



California Budget  
& Policy Center

# Toward a Fair and Adequate Revenue System: Emerging Tax Proposals in CA

POLICY INSIGHTS 2018

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# What does the federal GOP tax bill mean for California?



# **The recently enacted federal tax bill mainly benefits corporations and high-income households.**

**President Trump signed the tax bill in December 2017. Many of its provisions – mainly affecting taxes paid on personal income – expire after 2025.**



# The Tax Bill Primarily Benefits Corporations and High-Income Households

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- The federal tax bill **delivers most of its benefits to the already well-off** in a number of ways. For example, the bill:
  - Permanently cuts the top corporate income tax rate from 35% to 21%.
  - Creates a 20% deduction, through 2025, for income from “pass-through” businesses. These include law firms and hedge funds.
- The **average taxpayer in the bottom 60%** will *initially* see a **relatively small tax cut**, but will later experience a **tax increase** due to the expiration of most of the bill’s provisions in 2025, according to the Institute on Taxation and Economic Policy (ITEP).



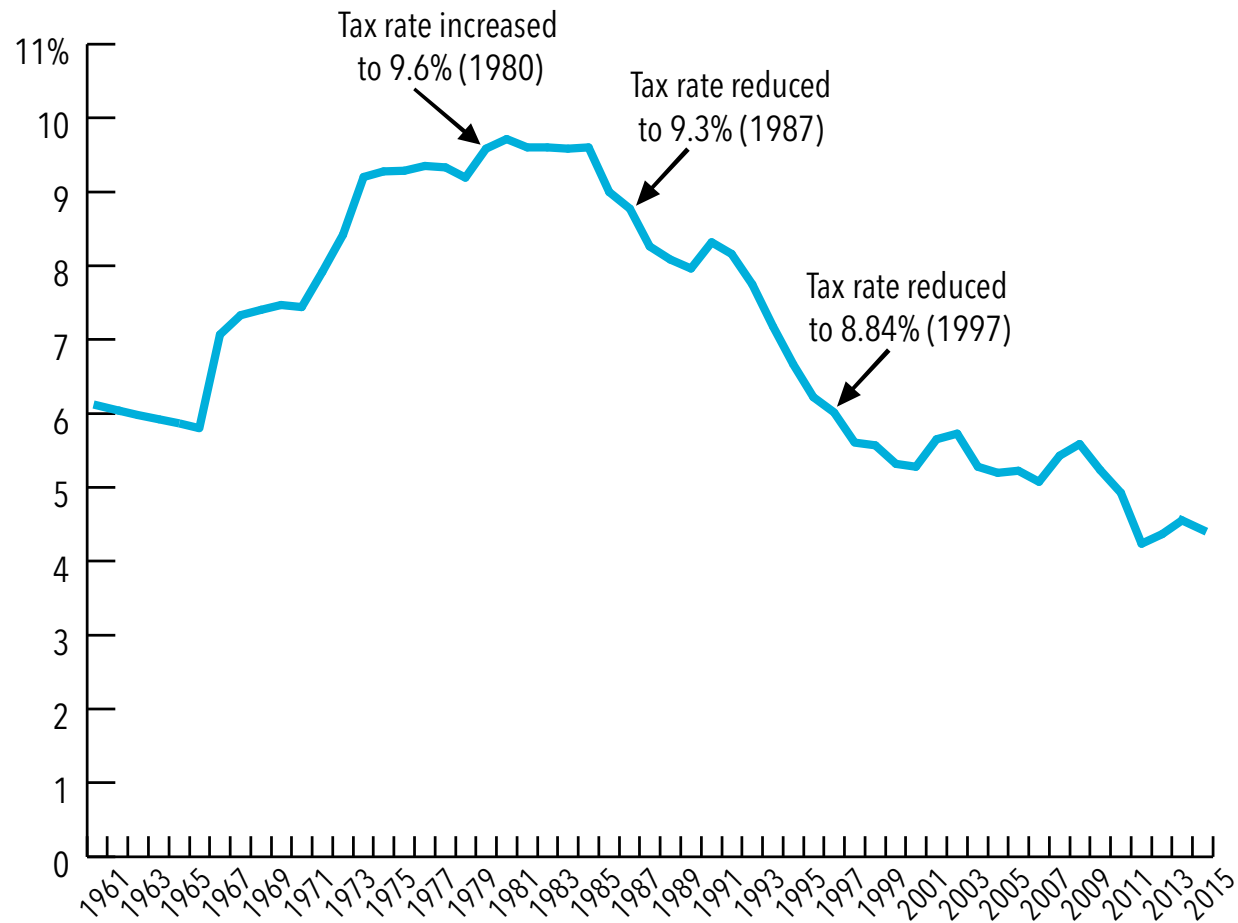
# **In California, the share of corporate income paid in state taxes has been falling for decades.**

