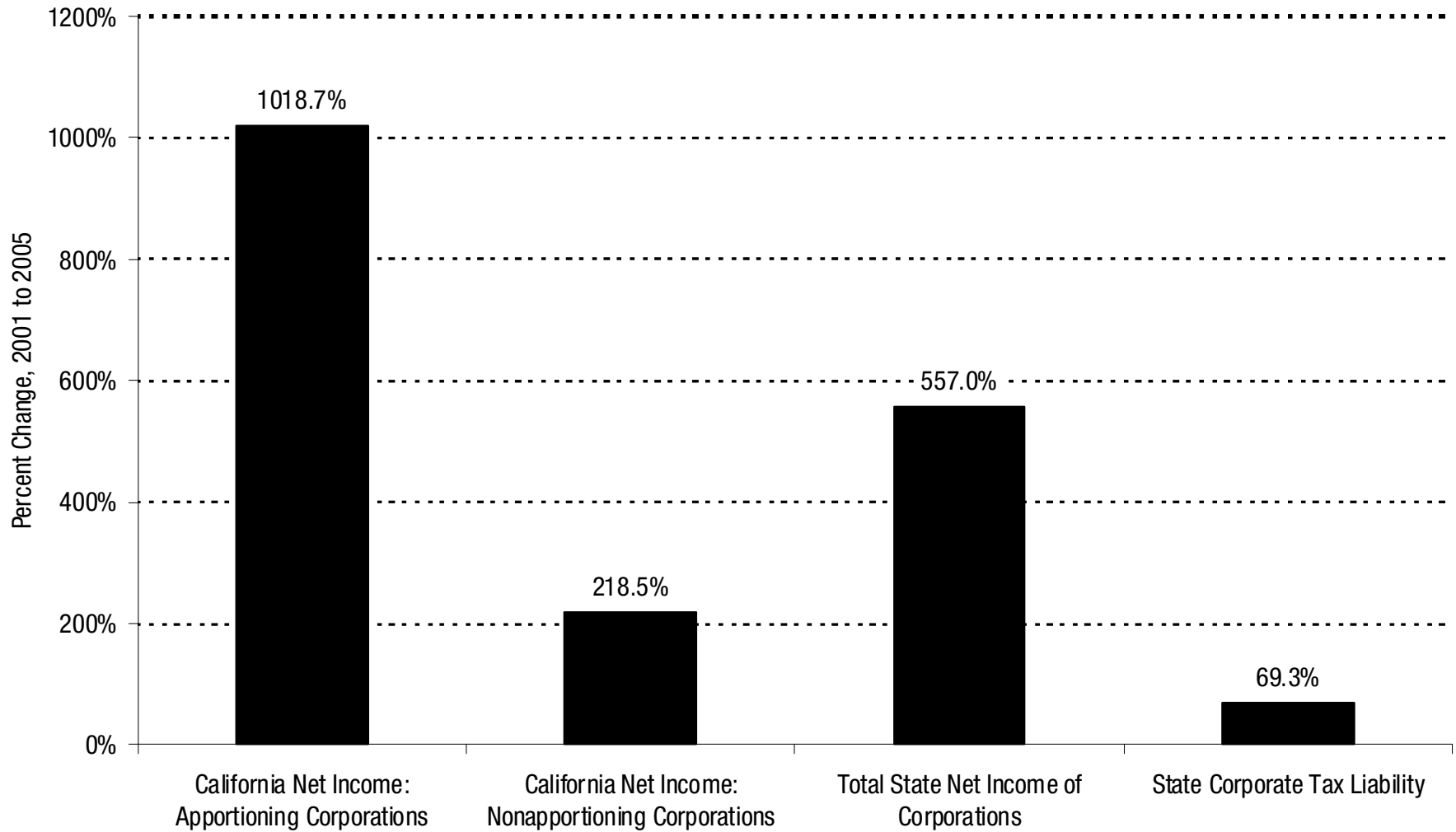
Source: Franchise Tax Board

Growth in Corporate Income Far Outstripped That of Adjusted Gross Income During the Economic Recovery



