Date of Hearing: April 21, 2025

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Mike Gipson, Chair

AB 1219 (Wallis) – As Amended April 3, 2025

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal income tax: rate

SUMMARY: Decreases statutorily prescribed income tax rates, and adjusts the income thresholds of certain tax brackets. Specifically, **this bill**:

1) Establishes the following brackets and rates based on the following filing statuses under the Personal Income Tax (PIT) Law, for taxable years beginning on or after January 1, 2025, and before January 1, 2030:

   a) For single filers or married or registered domestic partners filing separately:

      i) 1% of the taxable income not over $25,499;

      ii) $254.99 plus 3% of the taxable income over $25,499, but not over $40,245;

      iii) $697.37 plus 5% of the taxable income over $40,245, but not over $55,866;

      iv) $1,478.42 plus 7% of the taxable income over $55,866, but not over $70,606; and,

      v) $2510.22 plus 9.3% of the taxable income over $70,606.

   b) For heads of household:

      i) 1% of the taxable income not over $51,000;

      ii) $510 plus 3% of the taxable income over $51,000, but not over $65,744;

      iii) $952.32 plus 5% of the taxable income over $65,744, but not over $81,364;

      iv) $1,733.32 plus 7% of the taxable income over $81,364, but not over $96,107; and,

      v) $2,765.33 plus 9.3% of the taxable income over $96,107.

2) Provides that the taxable incomes prescribed for single filers, or married or registered domestic partners filing separately, are doubled for married or registered domestic partners filing jointly, or a qualifying surviving spouse or registered domestic partner, pursuant to existing law.

3) Suspends the existing inflation adjustment of PIT Law tax bracket thresholds for the 2025 taxable year.

4) Reauthorizes existing income tax rates, and income tax bracket thresholds that would otherwise be operative absent this bill, for taxable years beginning on or after January 1, 2030.

5) States this bill's intent to comply with Revenue and Taxation Code (R&TC) Section 41.

6) Takes immediate effect as a tax levy.

EXISTING LAW provides that all income is taxable, from whatever source derived, unless specifically excluded. California imposes six different statutory PIT rates from 1% to 9.3%, with each applying to a different range of income, known as a "tax bracket." The Franchise Tax Board (FTB) is required to recalculate the tax brackets each year based on the change in the California Consumer Price Index. (R&TC Section 17001 *et seq.*).

FISCAL EFFECT: The FTB estimates a General Fund revenue loss of $11.1 billion in the 2025-26 fiscal year (FY), $7.4 billion in FY 2026-27, and $7.7 billion in FY 2027-28.

COMMENTS:

1) The Greater Coachella Valley Chamber of Commerce, writing in support of this bill, states, in part;

> AB 1219 updates California's personal income tax brackets by reducing rates and broadening the income ranges. This change will allow families and individuals to keep more of their hard-earned money while maintaining a fair and progressive tax system.
>
> By putting more dollars back into the hands of consumers, this bill helps boost household spending and stimulate local economies. Reducing tax burdens for working families also enhances affordability and quality of life — two essential factors for keeping California competitive.
>
> We encourage support for AB 1219 to reduce the tax burden on working families and support economic growth across California.

2) The California Federation of Teachers (CFT), writing in opposition to this bill, states, in part:

> CFT — A Union of Educators & Classified Professionals, AFT, AFL-CIO, opposes AB 1219 (Wallis), which would, for taxable years beginning on or after January 1, 2025, would revise the income tax rates and taxable income brackets by imposing an income tax rate of 3% instead of 4%, increasing as applicable, on specified taxable income.
>
> California voters secured funding for public education via Proposition 98, which provides funding to our TK – 12 schools and Community Colleges from revenues of the General Fund. Specifically public education is funded mainly by the income tax, corporate income tax, sales and use tax, and property taxes. Tax credits, exemptions, and other expenditures however, remove funding from public education. For every dollar that is provided in tax expenditures, approximately 40 cents of each dollar comes out of California's classrooms.

3) Committee Staff Comments:

a) *California's progressive tax structure*: Historically, California's Legislature and governors have imposed progressive tax brackets on the highest income earners. Beginning with Governor Ronald Reagan, a 10% tax bracket was enacted in 1967 and raised shortly thereafter to 11% in 1971. In the 1990's, as California faced a severe recession resulting in significant shortfalls in the state budget, the state acted to increase revenues with Governor Pete Wilson signing into law an increase in the PIT rates.

   The predominant critique of a progressive tax system is similar to one outlined by Austrian economist and author, Eugen Von Bohm-Bawerk. In his work *Karl Marx and the Close of His System*, Von Bohm-Bawerk applies the theory of diminishing returns and postulates that as incomes rise, individuals will use a smaller portion of that income to consume goods and, by extension, spend a larger amount on capital investments. These capital investments increase income, which may then be invested back into capital, generally decreasing the cost of production and increasing the standard of living. Opponents of a progressive taxation system hold that imposing a higher rate on higher income individuals reduces the amount of available income for capital improvements, thereby reducing the standard of living.