**Corporate net income rose from \$24 billion in 1981 to \$203 billion in 2015. Yet, over this same period, the share of this income paid in state corporation taxes fell from nearly 10% to 4.4%.**



# The Share of Corporate Income Paid in State Taxes Fell By More Than Half Between 1980 and 2015

Corporate Taxes as a Percentage of Income for Corporations Reporting Net Income



Source: Franchise Tax Board



**What are the goals that we seek to achieve with our tax system and what does California's tax system look like today?**



# What Should a Good Tax System Do?

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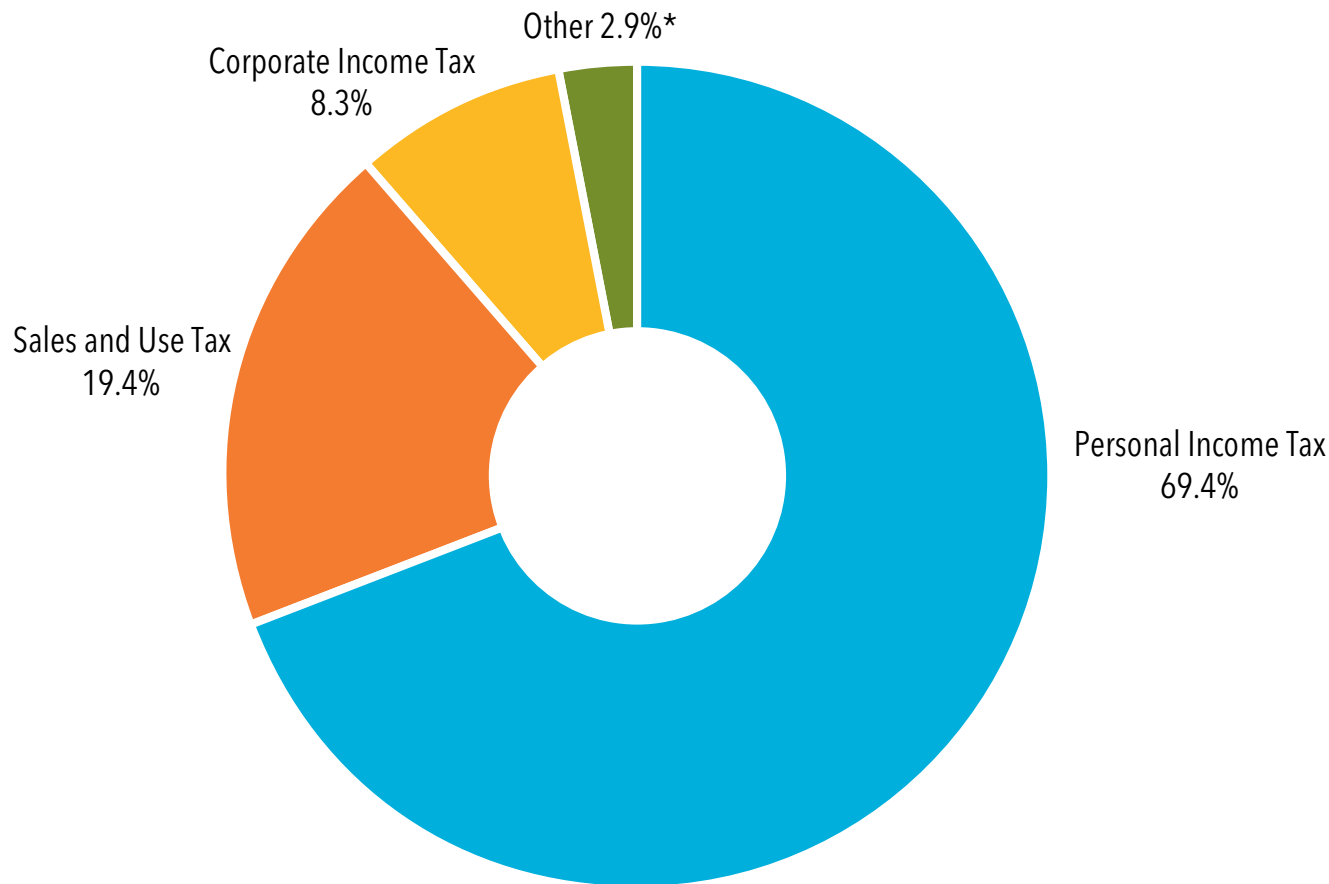
- **Adequacy:** Provide an adequate level of revenues on a timely basis.
- **Fairness:** Distribute the cost of paying for public services fairly.
- **Growth:** Promote economic growth and efficiency and keep pace with sources of economic growth
- **Administrative ease:** Be easily administered; and,
- **Accountability:** Ensure accountability and transparency.





# The Personal Income Tax Is Projected to Account for Two-Thirds of California's General Fund Revenues

Projected 2018-19 General Fund Revenues = \$134.8 Billion



Note: Reflects total projected General Fund revenues before a \$5.1 billion transfer to the state's rainy day fund, \$1.5 billion of which is required by Proposition 2 (2014).