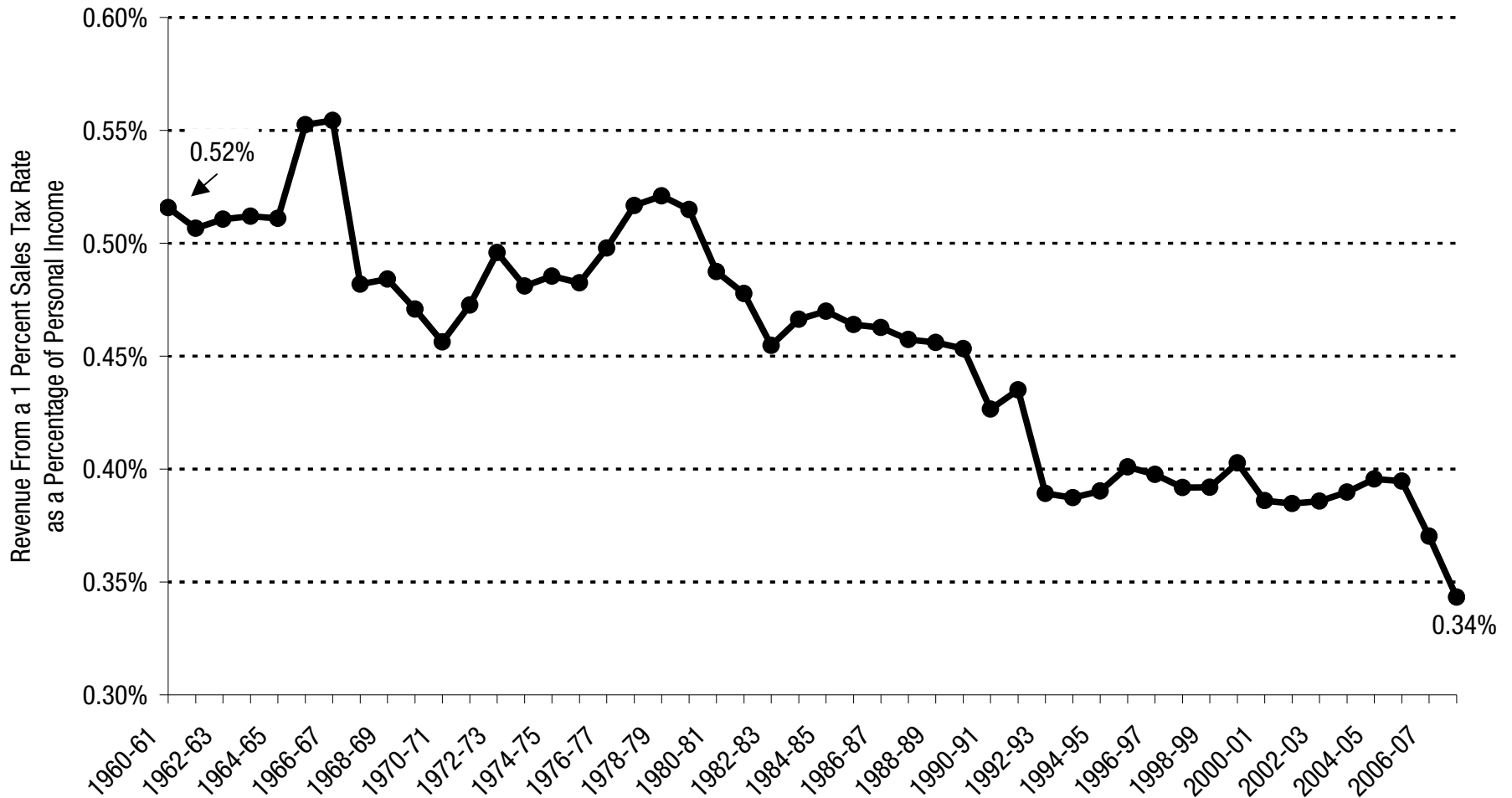
Note: All data are for California. Corporate and adjusted gross income reflect income reported for tax purposes.
Source: Franchise Tax Board

Recent Growth in Corporate Profits Has Outpaced Growth in Corporate Tax Payments



Source: Franchise Tax Board

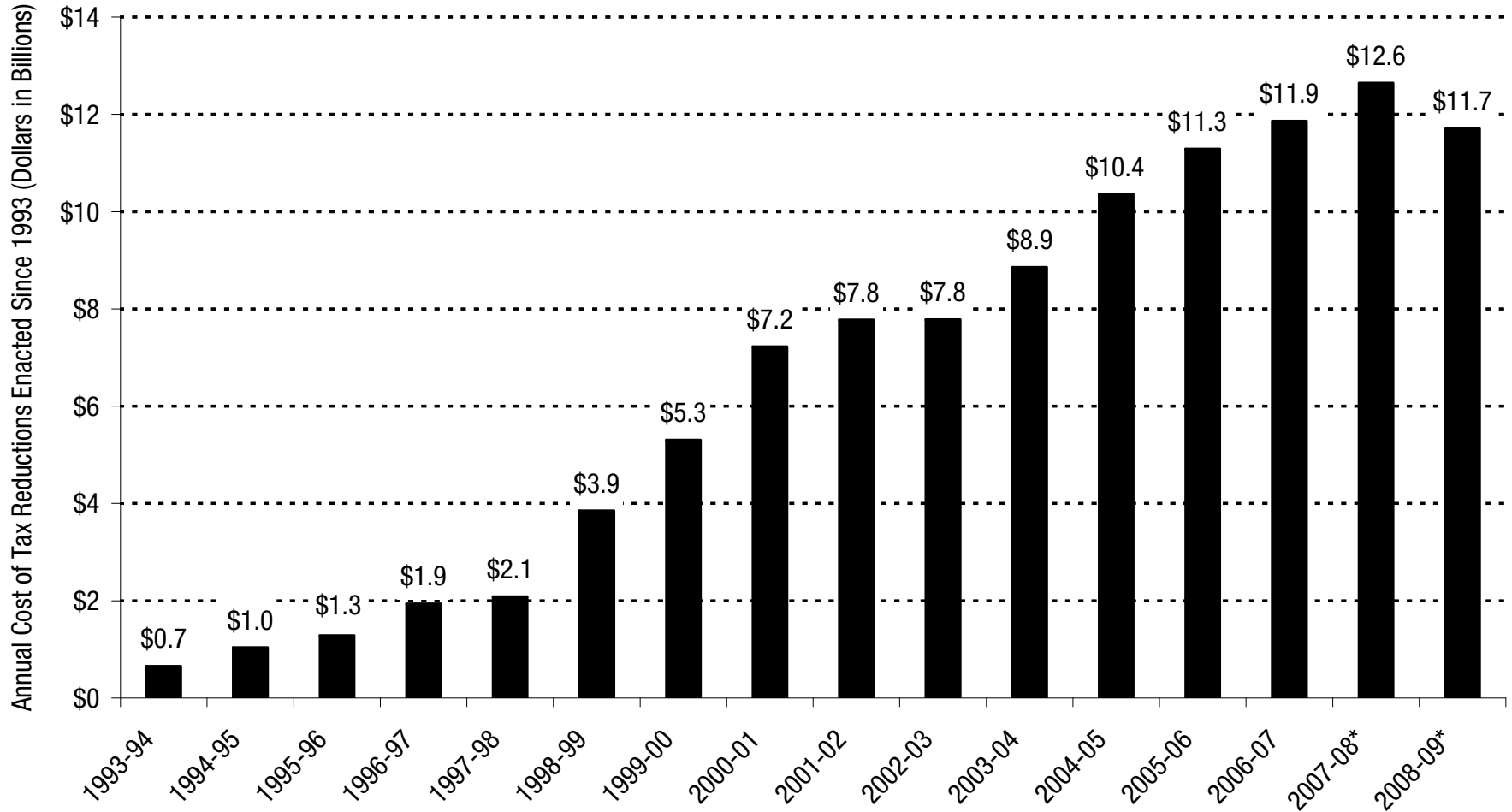
Sales Tax Collections Have Declined as a Share of Personal Income



