



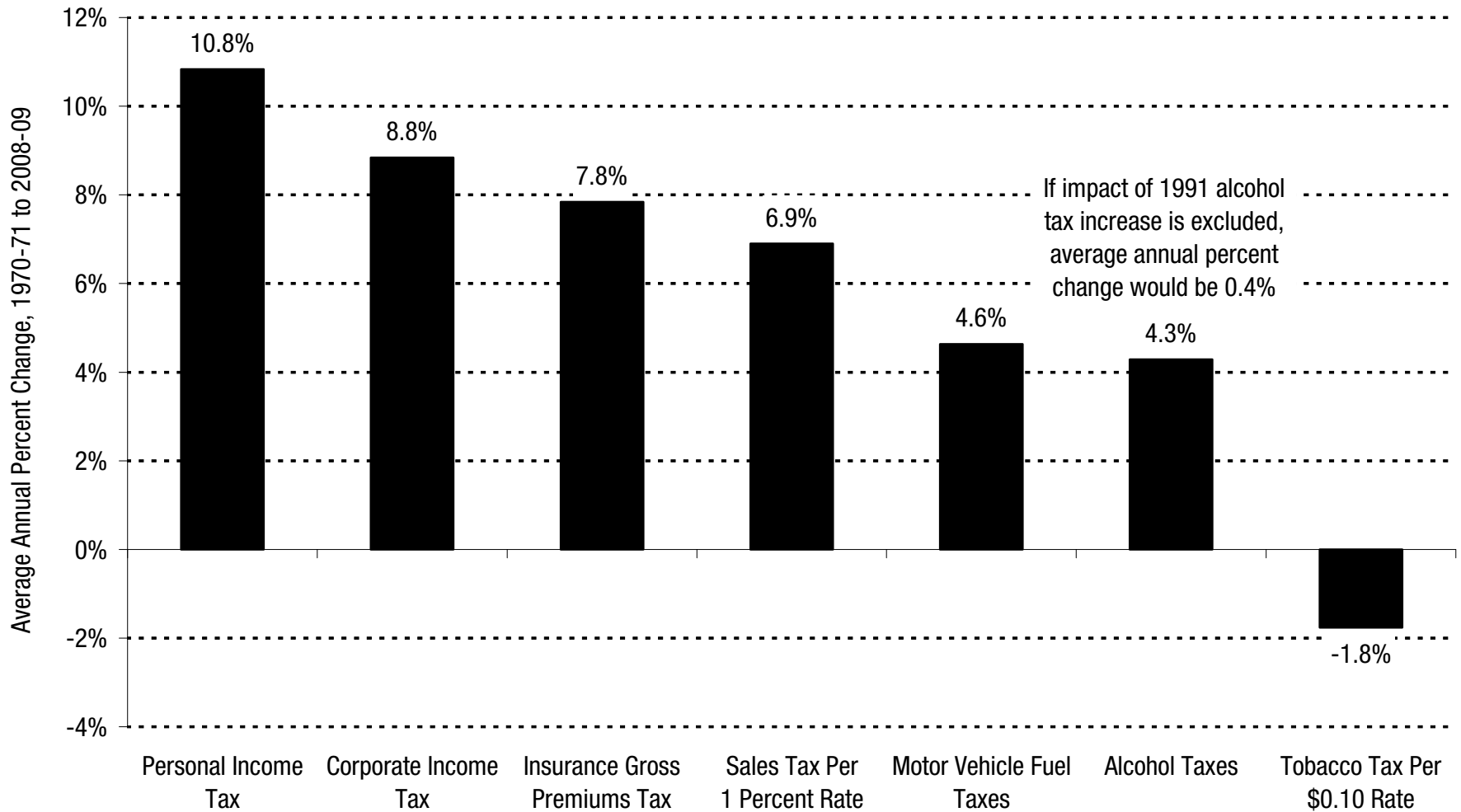
CALIFORNIA BUDGET PROJECT

Beyond the COTCE Proposals

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THE CALIFORNIA BUDGET PROJECT
January 2010

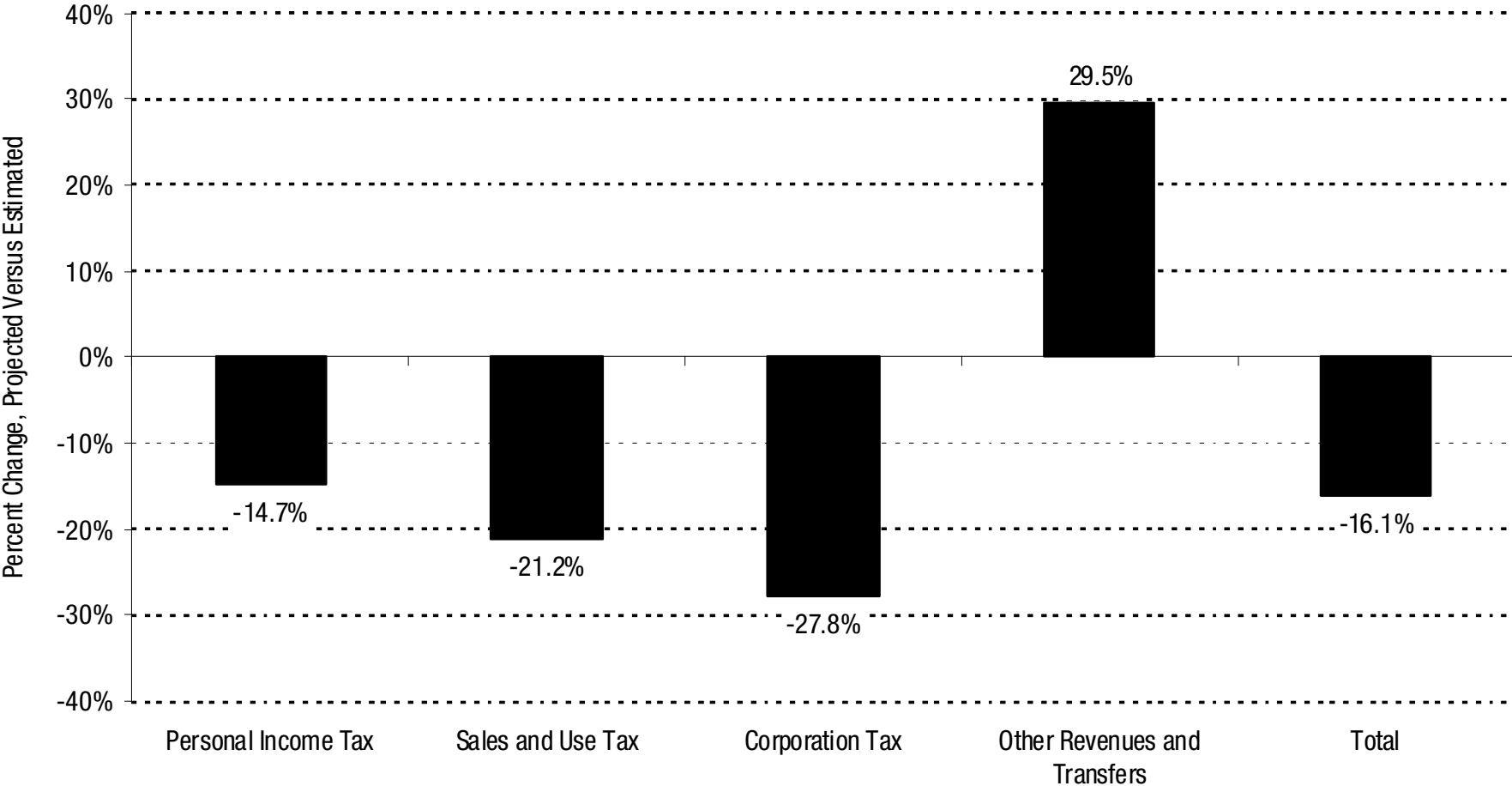
Personal Income Tax Posts the Highest Average Annual Growth Rate Over Time



Note: 2008-09 revenues estimated.
Source: CBP analysis of Legislative Analyst's Office data

What's Changed?

