California Tax Reform Association
717 K St, Ste 510, Sacramento, CA 95814
Ph: 916.446.4300 Fax:916.444.6611
Email: info@caltaxreform.org
http://www.caltaxreform.org

December 2009

Low Hanging Fruit in the Tax System: 10 Policies for $20 Billion

With the state facing a current deficit and on-going yearly deficits $20 billion, the survival of basic services and a healthy public sector is at stake. The following summarizes 10 measures which will have the least impact on economic growth and recovery—the "low-hanging fruit" in the tax system. (For a more complete listing of tax options go to http://caltaxreform.org/?p=101).

Governor Schwarzenegger stated that all the "low-hanging fruit" in the budget—that is, the easy cuts-- had been removed. But loopholes, untaxed windfalls, tax breaks with no benefits, taxes on the very rich and sin taxes, the taxes with little or no impact on economic recovery, have not been cut at all. For broader-based taxes, the state can maintain some part of the previous increases.

Note: the revenues are not the same in every year, since some do not come in until 11-12. The LAO calls for a long-term workout, and these revenues would provide that.

Revenue Option	**($Billions)**
Oil Severance Tax at 9.9% (Governor's proposal)	$1.2
Eliminate Secret Corporate Loopholes (full effect 11-12)	$1.7
Broaden Tax Base to Include Untaxed Commodities	$2 plus
Reinstate Top-Income Tax Brackets	$4 growing to $6
Close Corporate Property Tax Loopholes (rough estimate)	$2
Lower Vehicle License Fee to Permanent 1% (starts 11-12)	$1.3
Close Corporate Tax Loopholes with No Economic Value	$1
Increase Tobacco and Alcohol Taxes	$2.4
Improve Tax Collections (initial revenue, diminishes)	$2
Lower current sales tax by ½ cent (starts 11-12)	$2.5
TOTAL :	**$21.1billion**

Summary Chart: Low-Hanging Fruit in the State Tax System

1. Enact an Oil Severance Tax at 9.9% ($1.2 billion): California is the only state, and the only place in the world, that does not tax oil production. 9.9% is the rate proposed by Governor Schwarzenegger. Contrary to oil industry propaganda, California has the lowest tax on oil in the nation—about 60 cents/barrel—when it should be $6-$7 per barrel at current prices. This tax will have no effect on the price of gasoline or on oil production.

2. Eliminate Secret Corporate Tax Loopholes ($1.7 billion): As part of the September 2008 and February 2009 budget agreements, the Legislature passed new corporate loopholes in secret—loss carry-backs, credit sharing, and elective single-sales factor. These take effect in 2011. Contrary to the Governor's rhetoric, it is not a "tax increase" to repeal these before they go into effect, and they are egregious new loopholes, benefitting mostly the largest corporations, that the state can ill afford.

3. Broaden Sales Tax Base to Include Untaxed Commodities ($2 billion or more): There is virtually unanimous agreement that our sales tax base is too narrow. The Governor has supported broadening it, and the first steps should include entertainment, admissions, parking, golf and skiing, hotels (i.e. the temporary rental of space) and digital products—all of which are commodities easily subject to tax. Beyond that, sales taxes on telecommunications, cable and satellite would generate $2 billion more.

4. Reinstate Top Income Tax Brackets to 11% ($4 billion now, growing to $6 billion in out-years): The top 1% of earners earn an unprecedented 25% of income in California! While that may go down a little due to the recession, the recovery of the stock market means capital gains for the wealthy are likely to recover, while ordinary incomes in a slow economy are not. State income taxes have no impact on the location of the wealthy or investment in California, and this revenue will grow faster than economic recovery.

5. Close Corporate Property Tax Loopholes ($2 billion): Statutory definitions of change of ownership are thoroughly loophole-ridden. CTRA research has been identifying numerous cases where properties have not been reassessed at market value following a change in ownership. We estimate that tightening corporate property tax loopholes would raise $2 billion. The legislature can act by statute to close this loophole, potentially by a majority vote in a two-step approach.

6. Maintain Vehicle License Fee (VLF) at 1% ($1.3 billion): The VLF is supposed to be an in-lieu property tax, but was cut from 2% to .6%. A long-term resolution of this issue would put the VLF at the Prop. 13 rate, 1%, slightly below the current 1.15 temporary rate, beginning in 11-12.

7. Close Useless Corporate Tax Loopholes ($1 billion): Enterprise zones have been demonstrated to have no impact on jobs ($500 million). Avoidance of capital gains on commercial property sales —so called like-kind exchanges—are driven by federal, not state considerations ($350 million). Placing offshore tax havens in the water's edge stops blatant tax manipulation ($150 million). Impact on economic decisions: zero.

8. Increase Tobacco and Alcohol Taxes ($2.4 billion): Taxing products with negative impacts on society has positive effects. Enacting a tax at 10 cents/drink generates $1.4 billion, and proposals for increased tobacco taxes have been keyed at generating $1 billion as well.

9. Improve Tax Collections ($2 billion initially, less on-going): Governor Schwarzenegger vetoed majority vote legislation which would have provided an initial $2 billion in improvements in collections, including withholding on independent contractors, tightening nexus (Amazon issue), and proposing a bank records match. That amount would fall as others, above, phase up.

10. Lower current sales tax by ½ cent ($2.5 billion): The temporary1-cent sales tax increase will expire July 2011. Lowering the sales tax by ½ of that should grow to $3 billion, particularly with a broader base. This could phase down by ¼ cent/year as the state's fiscal condition recovers.

Many of these tax changes have little or no negative economic impact. To the extent there is any negative impact, it will be vastly overwhelmed by the negative impact of a state unable to finance infrastructure, that allows its higher education system and schools to deteriorate, that forces cutbacks in local government, and that shreds its safety net for its poorest citizens.