Source: Board of Equalization, Department of Finance, Legislative Analyst's Office, and US Bureau of Economic Analysis

Tax Cuts Enacted Since 1993 Will Cost \$11.7 Billion in 2008-09

2008-09 Drop Reflects Suspension of Net Operating Loss Deductions

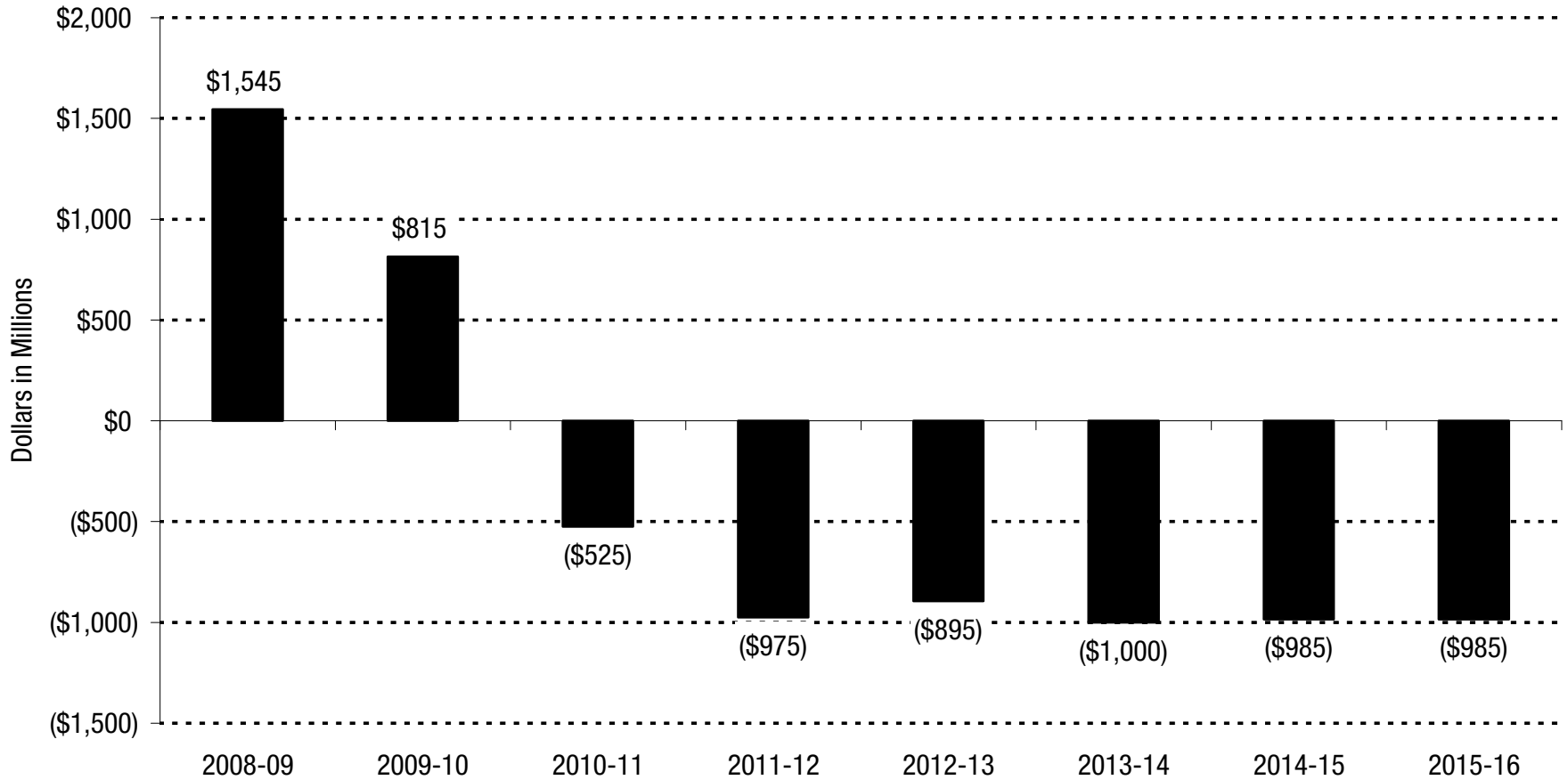


*2007-08 and 2008-09 estimated.