\* Includes Highway Users Taxes, Insurance Tax, Alcoholic Beverage Taxes and Fees, Cigarette Tax, Motor Vehicle Fees, and other various additional sources of revenue.

Source: Department of Finance

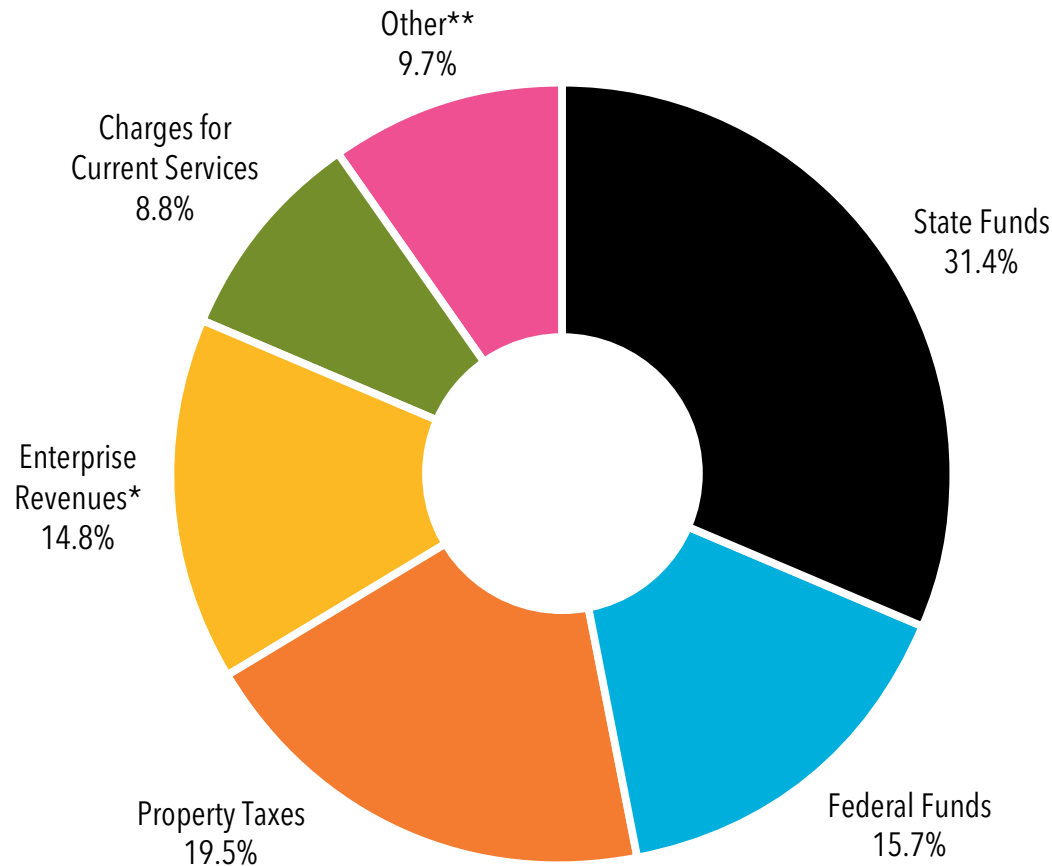


# **Property taxes are an important source of local revenues.**

**For example, property taxes comprise roughly 20% of total revenues received by counties.**



# Property Taxes Comprise Roughly One-Fifth of Total County Revenues, 2015-16



\* Reflects revenues associated with business-type activities, such as airports and hospitals.

\*\* Reflects a range of smaller revenue sources, including other taxes, fines, licenses, and permits.

Note: Excludes the City and County of San Francisco. Percentages do not sum to 100 due to rounding.

Source: California State Controller's Office



# **Local governments' ability to boost revenues is severely constrained by state rules.**

**As a result, it's difficult for local jurisdictions to raise taxes in order to enhance or expand services.**



# Locals Can Increase the Property Tax Rate Only to Fund Voter-Approved Debt

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- Proposition 13 (1978) **limits the countywide property tax rate to 1%** of a property's assessed value. Revenues raised by this rate are allocated to jurisdictions within the county.
- Local governments can boost the property tax rate only to pay for **voter-approved debt** (generally infrastructure bonds).
  - The property tax rate *cannot* be increased to raise revenues for local services.
- Property tax rate increases for **certain school facility bonds** need approval by **55%** of local voters. Increases for **other types of infrastructure bonds** need approval by **two-thirds** of local voters.