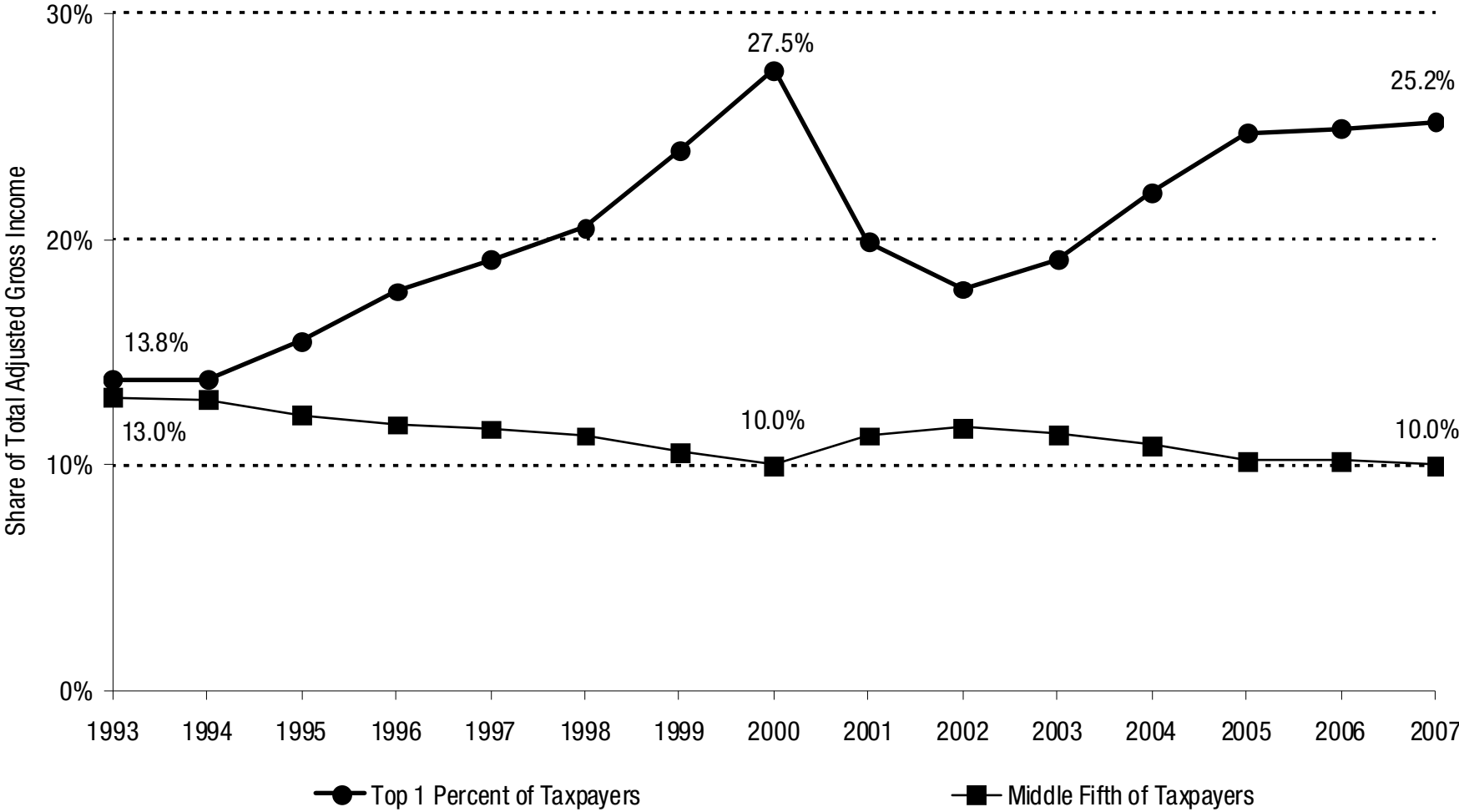
2009-10 Revenues as Projected in November 2004 as Compared to 2009-10 Revenues as Estimated in November 2009



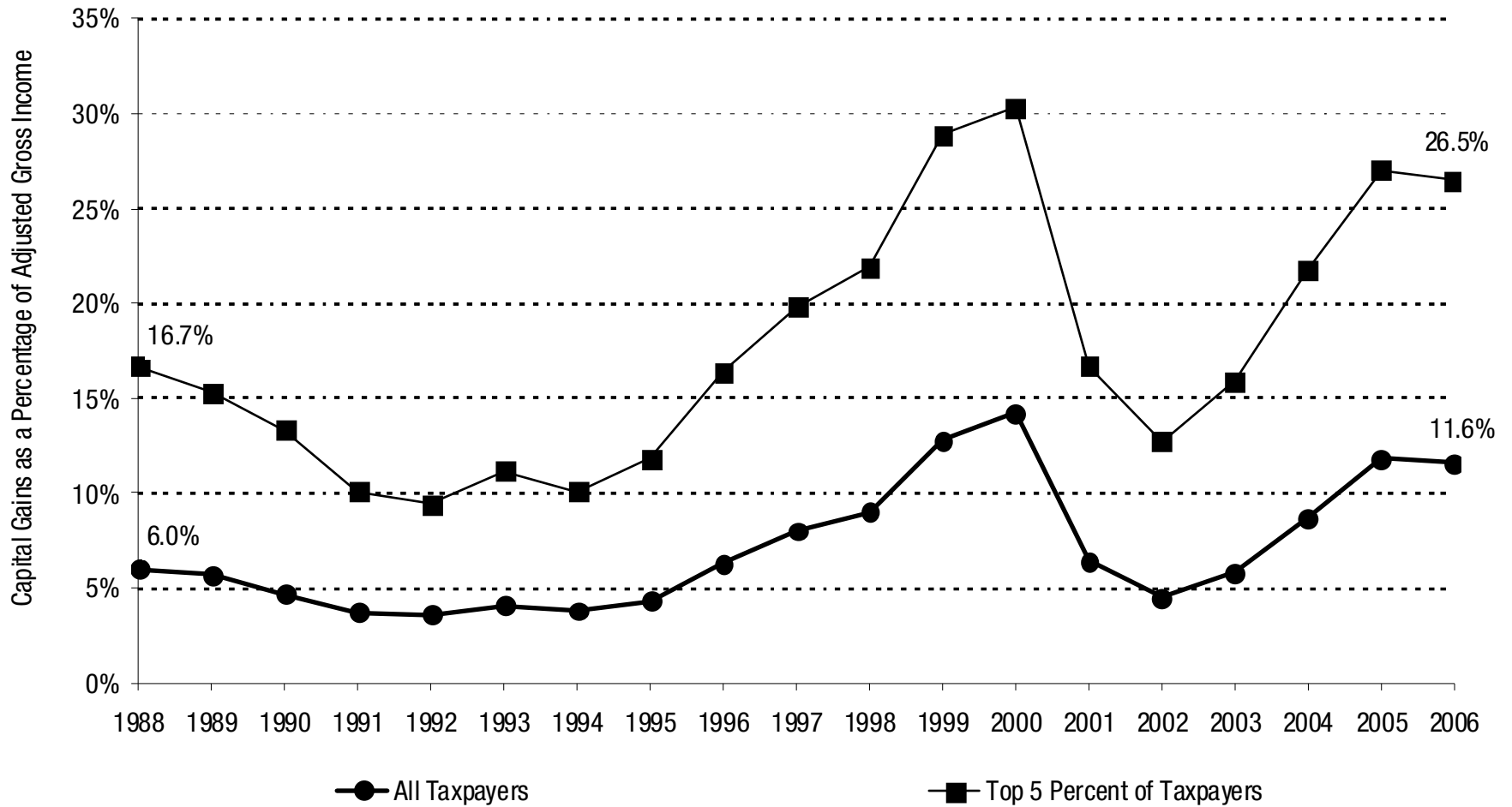
California's Tax System Contributes to the Budget Gap