Source: Assembly Revenue and Taxation Committee, Board of Equalization, Department of Finance, Franchise Tax Board, and Legislative Analyst's Office

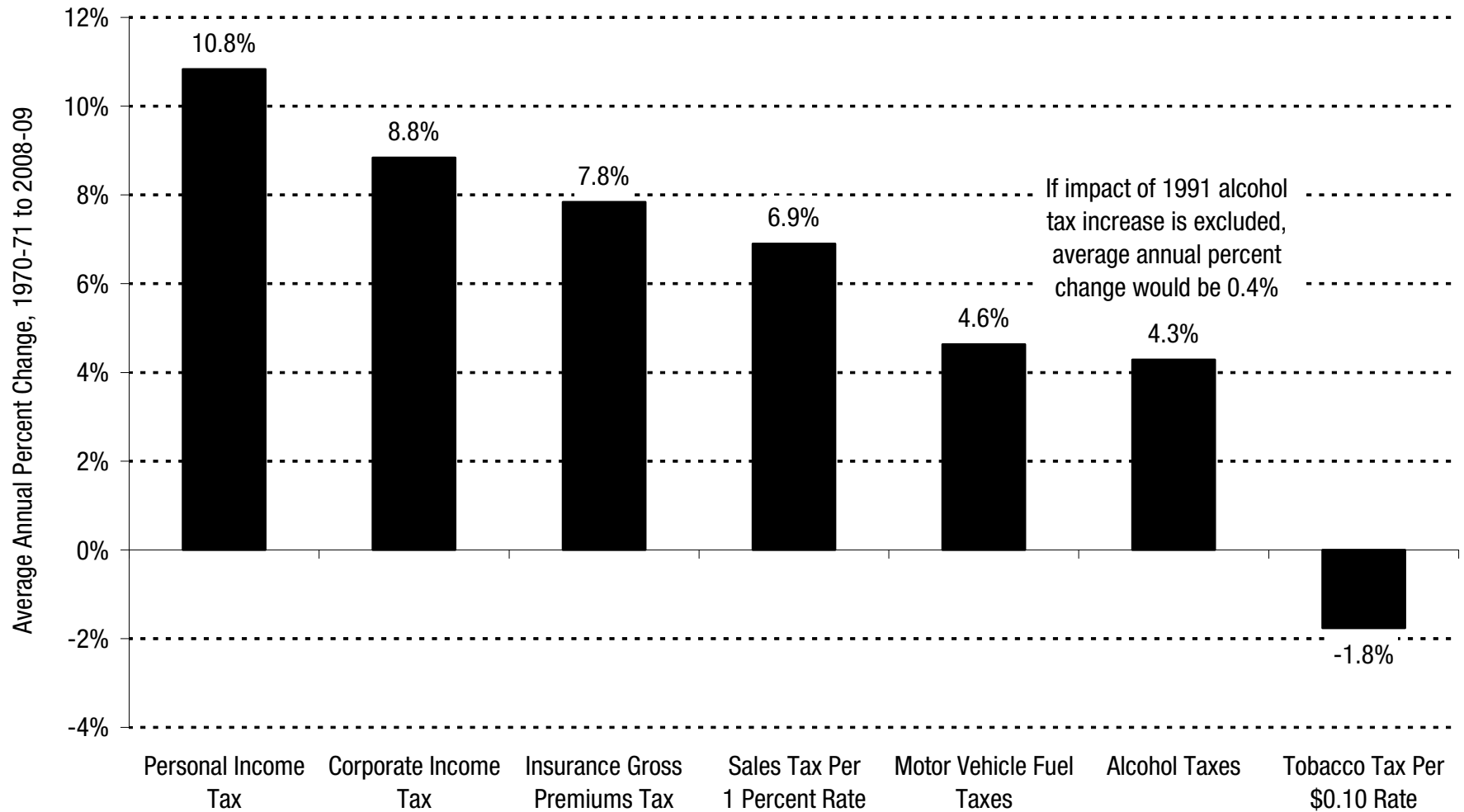
2008 Tax Deal Will Lose More Than \$3 Billion Over Eight Years