**Moreover, when local tax increases *are* approved, they often are regressive, meaning they affect lower-income households more than others.**

**Examples of regressive taxes include the sales tax and taxes on parcels of property.**

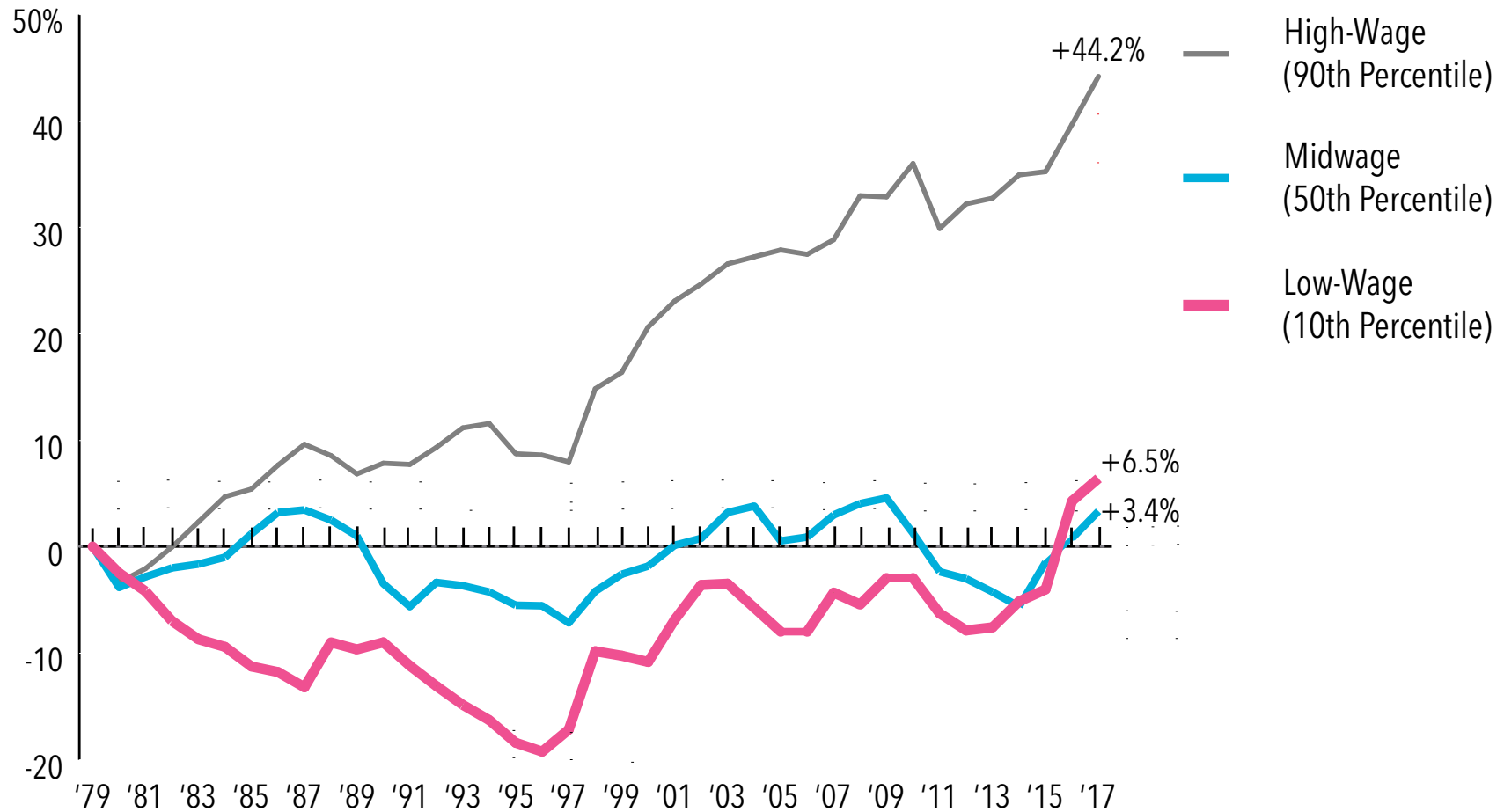


# How is California faring, economically and fiscally?



# California's Low- and Midwage Workers Have Seen Only Modest Gains Since 1979

Percent Change in Inflation-Adjusted Hourly Wages for Workers Ages 18-64



Note: Figures reflect 2017 dollars.