- v Tax policies and economic trends contribute to the state's budget problems:
 - Corporate income taxes have declined over time as a share of General Fund revenues and as a share of corporate profits. If corporations had paid the same share of their profits in corporate taxes in 2006 as they did in 1981, corporate tax collections would have been \$8.4 billion higher.
 - The yield of the state's sales tax has declined over time, reflecting the shift in economic activity from goods to services and the rise of Internet and mail-order sales that escape taxation. If taxable purchases accounted for the same share of personal income in 2007-08 as they did in 1966-67, the state would have collected an additional \$16.4 billion in sales tax revenues.
 - The phase-out of the federal estate tax will cost the state over \$1.1 billion in 2009-10. Current law reinstates the tax in 2011; however, most experts believe that the state portion of the tax will not be restored.

California's Wealthiest Taxpayers Nearly Doubled Their Share of Adjusted Gross Income, 1993 to 2007

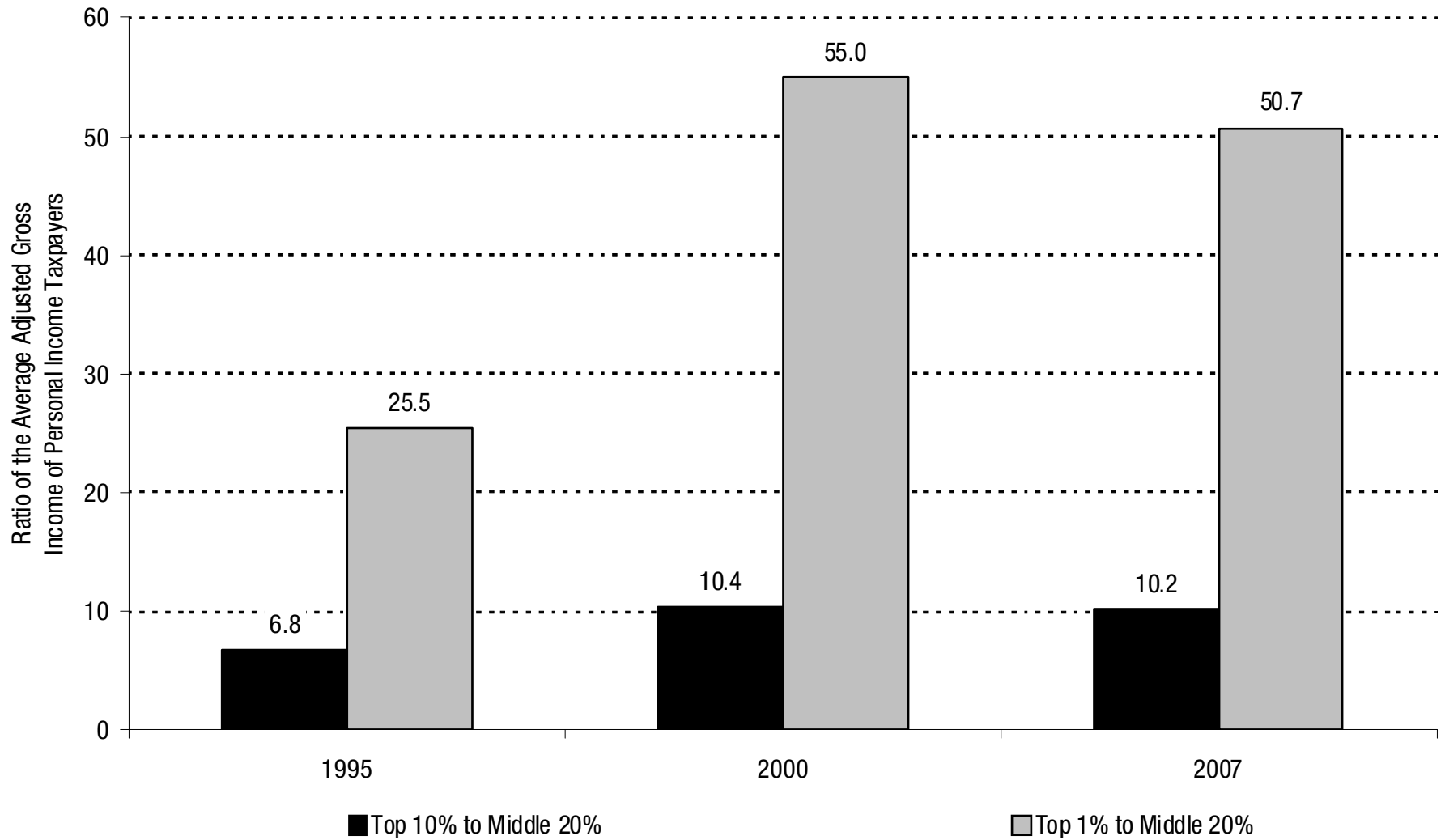


The Share of Total Adjusted Gross Income From Capital Gains Nearly Doubled Between 1988 and 2006



Source: Franchise Tax Board

The Gap Between Middle- and High-Income California Taxpayers Nearly Doubled, 1995 to 2007



California's High-Income Taxpayers Increased Their Share of Adjusted Gross Income (AGI), 1995 to 2007

Income Group	Average AGI	Share of AGI by Income Group			Percentage Point Change in Share of AGI		
	2007	1995	2000	2007	1995 to 2000	2000 to 2007	1995 to 2007
Bottom Fifth	\$7,358	2.5%	2.1%	2.0%	-0.4	-0.1	-0.5
Second Fifth	\$20,243	6.9%	5.6%	5.6%	-1.3	0.0	-1.3
Middle Fifth	\$36,115	12.2%	10.0%	10.0%	-2.2	0.0	-2.2
Fourth Fifth	\$63,102	20.9%	16.9%	17.4%	-4.0	0.5	-3.5
Top Fifth	\$236,242	57.6%	65.5%	65.1%	7.9	-0.4	7.5
Top 10 Percent	\$368,529	41.3%	51.8%	50.8%	10.5	-1.0	9.5
Top 1 Percent	\$1,832,123	15.5%	27.5%	25.2%	12.0	-2.3	9.7
All	\$72,612	100.0%	100.0%	100.0%			

Note: Totals may not sum due to rounding.