Losses Will Continue Permanently



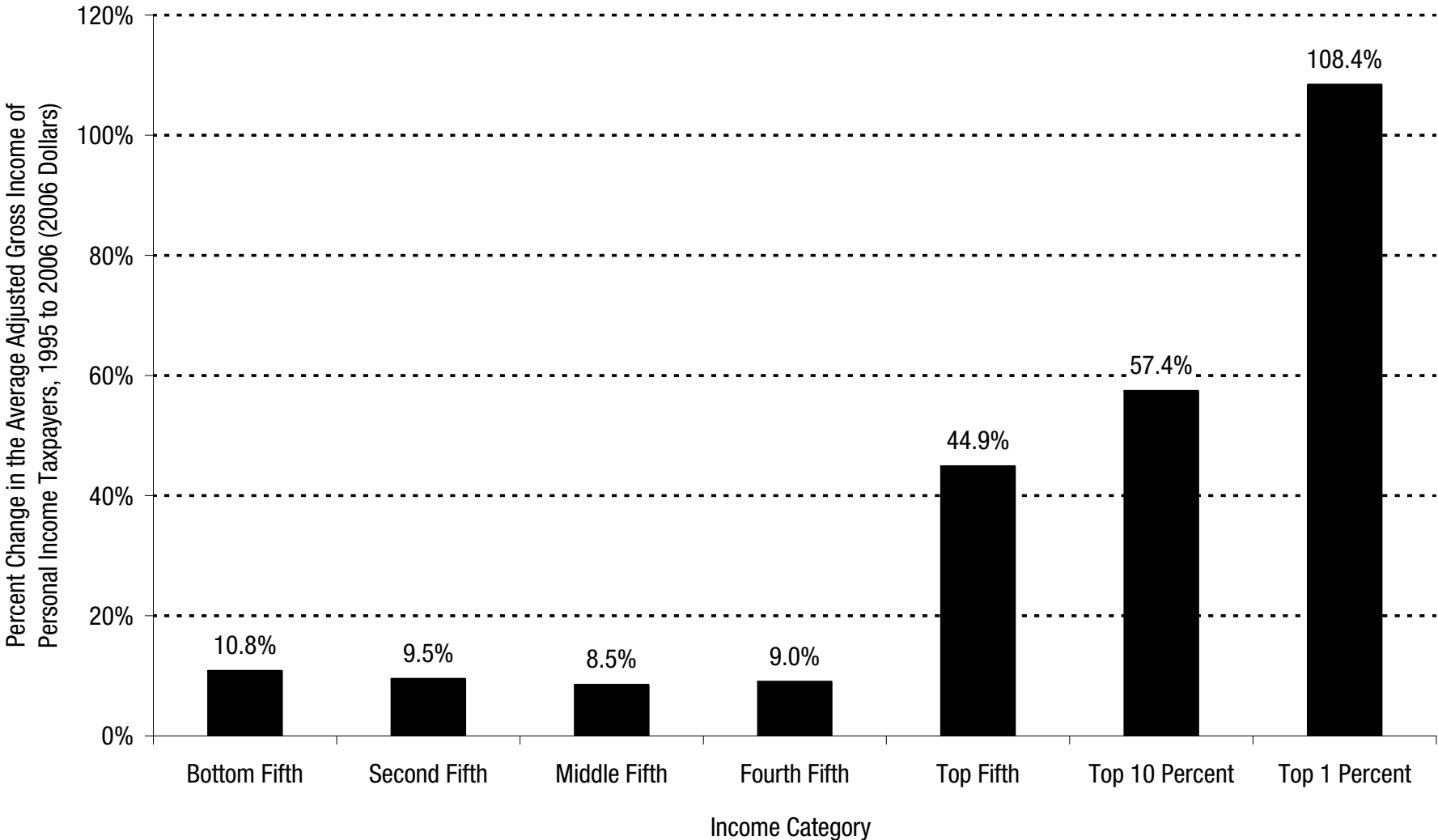
Net Cost of Net Operating Loss and Business Tax Credit Provisions in the 2008 Budget Agreement