   Von Bohm-Bawerk's supposition does not account, however, for the increasing gap between those individuals with significant capital investments creating greater amounts of income and those who must proportionally spend a larger share of their income on the necessities of life, such as low-income earners. Von Bohm-Bawerk's argument also fails to address the decline in jobs from increased capital improvements. For instance, if a company were to purchase a machine that could produce widgets at the same rate as 10 workers, the company would become more efficient by reducing its labor costs.

   Adam Smith, writing in his seminal work *An Inquiry into the Nature and Causes of the Wealth of Nations*, described the difficulties of society's lower-income individuals, emphasizing the necessities of life. Recognizing the higher percentage of income that lower-income earners must spend on the necessities of life, and the disproportionate impact this has on those earners, Smith contended "it is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion." In other words, Adam Smith noted the value of a progressive system of taxation.

   The economic impact of this bill to households is unclear. On the one hand, this bill condenses the existing 2% income tax bracket into the existing 1% income tax bracket, thereby decreasing progressivity and increasing proportionality of California's personal income tax system. On the other hand, this bill reduces income tax rates by 1% for the existing 4%, 6%, and 8% rates for corresponding income tax brackets, thereby increasing progressivity and decreasing proportionality.

b) *Proposition 98*: In 1988, California voters approved Proposition 98 (Prop. 98), which guarantees a certain level of educational funding for schools and community colleges based on certain calculations that vary with General Fund revenues and changes in per capita personal income. Three types of calculations, or tests, are stipulated in the law, and these tests impact the overall amount of revenue reserved for schools in any given year. In Test 1 years, the amount guaranteed under Prop. 98 is approximately 40% of General Fund revenues. Thus, any $1 of General Fund revenue lost corresponds to a

$0.40 decrease in the Prop. 98 guarantee[1]. According to the Legislative Analyst's Office in its presentation to the Senate Budget and Fiscal Review Subcommittee on Education on February 27, 2025, Test 1 remains operative for the 2025-26 FY.

c) *This bill*: As currently drafted, this bill would condense the existing 2% income tax bracket into the 1% income tax bracket, and reduce by 1% the rates imposed on the remaining income tax brackets, except the highest statutorily set income tax bracket. Thus, this bill lowers personal income tax rates for most single filing taxpayers with income below $70,606. Those single filers making more than $70,606 and less than $10,756 would not receive a tax rate decrease.

d) *Drafting error*: On Page 6, Lines 8 and 9, when reapplying the existing inflation adjusted income bracket threshold amounts, this bill refers to the phrase "proceeding taxable year income tax brackets," whereas that section of the law describes an inflation adjustment to the "preceding taxable year income tax brackets". Additionally on Page 7, Line 4, the term "was" should be deleted. This bill should be amended to address these drafting errors.

e) *Technical considerations*: Certain existing statute governing personal income tax rates and brackets related to taxable years beginning on or after January 1, 2009, and before January 1, 2011, is obsolete. These obsolete references contained in existing R&TC Sections 17041(a)(2) and (c)(2) should be deleted, and the remaining code sections renumbered accordingly.

   Additionally, the R&TC contains several references to R&TC Section 17041(h). These references would require updating due to the renumbering of this subdivision if this bill is enacted.

f) *What is a "tax expenditure"*? Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).

   As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote. This bill reduces PIT rates, thereby constituting a tax expenditure.

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[1] *Proposition 98 and K-12 Education, The 2024-25 Budget*, LAO (February 15, 2024). https://lao.ca.gov/Publications/Report/4839#:~:text=Proposition%2098%20(1988)%20sets%20aside,23%20through%202024%E2%80%9125%20period, accessed March 2025.

g) *Committee's tax expenditure policy*: SB 1335 (Leno), Chapter 845, Statutes of 2014, added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending programs to tax credits introduced on or after January 1, 2015. AB 263 (Burke), Chapter 743, Statutes of 2019, extended the requirements in R&TC Section 41 to all tax expenditure measures under the PIT Law, the Corporation Tax (CT) Law, and the Sales and Use Tax Law introduced on or after January 1, 2020. A tax expenditure proposal must outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote[2]. Sunsets are required because eliminating a tax expenditure generally requires a 2/3 vote. These requirements must be satisfied before a bill can receive a vote in this Committee. This bill does contain an appropriate five-year sunset, but does not comply with the requirements of R&TC Section 41, thereby making it ineligible for a vote in this Committee.

h) *Related legislation*: AB 1428 (Muratsuchi) would impose a tax, under the PIT Law and the CT Law, at a rate of 0.5% on that portion of income over $10 million. Revenues attributable to this tax would be deposited in Affordable Childcare Reimbursement Fund, which AB 1428 establishes in the State Treasury as a continuous appropriation, for the purposes of awarding grants to certain childcare facilities. AB 1428 is scheduled for a hearing in this Committee on April 21st.

i) *Previous legislation*: AB 17 (Alanis), of the 2023-24 Legislative Session, would have lowered personal income tax rates, and consolidated certain income tax brackets. AB 17 was never heard by this Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

The Greater Coachella Valley Chamber of Commerce

Opposition

California Federation of Teachers
California Tax Reform Association
California Teachers Association

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[2] An "appropriate sunset provision" shall mean five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" shall mean 10 years.