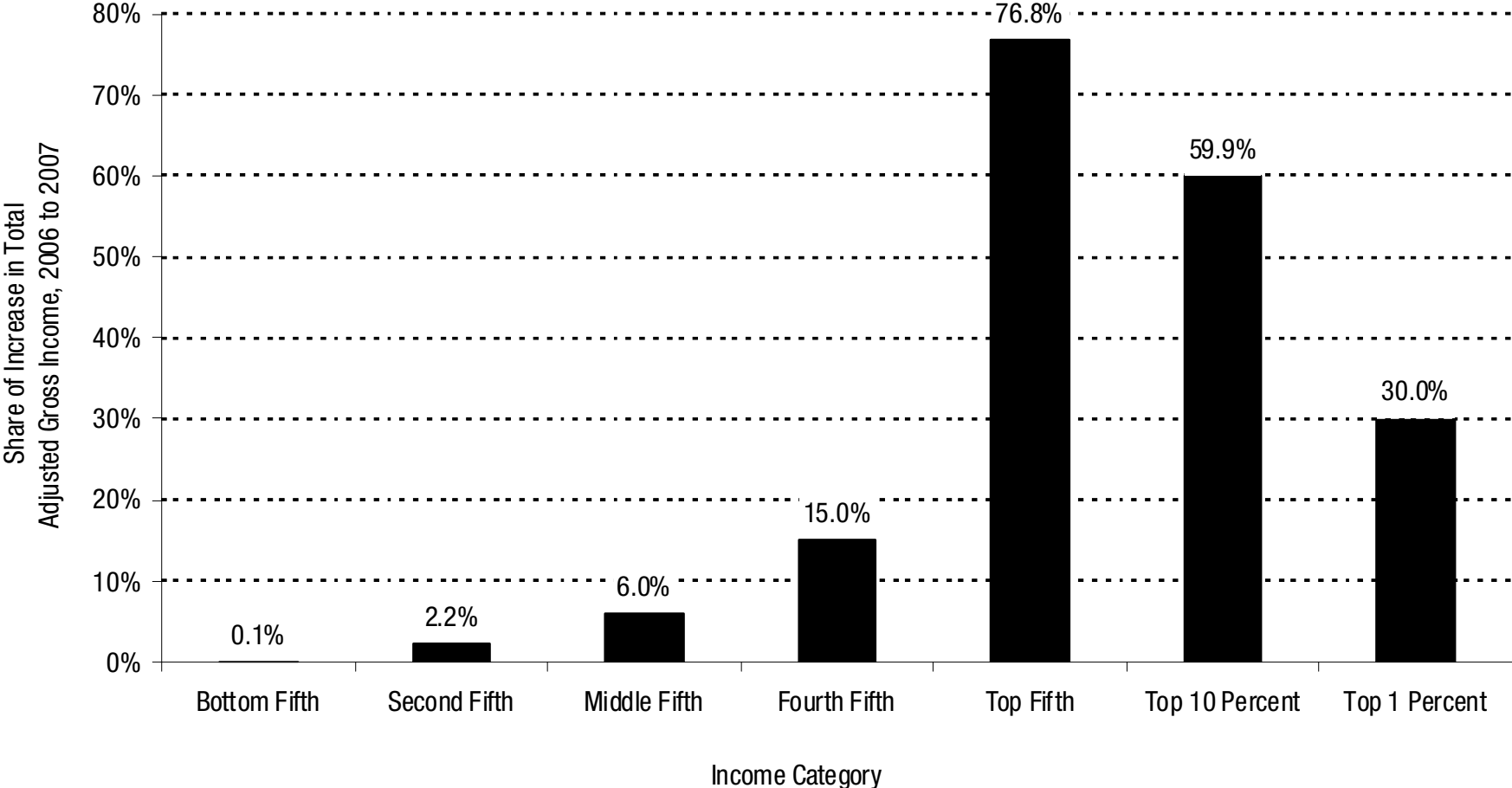
California Taxpayers in the Middle Fifth of the
Income Distribution Had 2007 Incomes
Between \$27,323 and \$46,549

Income Group	AGI Range	
	Lower Bound	Upper Bound
Bottom Fifth	\$0	\$13,778
Second Fifth	\$13,779	\$27,322
Middle Fifth	\$27,323	\$46,549
Fourth Fifth	\$46,550	\$84,813
Top Fifth	\$84,814	*

* Not reported.

Source: Franchise Tax Board

Three-Quarters of the 2007 Gain in Adjusted Gross Income Went to the Wealthiest Fifth of Taxpayers