Personal Income Tax Posts the Highest Average Annual Growth Rate Over Time

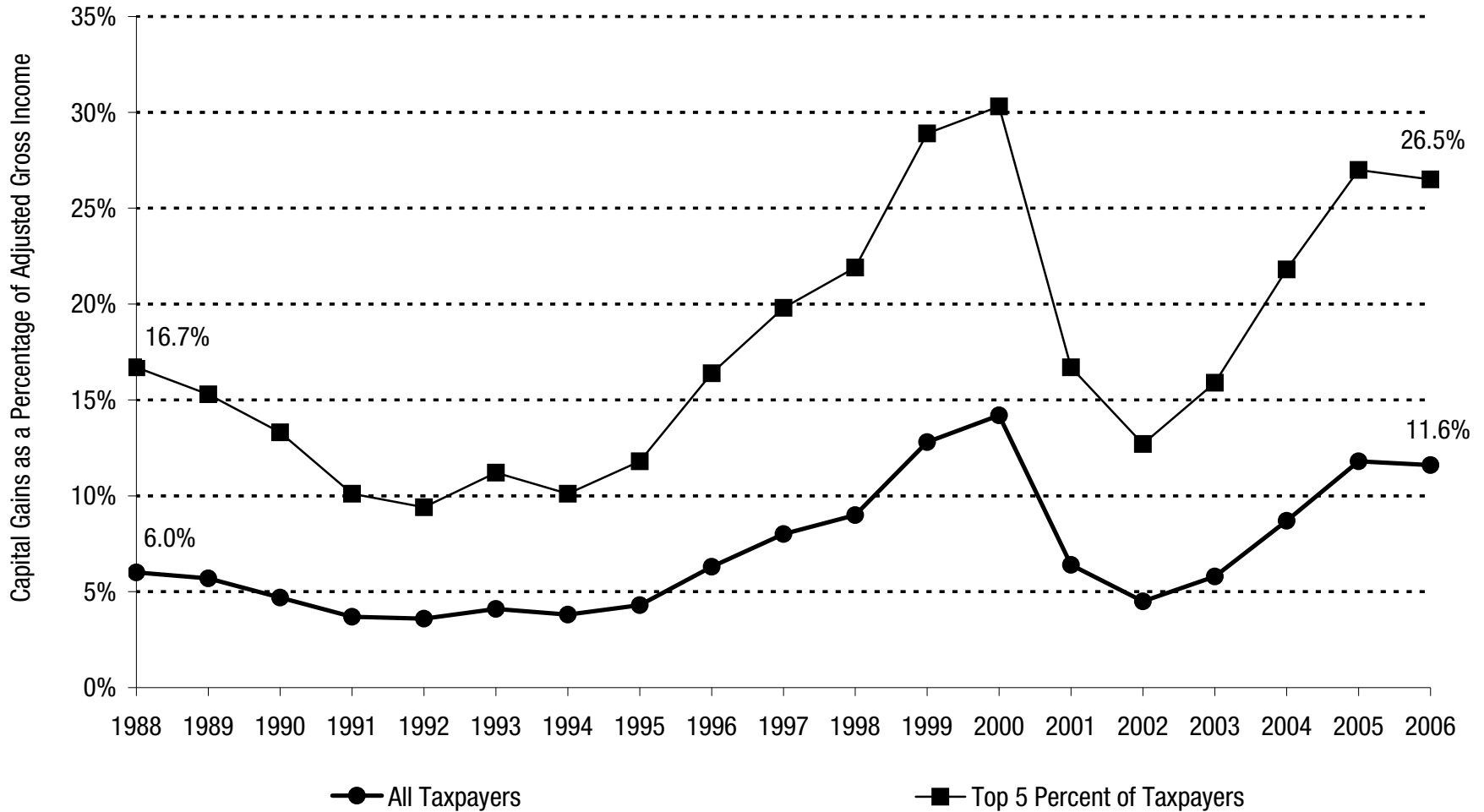


Note: 2008-09 revenues estimated.
Source: CBP analysis of Legislative Analyst's Office data

The Gains of High-Income Taxpayers Far Outpaced Those of Other Taxpayers, 1995 to 2006

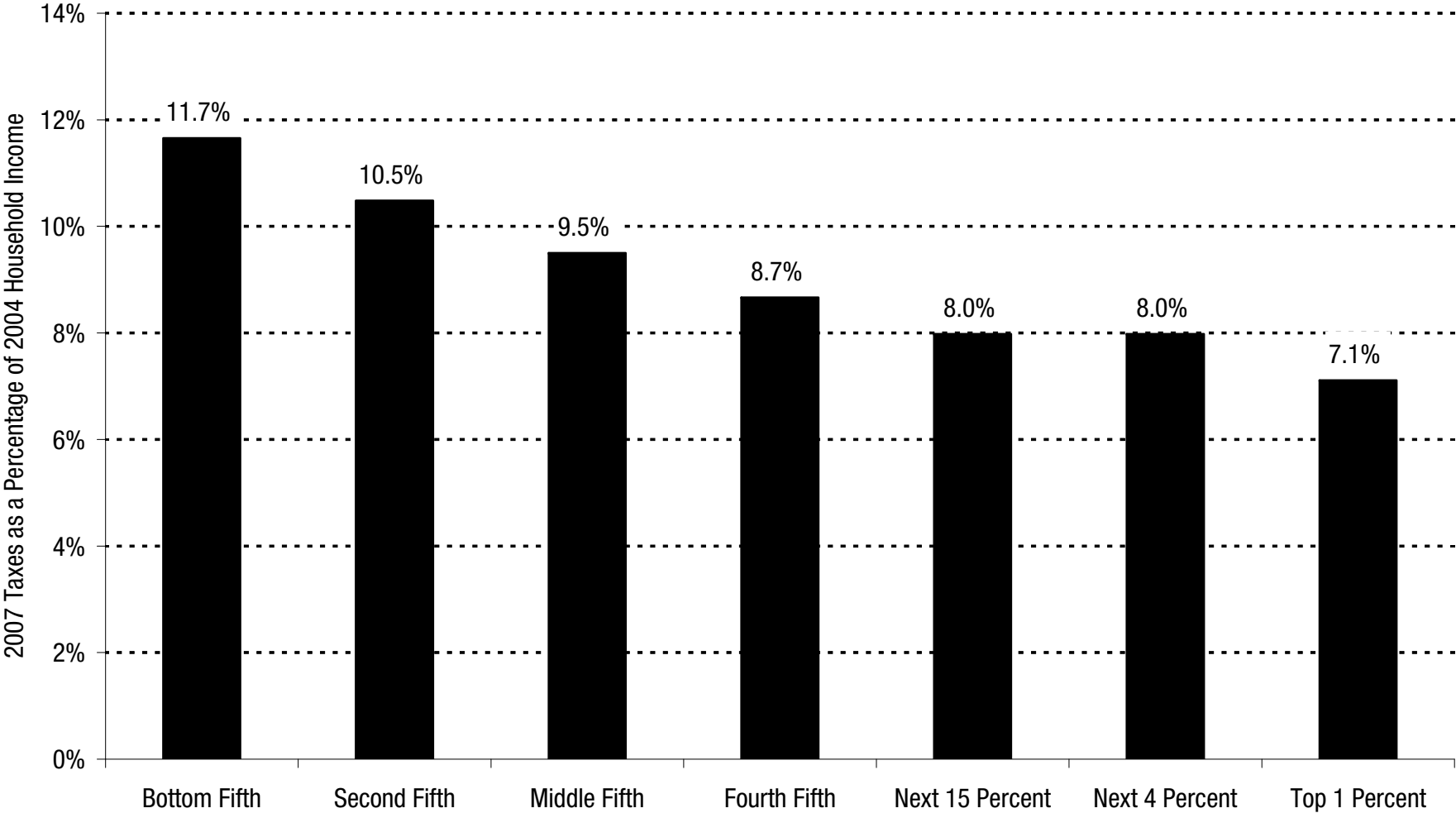


The Share of Total Adjusted Gross Income From Capital Gains Nearly Doubled Between 1988 and 2006