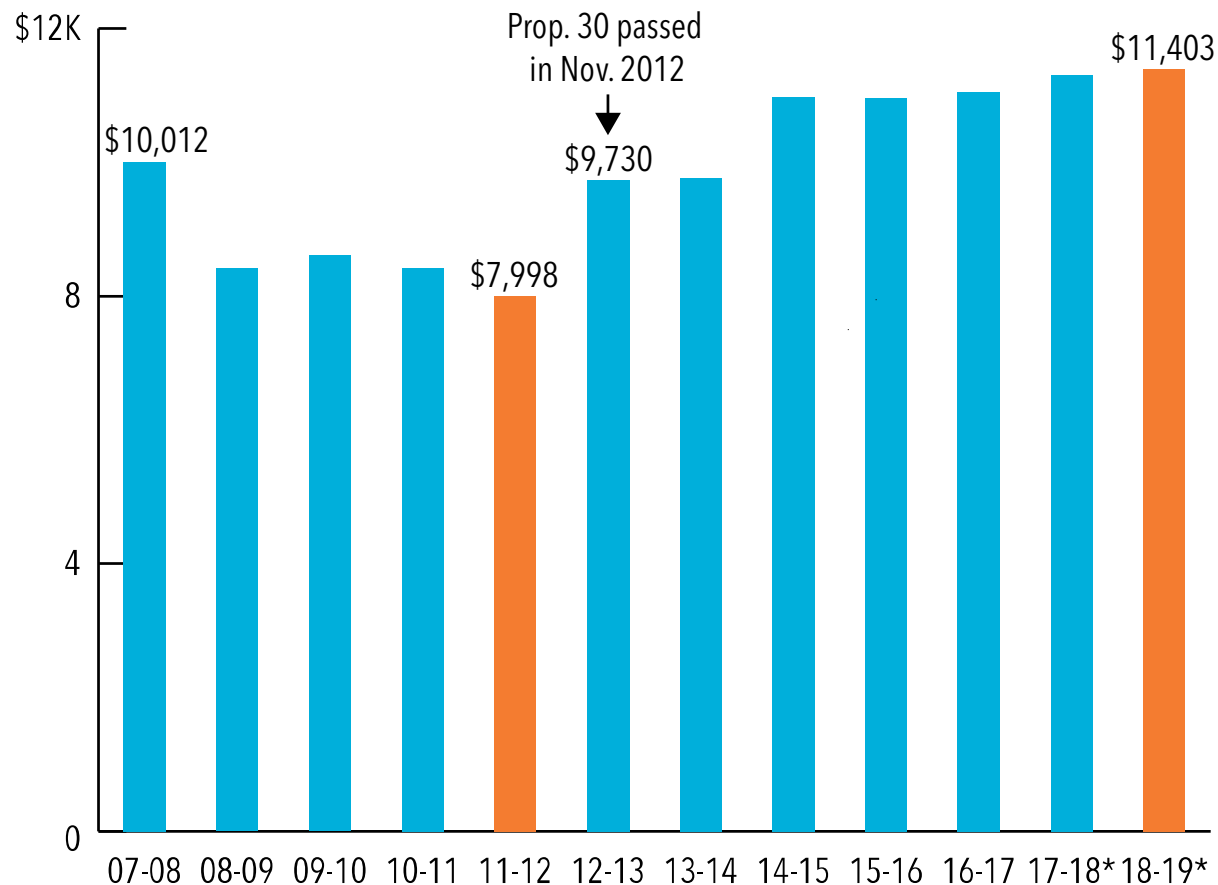
Source: Economic Policy Institute analysis of US Census Bureau, Current Population Survey data





# Due to Higher Revenues, 2018-19 Spending Per Student Would Be More Than \$3,400 Above 2011-12

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



\* 2017-18 estimated and 2018-19 proposed.

Note: Figures reflect 2018-19 dollars and exclude spending for adult education, preschool, and child care. Prop. 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office