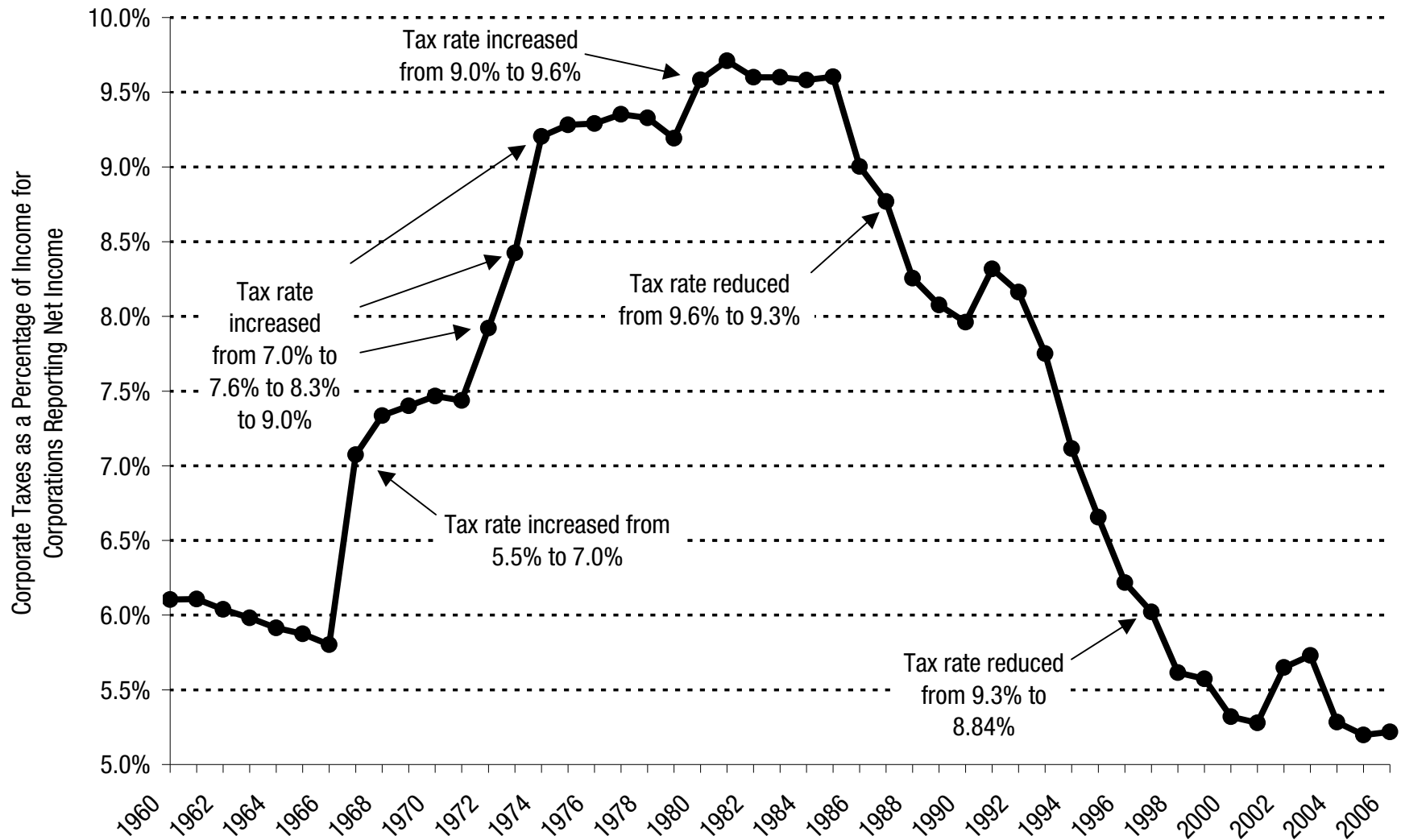


Source: Franchise Tax Board



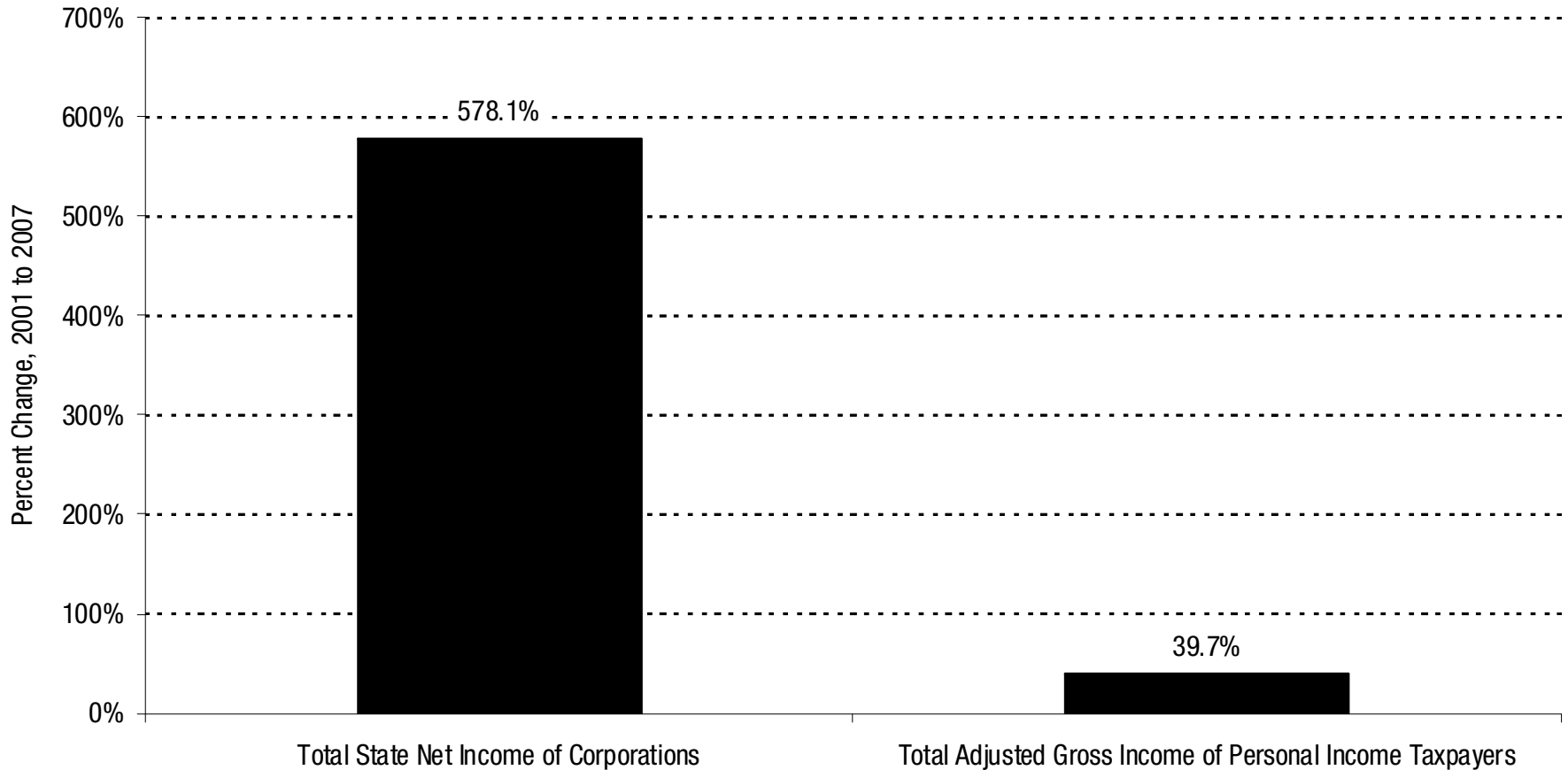
CALIFORNIA BUDGET PROJECT

The Share of Corporate Income Paid in Taxes Has Fallen by Nearly Half Since 1981



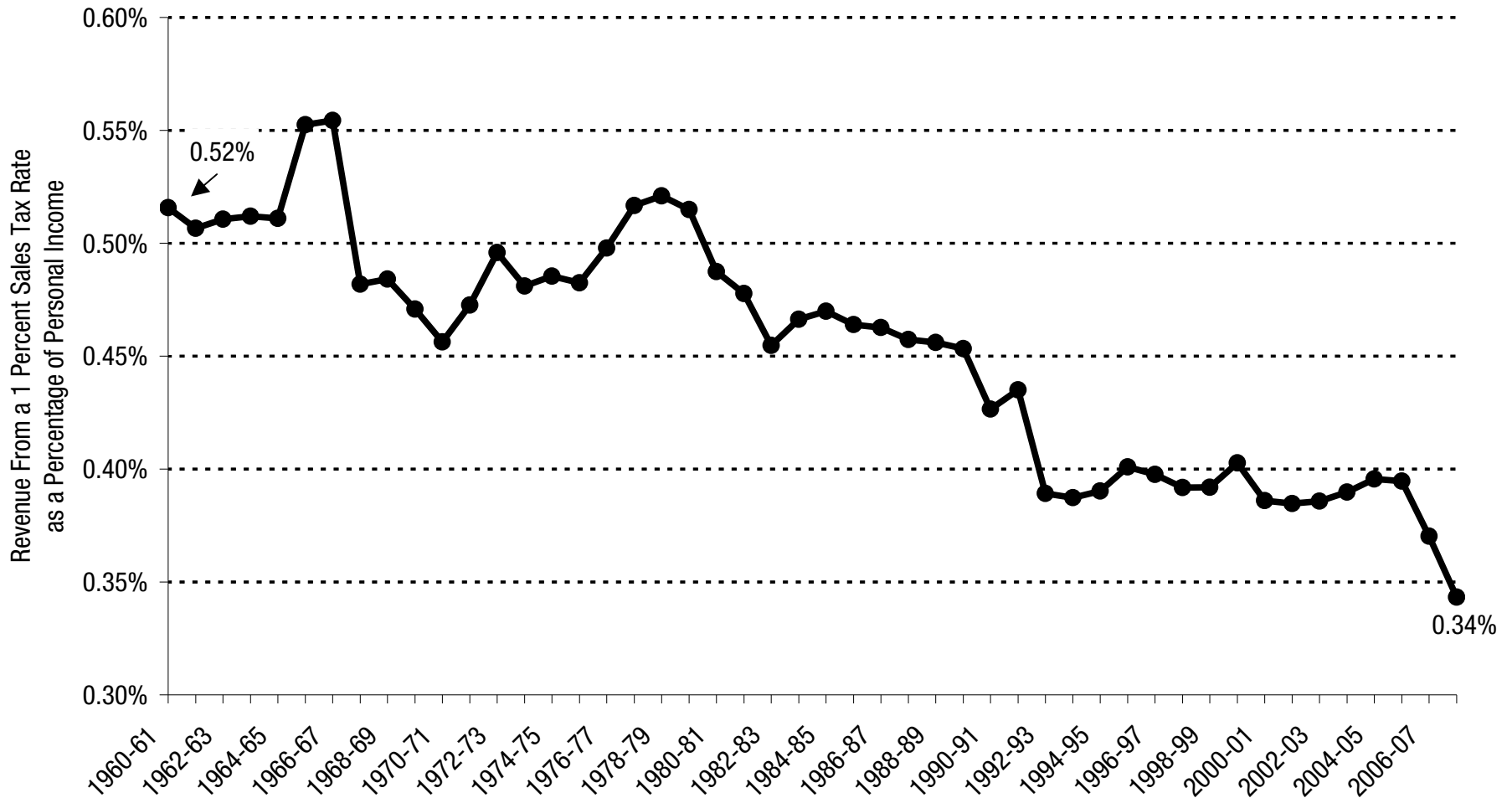
Source: Franchise Tax Board

Growth in Corporate Income Far Outstripped That of Adjusted Gross Income During the Economic Recovery