Source: Franchise Tax Board

Lowest-Income Households Pay the Largest Share of Their Income in State and Local Taxes



Note: Includes offset for federal deductibility of state taxes.
Source: Institute on Taxation and Economic Policy

California Taxes in 2007
As Shares of Family Income for All Taxpayers, 2004 Income Levels

Income Group	Bottom Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Top 20%		
					Next 15 Percent	Next 4 Percent	Top 1 Percent
Average Income in Group	\$11,100	\$23,800	\$38,000	\$62,300	\$113,500	\$260,000	\$1,587,200
Income Range	Less than \$18,000	\$18,000 – \$30,000	\$30,000 – \$48,000	\$48,000 – \$81,000	\$81,000 – \$170,000	\$170,000 – \$430,000	\$430,000 or more
Sales, excise & gross receipts taxes	8.4%	7.6%	6.1%	4.7%	3.3%	1.9%	0.8%
Property taxes	3.1%	2.4%	2.4%	2.4%	2.4%	2.0%	1.0%
Property taxes on families	3.0%	2.4%	2.3%	2.3%	2.3%	1.7%	0.5%
Business property taxes	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.4%
Income taxes	0.1%	0.5%	1.3%	2.1%	3.5%	5.3%	7.6%
Personal income tax	0.0%	0.5%	1.2%	1.9%	3.3%	5.0%	7.1%
Corporate income tax	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.6%
Total Before Federal Offset	11.7%	10.6%	9.7%	9.2%	9.2%	9.2%	9.4%
Federal Itemized Deduction Offset	-0.0%	-0.1%	-0.2%	-0.6%	-1.2%	-1.2%	-2.3%
Net After Federal Offset	11.7%	10.5%	9.5%	8.7%	8.0%	8.0%	7.1%

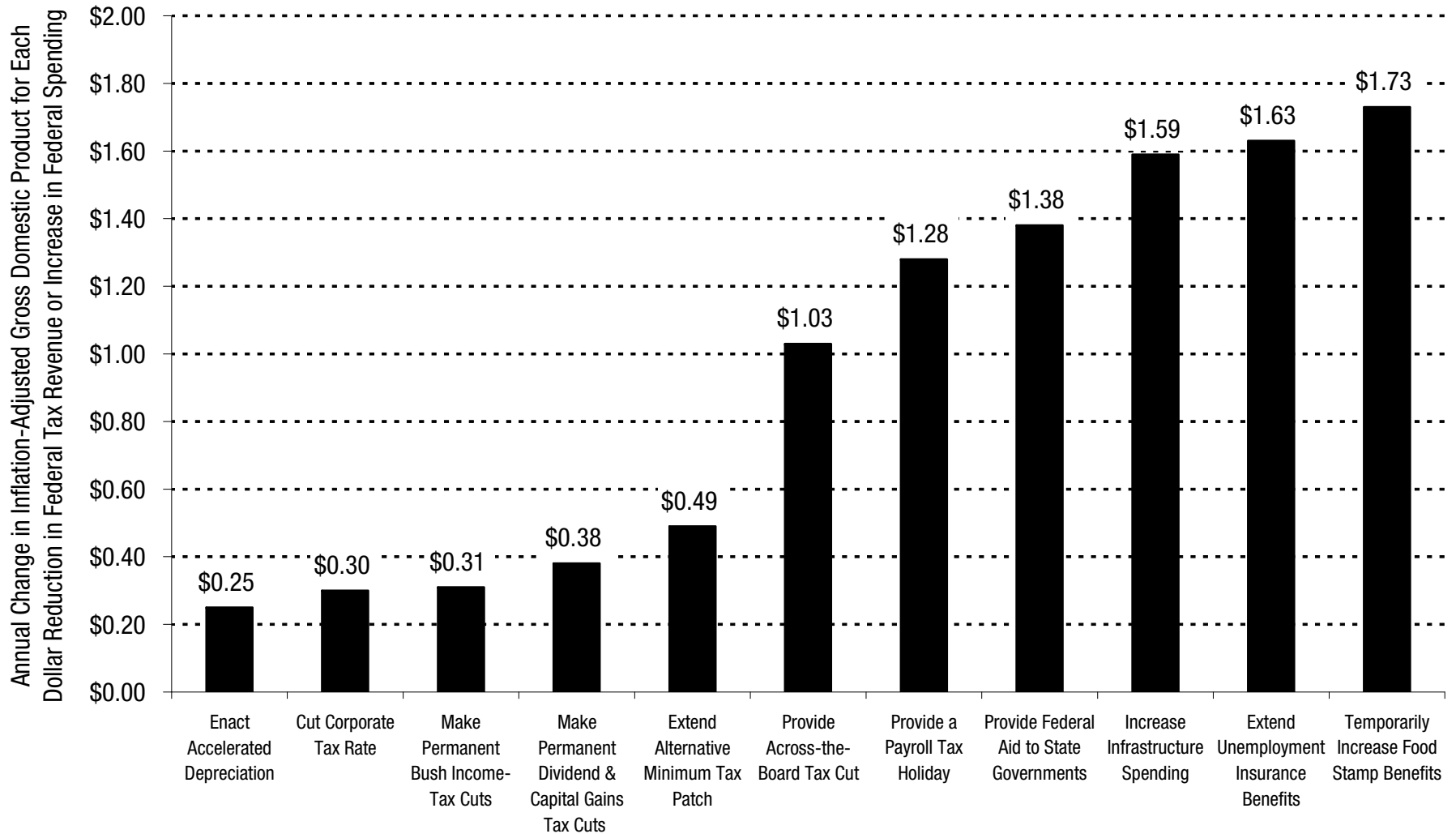
Source: Institute on Taxation and Economic Policy

How Does California Compare?

