

# KEY FACTS

## ABOUT TAX REFORM IN CALIFORNIA

The Governor and Legislature recently agreed to temporary tax increases, along with spending cuts, federal money and borrowing, to help balance the state budget. A proposal in the May 19, 2009 Special Election will increase the size of the state budget reserve and place a limit on state spending. If approved, it also will extend the temporary tax increases for up to another two years.

Thinking about longer-term changes, a bipartisan Commission on the 21st Century Economy was formed to develop recommendations for how California's tax system can be improved to reflect the modern California economy, in addition to reducing volatility. All meetings are open to the public and provide time for Californians to testify during the hearings.

*California Forward* is listening to the thoughts of Californians – and will share them with the Commission – but we also encourage you to communicate with commissioners directly. Three of their meetings have taken place in San Diego, Los Angeles and Berkeley. The next meeting will be April 9, 2009 at the University of California, Davis. The Commission's final meeting(s) will take place after the May 19, 2009 Special Election. They are planning to have their report and recommendations ready for the Governor and Legislature by July 2009. Find more information about the Commission at [www.cotce.ca.gov](http://www.cotce.ca.gov) and send your thoughts to them directly at [comment@cotce.ca.gov](mailto:comment@cotce.ca.gov).

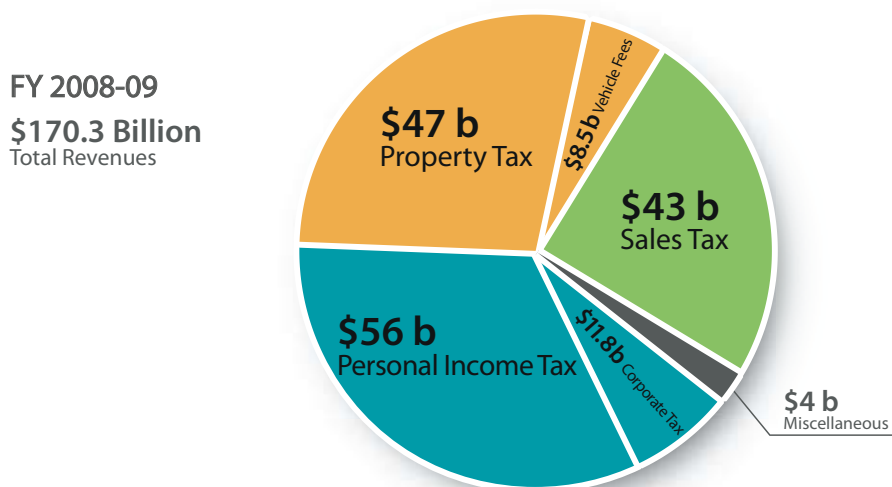


## Overview of California's Tax System

The taxes we pay to state and local government fall into three broad categories:

1. **Income** – Personal Income Tax, Corporate Tax
2. **Consumption** – Sales Tax
3. **Property** – Property Tax, Vehicle Fees

Government also relies on fees collected from “users” to pay for related services.



## Is California a high tax state? Or a low tax state?

How our tax rates compare to other states:

- **Income Tax** – One of the highest rates for high income earners; more progressive than other states
- **Sales Tax** – High rates compared to other states, yet applies to fewer kinds of transactions
- **Corporate Tax** – One of the highest rates
- **Property Tax** – One of the lowest rates

Overall, we are pretty close to the middle.

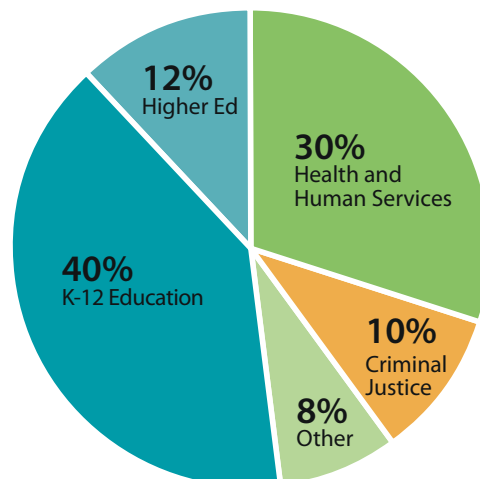
## How do we spend our taxes?

**Income** taxes are collected by the state and are spent on the state's General Fund (see below).

**Sales** taxes are collected by both state and local governments and are used for several purposes such as law enforcement, transit, roads, schools and health care.

**Property** taxes are collected by local government and are spent on local purposes such as K-14 education, sheriff, jails, fire and police. The state collects vehicle license fees (another kind of "property") which also are used for local purposes.