Note: All data are for California. Corporate and adjusted gross income reflect income reported for tax purposes.
Source: Franchise Tax Board

Sales Tax Collections Have Declined as a Share of Personal Income



Source: Board of Equalization, Department of Finance, Legislative Analyst's Office, and US Bureau of Economic Analysis

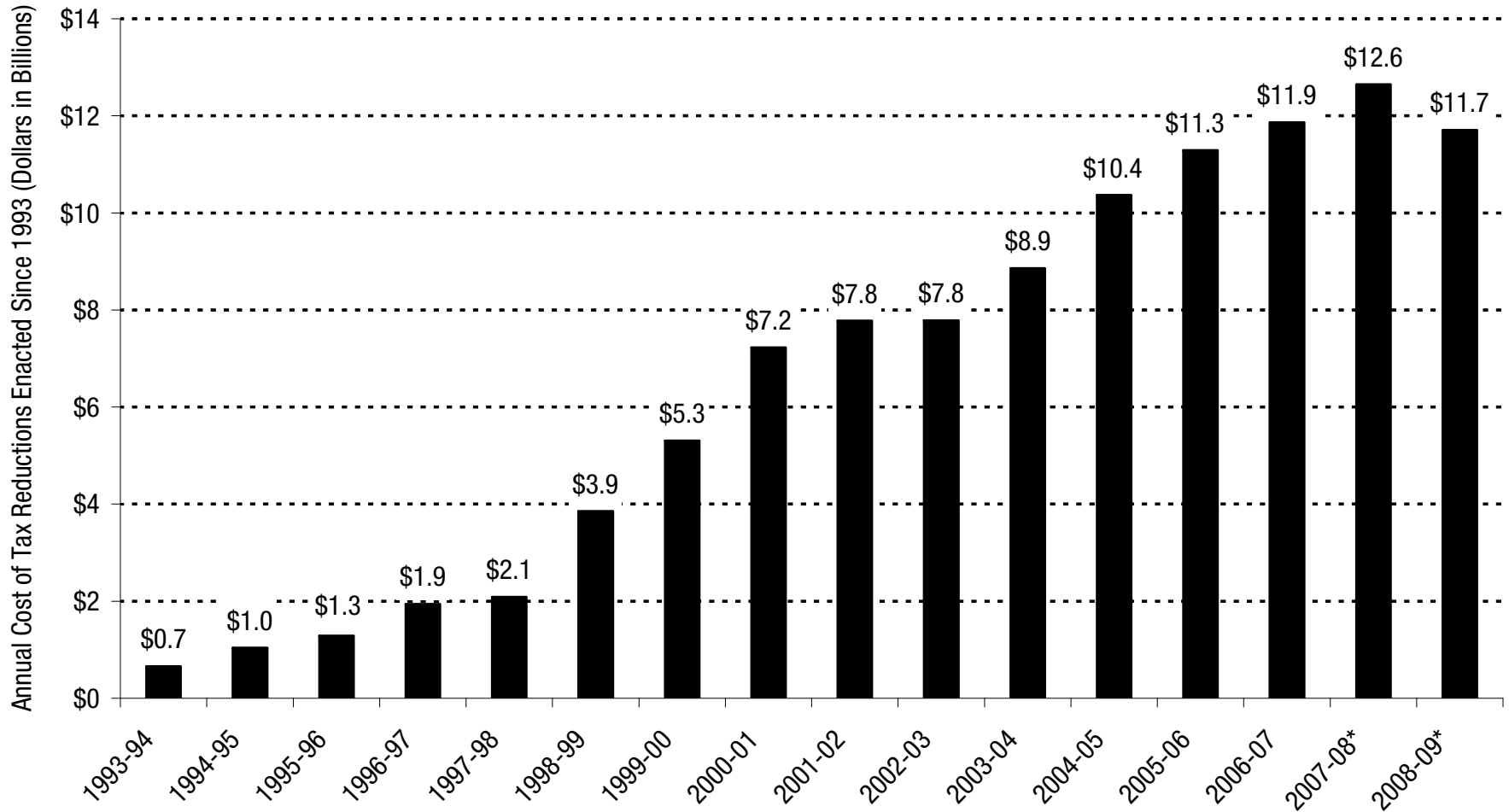
How Does California Compare?