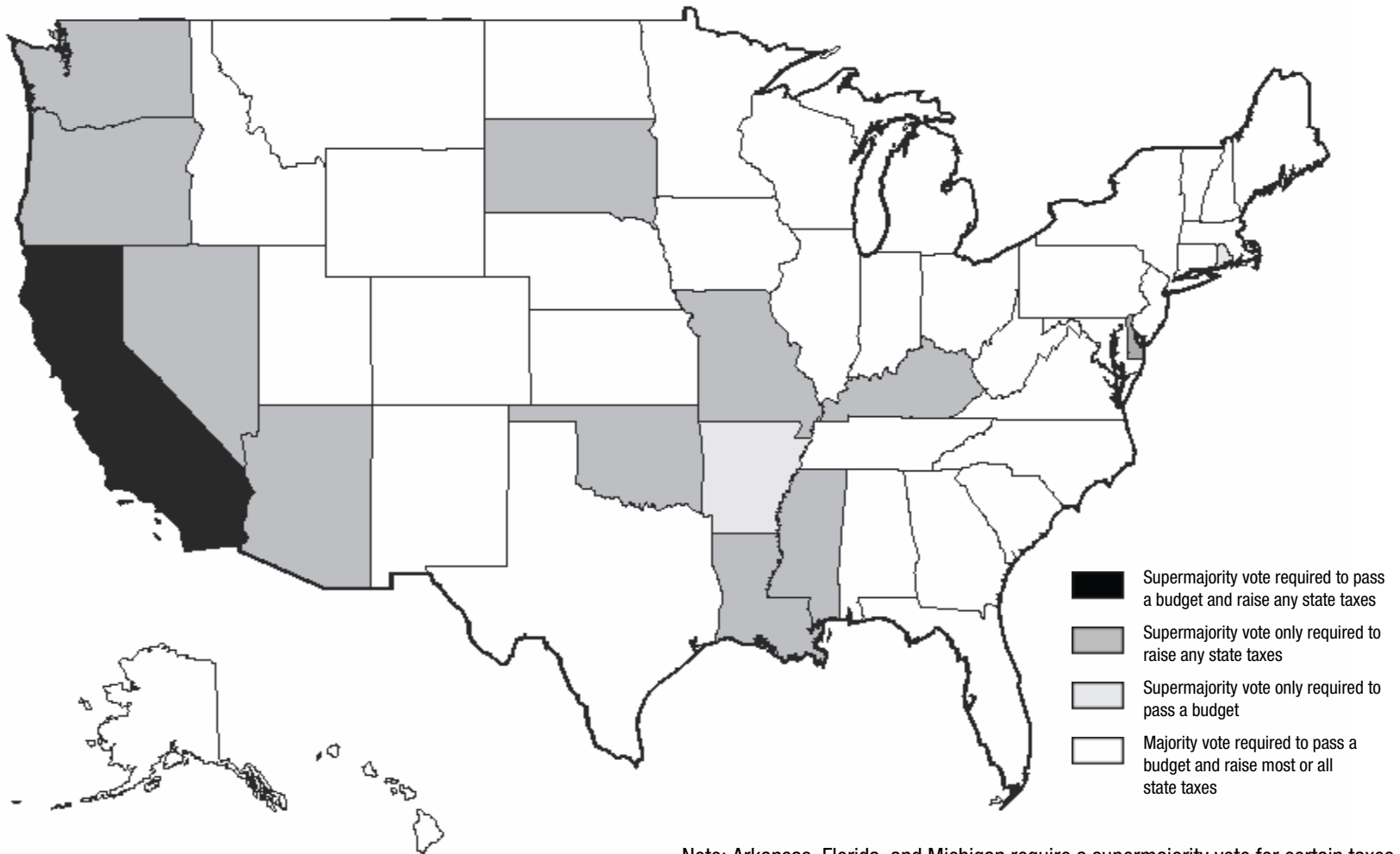
Revenues as a Percentage of Personal Income

	California Rank	California	US
Total State and Local Own Source (2005-06)	17	16.96%	16.29%
Total State and Local Taxes (2005-06)	13	11.73%	11.23%
State Taxes (2006-07)	14	7.76%	6.65%
Local Taxes (2005-06)	32	3.76%	4.52%
State and Local General Sales Taxes (2005-06)	16	2.89%	2.65%
State and Local Property Tax (2005-06)	36	2.67%	3.37%
State General Sales Tax (2006-07)	23	2.21%	2.10%
State Motor Fuels Taxes (2006-07)	45	0.23%	0.32%
State Tobacco Tax (2006-07)	44	0.07%	0.14%
State Alcoholic Beverage Sales Taxes (2006-07)	39	0.02%	0.05%
State Individual Income Tax (2006-07)	4	3.61%	2.36%
State Corporate Income Tax (2006-07)	6	0.75%	0.47%

Federal Spending on Unemployment Insurance and Food Stamp Benefits Has the Biggest “Bang for the Buck”



California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.
Source: National Conference of State Legislatures