A Look at California’s Tax System: What Does It Do for Us and How Can It Work Better?

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FAMILY ECONOMIC SECURITY PARTNERSHIP
COORDINATING COUNCIL MEETING
calbudgetcenter.org
The State Budget Directs Dollars to Communities Across California Through Three Funding Categories

Total Enacted 2016-17 Expenditures

Local Assistance: Schools, Community Colleges, CalWORKs Families, Medi-Cal Doctors, and Child Care Providers, Among Others

State Operations: CSU and UC, State Prisons, and Other Recipients

Capital Outlay: Highways, Water Supply, Flood Control, and Other Infrastructure Projects

Note: Reflects federal funds as well as state General Fund, special fund, and bond fund dollars.
Source: Department of Finance
More Than 7 in 10 State Dollars Support Health and Human Services or Education
Proposed 2016-17 General Fund and Special Fund Expenditures = $167.6 Billion

Source: Department of Finance
Our tax system is a means to an end.

Taxes generate resources that allow us to strengthen our communities and economy.
California’s tax system as a whole is regressive.
California’s Lowest-Income Families Pay the Largest Share of Their Incomes in State and Local Taxes

Average Percentage of Family Income Paid in State and Local Taxes

<table>
<thead>
<tr>
<th>Group</th>
<th>Average Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom Fifth</td>
<td>10.5%</td>
</tr>
<tr>
<td>Second Fifth</td>
<td>9.0%</td>
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<tr>
<td>Middle Fifth</td>
<td>8.2%</td>
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<tr>
<td>Fourth Fifth</td>
<td>7.7%</td>
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<tr>
<td>Next 15 Percent</td>
<td>7.4%</td>
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<tr>
<td>Next 4 Percent</td>
<td>8.7%</td>
</tr>
<tr>
<td>Top 1 Percent</td>
<td>8.7%</td>
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</tbody>
</table>

Note: Data are for nonelderly taxpayers only and include the impact of Proposition 30 temporary tax rates and the offset for federal deductibility of state and local taxes. Source: Institute on Taxation and Economic Policy
Our Tax System Will Become More Regressive When the Proposition 30 Taxes Expire

Average Percentage of Family Income Paid in State and Local Taxes

<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Average Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom Fifth</td>
<td>10.4%</td>
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<tr>
<td>Second Fifth</td>
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Note: Data are for nonelderly taxpayers only and include the offset for federal deductibility of state and local taxes. Source: Institute on Taxation and Economic Policy
Why should we be concerned that California’s tax system is regressive?
Only California’s Wealthiest Households Saw Substantial Increases in Average Income Between 1987 and 2014

Percent Change in Average Adjusted Gross Income, 1987-2014, Inflation-Adjusted

Source: Franchise Tax Board
On Average, the Top 1 Percent Earns in About One Week
What Middle-Income Residents Earn in One Year
Californians’ Average Adjusted Gross Income, 2014

Note: Figures are in 2014 dollars and are rounded to the nearest hundred.
Source: Franchise Tax Board
California’s Top 1 Percent Holds Nearly One-Quarter of State Income
About 160,000 Households Had Roughly 24 Percent of Total Income in 2014
California’s Top 1 Percent Holds More Income Than the Bottom 60 Percent

About 160,000 Households Had Roughly 24 Percent of Total Income in 2014
California’s tax system is not meeting the needs of our growing, changing population.
California Faced Significant Budget Shortfalls in Nine of the Past 17 Years

State Budget Shortfalls or Surpluses

Source: Department of Finance
California made deep cuts to core public systems during and after the Great Recession.
Spending Per Student Declined by 20 Percent Between 2007-08 and 2011-12

K-12 Proposition 98 Spending Per Pupil, Inflation-Adjusted

* 2015-16 estimated and 2016-17 proposed.

Note: Figures reflect 2016-17 dollars and exclude adult education, preschool spending, and child care. Proposition 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst’s Office
State Spending Per Student at CSU and UC Dropped Between 2005-06 and 2011-12

Direct General Fund Expenditures Per Full-Time Student, Inflation-Adjusted

* Estimated.

Note: Figures are in 2015-16 dollars and reflect "full-time equivalent" enrollment, which accounts for credits taken by each student relative to a full-time course load. Data exclude indirect state funding for CSU and UC attributable to Cal Grant tuition and fee payments.

Source: California State University, Department of Finance, and University of California

* Estimated.
California’s population will continue to grow and age, increasing the need for public services.
The Number of Seniors Living in California Will Nearly Double by 2030

Projected Percent Change in Population, 2010 to 2030

Source: Department of Finance
How can we make our tax system work better for us?
Proposition 30 helped California begin reinvesting in education and other critical services.

The expiration of Proposition 30 tax rates will leave a permanent gap in state revenues.
Due to Higher Revenues, 2016-17 Spending Per Student Would Be Nearly $900 Above 2007-08

K-12 Proposition 98 Spending Per Pupil, Inflation-Adjusted

* 2015-16 estimated and 2016-17 proposed.

Note: Figures reflect 2016-17 dollars and exclude adult education, preschool spending, and child care. Proposition 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst’s Office
Expiration of Proposition 30’s Personal Income Tax Rate Increases Would Leave Permanent Gap in State Revenues

General Fund Revenues Before Transfers to the Budget Stabilization Account, in Billions

Note: 2015-16 is estimated; 2016-17 onward are projected. Additional revenues for 2018-19 and 2019-20 assume that personal income tax (PIT) revenue growth under an extended Prop. 30 would reflect the Administration’s projected underlying PIT growth rate absent Prop. 30 taxes.

Source: Department of Finance (DOF) and Budget Center calculations based on DOF data

Projected General Fund Revenues Assuming Proposition 30 Expires

Potential Additional General Fund Revenues if Proposition 30 Were Extended

California Budget & Policy Center
The CalEITC significantly boosts the incomes of low-earning workers.

Expanding the CalEITC would further reduce economic hardship, encourage work, and help make the tax system more progressive.
The California and Federal EITCs Significantly Boost the Incomes of Working Families With Children

Maximum Increase in Income From the State and Federal Earned Income Tax Credits, 2015

Source: Budget Center analysis of the California and federal Earned Income Tax Credits
Major tax breaks will cost the state over $48 billion in 2016-17.

Tax expenditures reduce revenues for other purposes and are often not subject to annual review.
California Spends 45 Times as Much on One Tax Break for Homeowners as It Does on a Credit for Renters
Projected Revenue Loss, 2016-17

Note: Renter’s tax credit is nonrefundable and only available to low-income households. Source: Department of Finance
Improving Our Tax System Would Allow Us to Strengthen Our Communities

- Our tax system is a means to an end.
  - Taxes generate resources that improve the quality of life for all people.
  - Most state tax dollars return to our communities, benefiting all of us.
  - We can create a stronger California by improving our tax system.

- Improving our tax system requires:
  - Making it more equitable (progressive), so that people contribute based on their ability to pay.
  - Making sure that it produces enough resources to meet the needs of our communities.