Revenues as a Percentage of Personal Income

	California Rank	California	US
Total State and Local Own Source (2005-06)	17	16.96%	16.29%
Total State and Local Taxes (2005-06)	13	11.73%	11.23%
State Taxes (2006-07)	14	7.76%	6.65%
Local Taxes (2005-06)	32	3.76%	4.52%
State and Local General Sales Taxes (2005-06)	16	2.89%	2.65%
State and Local Property Tax (2005-06)	36	2.67%	3.37%
State General Sales Tax (2006-07)	23	2.21%	2.10%
State Motor Fuels Taxes (2006-07)	45	0.23%	0.32%
State Tobacco Tax (2006-07)	44	0.07%	0.14%
State Alcoholic Beverage Sales Taxes (2006-07)	39	0.02%	0.05%
State Individual Income Tax (2006-07)	4	3.61%	2.36%
State Corporate Income Tax (2006-07)	6	0.75%	0.47%

Tax Cuts Enacted Since 1993 Will Cost \$11.7 Billion in 2008-09

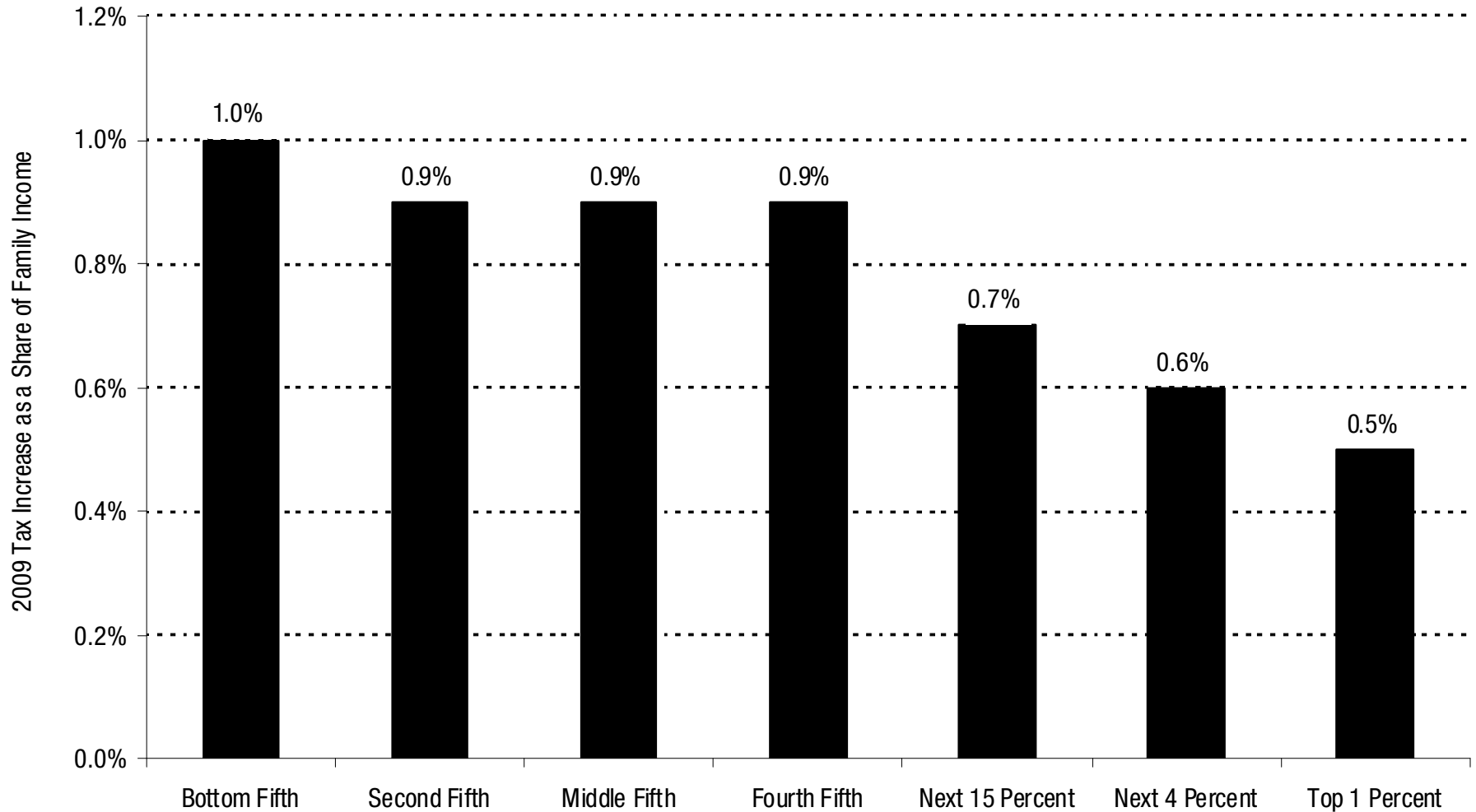
2008-09 Drop Reflects Suspension of Net Operating Loss Deductions



*2007-08 and 2008-09 estimated.