### California State General Fund Spending FY 2007-08



25% spent at state level  
75% spent locally

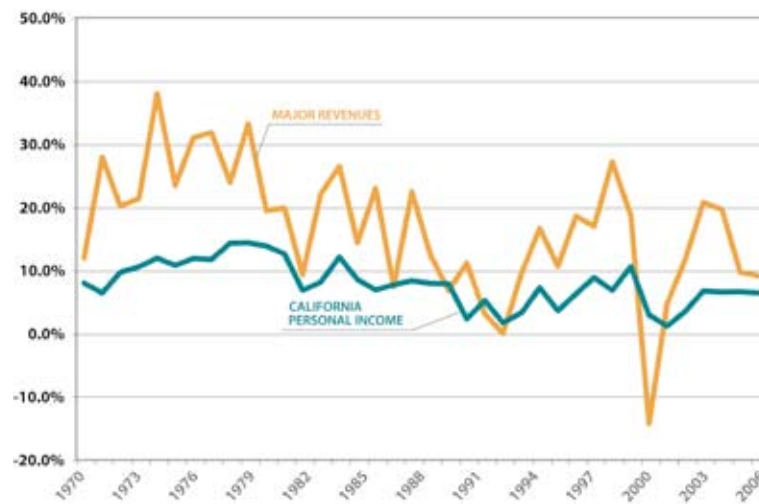
## THREE KEY CHALLENGES WITH OUR STATE TAX SYSTEM

California's state tax system was originally designed in the 1930s. In thinking about how to change our tax system to match the current economy, it is helpful to understand some of the challenges we face.

### 1. Our tax system has more ups and downs than the California economy.

- We rely heavily on the personal income tax which varies with the economy and stock market.
- The highest income 1 percent of income earners pay 50 percent of the total personal income tax collected.

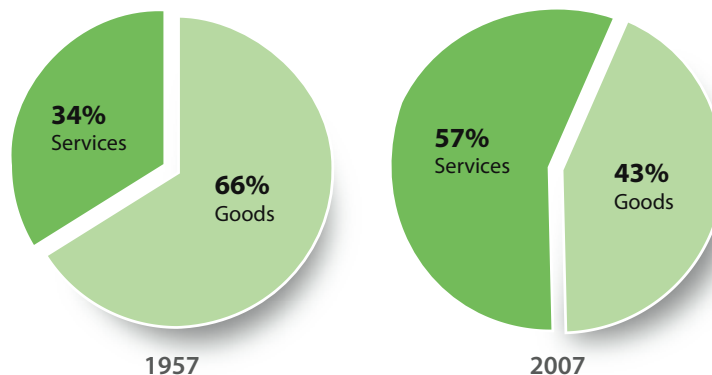
#### Annual Change in Total State Revenues



### 2. Our state tax system does not line up with economic growth.

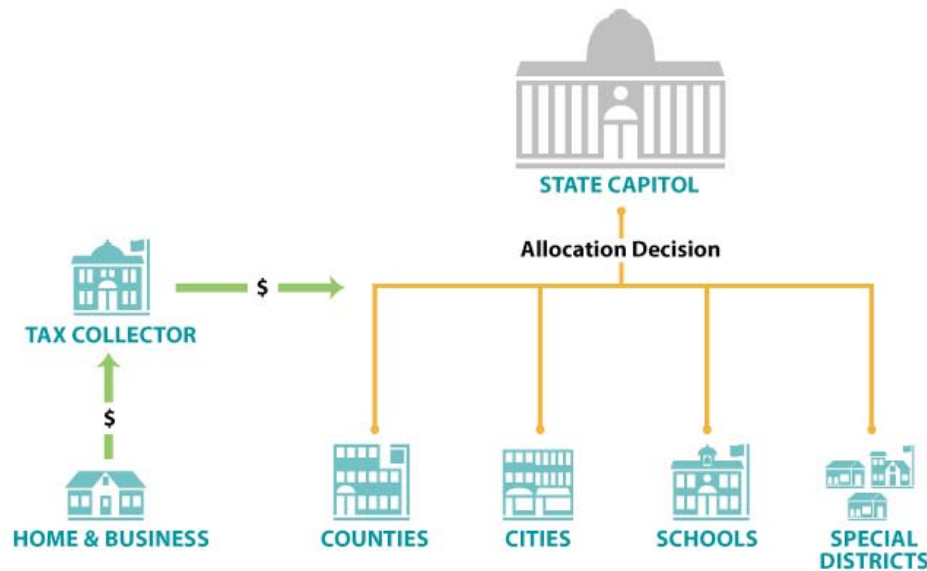
- State and local sales taxes are collected on tangible “goods.”
- Over the past 50 years, economic growth has been in services, most of which are not taxed.

#### Services as a Percent of Disposable Income



### 3. Local governments have limited control over the taxes they collect.

- Property taxes are a key source of local government funding. Rates were cut and capped by Prop 13.
- The state decides how property taxes get allocated between the county, city, schools and special districts, based on formulas set in place 30 years ago.



#### WHAT CAN I DO ABOUT TAX REFORM?

The goal of *California Forward's* “Paying Forward” project is to help expand the number of people who are engaged in the dialogue about tax reform. Temporary changes to our tax system are happening right now due to the state’s fiscal challenges. Do you think these changes are the right long term solutions – or do you want to see other options?

We are all taxpayers and are all affected by tax policy decisions. You may think that we need higher taxes or you may want to hold the line on taxes – but what is the *mix* of taxes that you support? Who and what should we tax? What are the trade-offs? And who should decide?

*California Forward* is just beginning this conversation and we need your help. There are many ways to get involved and we can work with you on all of them:

- Educate yourself about the decisions being made and talk with others
- Sign up for *California Forward's* e-newsletter and visit [www.caforward.org](http://www.caforward.org) for more information in the coming months
- Let your elected officials know your thoughts
- Contact your local media
- Join forces with other groups working on reform issues
- Host a community conversation about tax and budget reform (*California Forward* will be offering complete meeting kits with video, PowerPoint and handouts)