# California Ranks Low on Several Measures of Support for K-12 Education

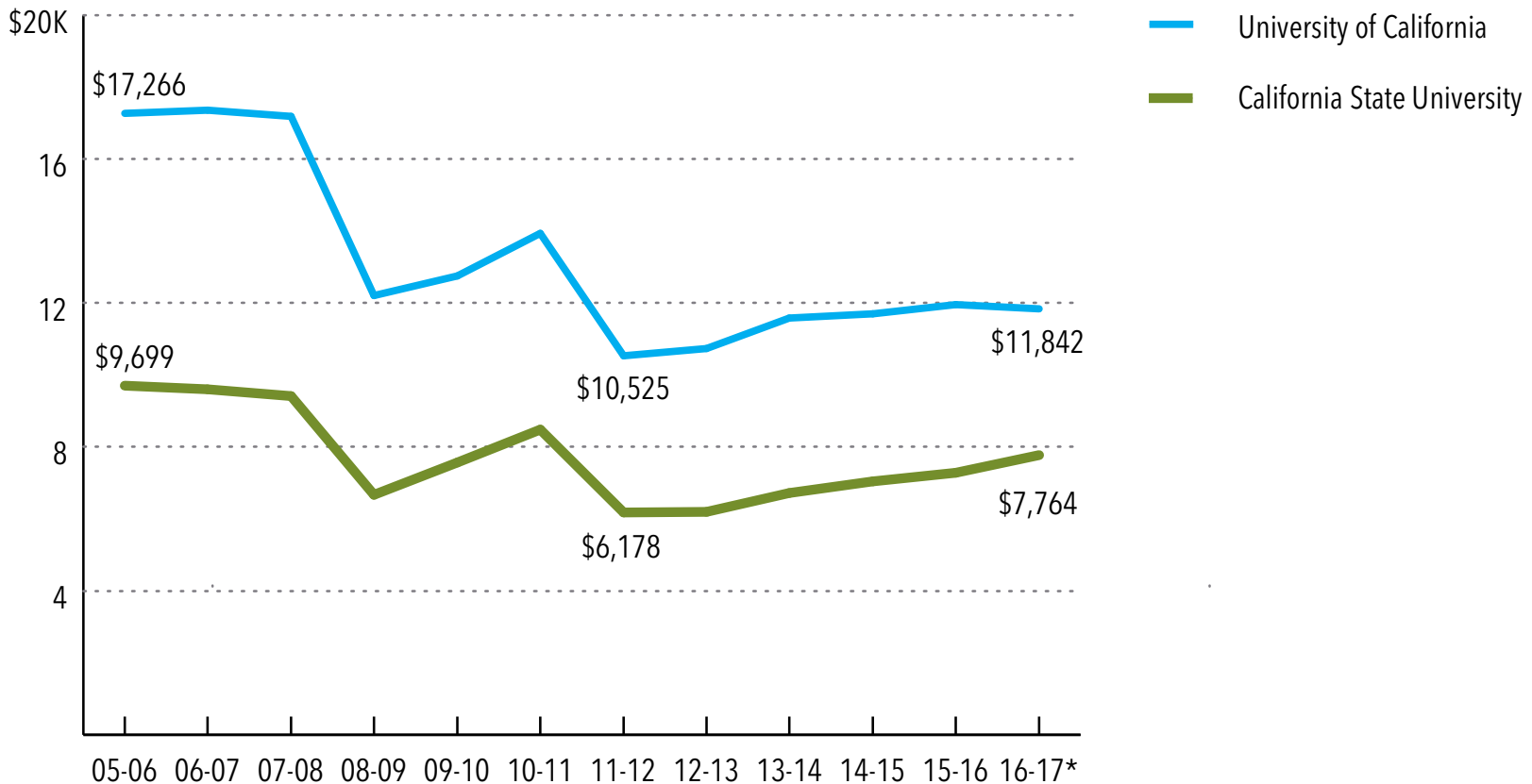
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- In 2015-16, California ranked:
  - **51st nationally in the number of K-12 students per teacher** (about 22-to-1).
  - **41st in K-12 spending per student**, after adjusting for differences in the cost of living in each state.
  - **37th in K-12 spending as a share of the state economy**, as measured by personal income.



# State Spending Per Student at CSU and UC Remains Well Below Pre-Recession Levels, Despite Recent Increases

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



\* Estimated.

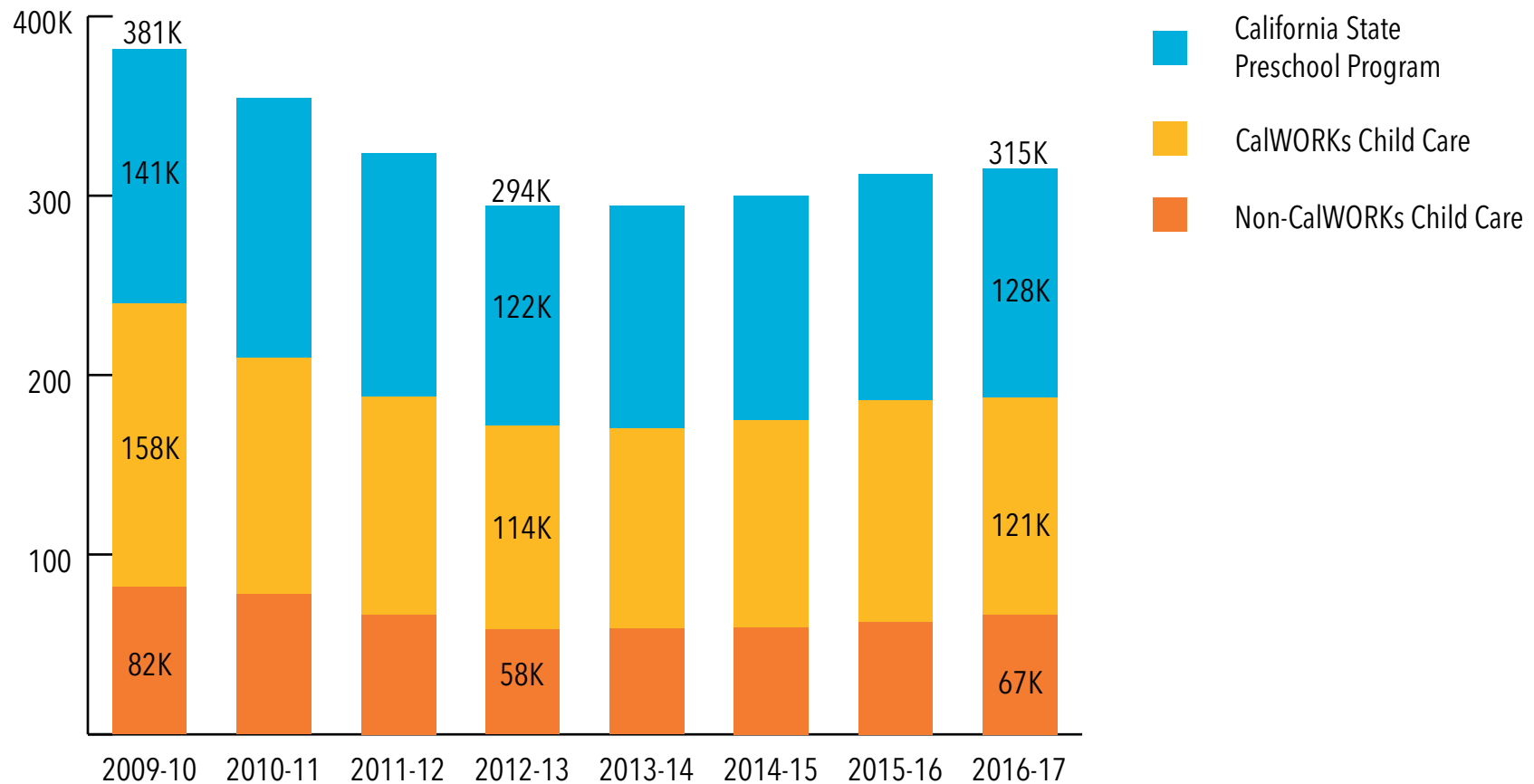
Note: Figures are in 2016-17 dollars and reflect "full-time equivalent" enrollment, which accounts for credits taken by each student relative to a full-time course load. Data exclude indirect state funding for CSU and UC attributable to Cal Grant tuition and fee payments.

