

CHAIR'S POLICY ON QUALIFYING TAX EXPENDITURE MEASURES

Background on Tax Expenditure Measures: 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 reviewed less frequently than direct expenditures once they are enacted. While this affords taxpayers with greater financial predictability, it can also result in tax expenditures remaining a part of the tax code without demonstrating any public benefit. 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, effectively resulting in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their cost or efficacy, without a supermajority vote.

In response to the proliferation of tax expenditure measures, the Chair has adopted this policy governing such legislation. Specifically, this policy applies to any "tax expenditure measure", defined as legislation meeting either of the following criteria: (1) the measure proposes to extend, expand, or enact a credit, deduction, exclusion, exemption, or other tax preference (i.e., a tax expenditure program); or, (2) the measure proposes to eliminate or reduce one or more tax rates.

Special Policy Governing Tax Expenditure Measures:

- 1) Absent extraordinary circumstances, to be determined at the Chair's discretion, all tax expenditure measures will initially be set for "Testimony Only" with no vote taken at the conclusion of the measure's presentation. A vote on a tax expenditure measure may, at the Chair's discretion, be taken at a later time or date.
- 2) Absent extraordinary circumstances, to be determined at the Chair's discretion, a tax expenditure measure will not be eligible for a vote unless and until:
 - a) The bill fully complies with the articulation of goals and performance indicators set forth in Revenue and Taxation Code Section 41. (Please note that this requirement applies to all tax expenditure measures and not solely to those income tax credits specifically governed by Revenue and Taxation Code Section 41); and,
 - b) The bill includes an appropriate sunset provision. "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 ten years.