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



# Enrollment in Subsidized Child Care and Preschool Has Not Recovered From Recession-Era Cuts

## Average Monthly Number of Children Enrolled

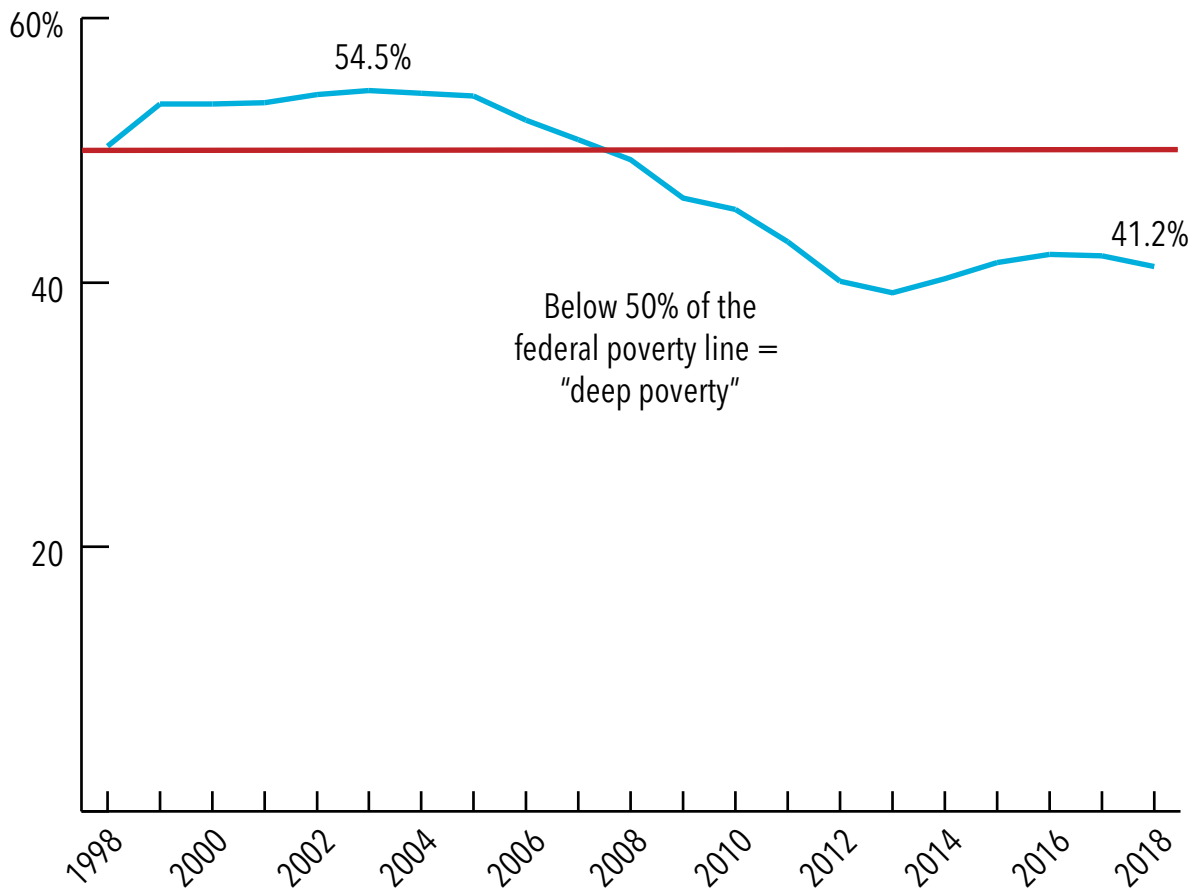


Note: Figures are rounded to the nearest thousand. California Community Colleges CalWORKs Stage 2 data for 2016-17 reflect estimates, not actuals.  
Source: California Community Colleges Chancellor's Office, California Department of Education, and Department of Social Services



# Without an Increase in 2018-19, CalWORKs Grants Will Be Below the Deep-Poverty Line for the Eleventh Straight Year

## Annualized Maximum Grant for a Family of Three as a Percentage of the Federal Poverty Line

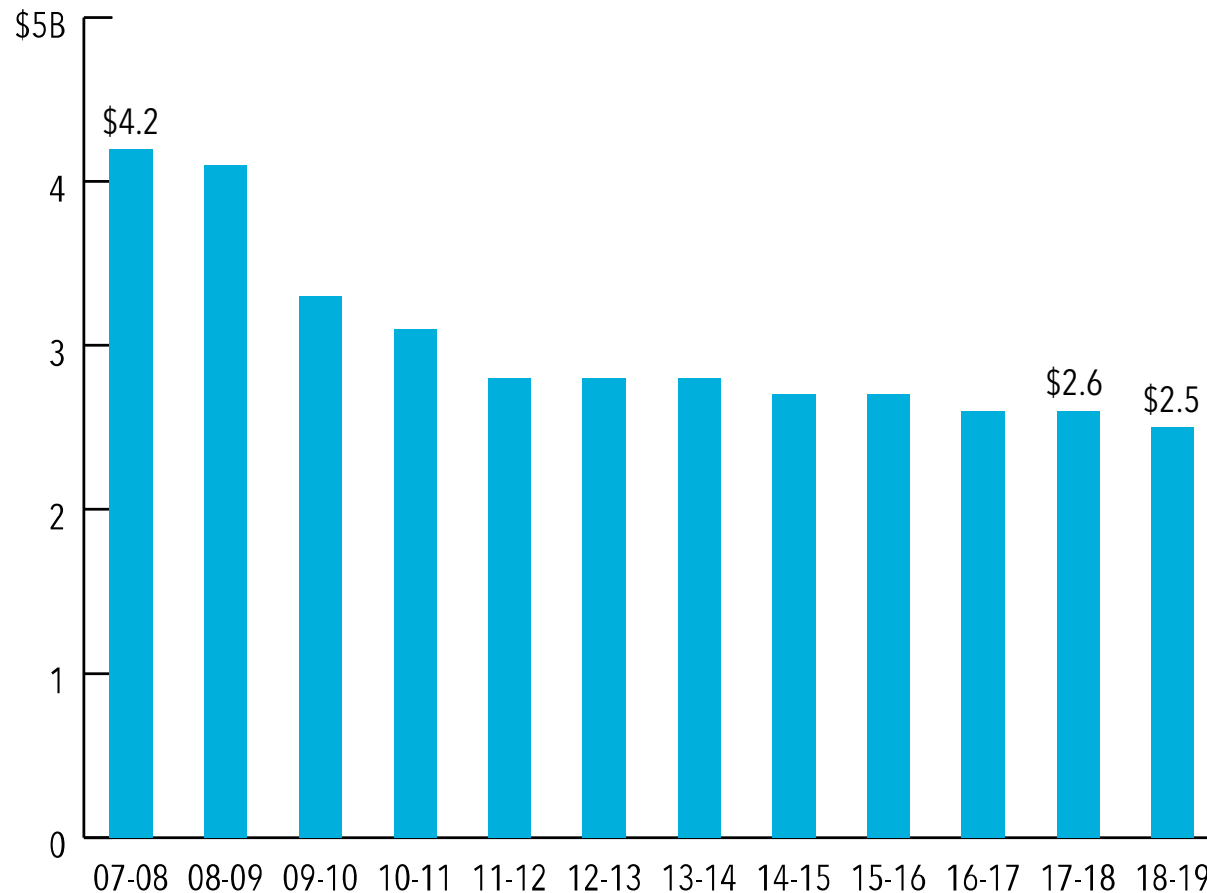


Note: Grants are for high-cost counties. The proposed 2018-19 budget does not increase grant levels.  
Source: Budget Center analysis of Department of Social Services, US Department of Health and Human Services, and US Social Security Administration data



# Due to Budget Cuts, State Spending for SSI/SSP Grants Is About 40% Below the 2007-08 Level

General Fund Expenditures in Billions, Inflation-Adjusted



Note: Figures are in 2018-19 dollars. All figures are estimates except for 2018-19, which reflects the Governor's proposed expenditure level.

Source: Department of Social Services





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