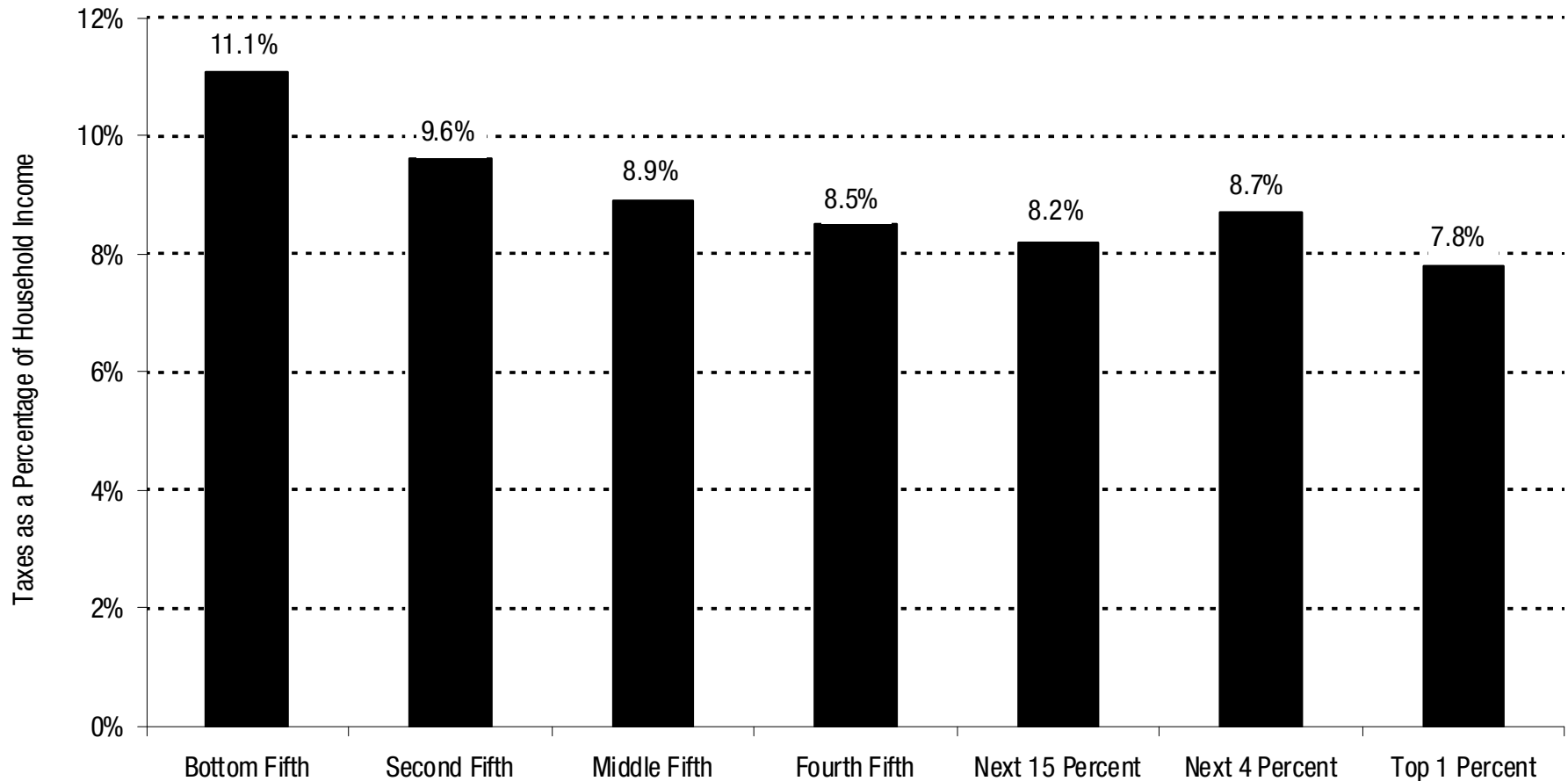
Source: Assembly Revenue and Taxation Committee, Board of Equalization, Department of Finance, Franchise Tax Board, and Legislative Analyst's Office

2009 Tax Increase Disproportionately Hit Low-Income Californians



The Lowest-Income Households Pay the Largest Share of Their Income in State and Local Taxes

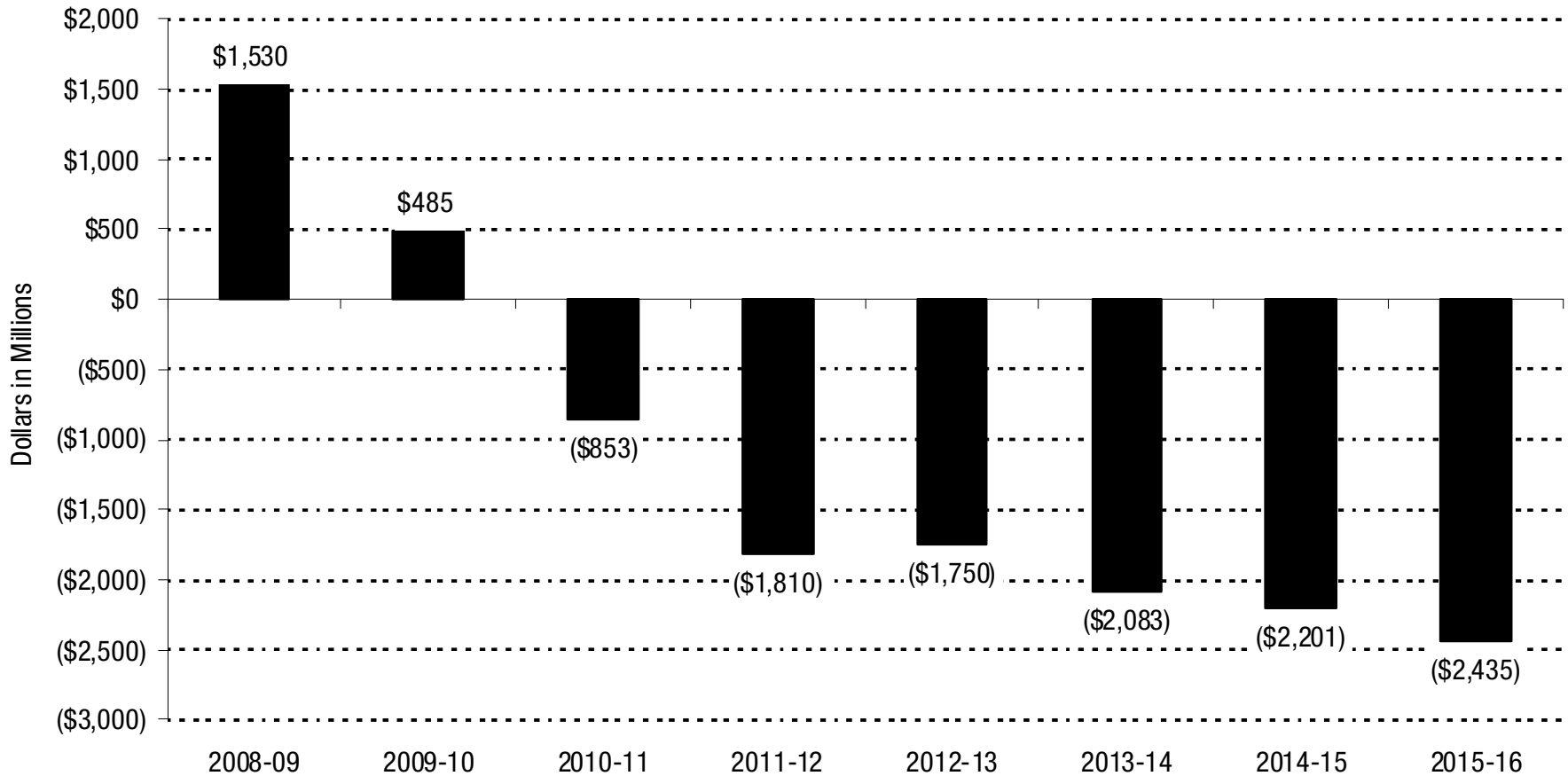
Includes the Temporary Tax Increases Enacted in the February 2009 Budget Agreement



Note: Includes offset for federal deductibility of state taxes.
Source: Institute on Taxation and Economic Policy

2008 and 2009 Tax Deals Will Lose More Than \$9 Billion Over Eight Years

Losses Will Continue Permanently



Net Cost of Business Tax Cuts in the 2008 and 2009 Budget Agreements

Note: Assumes full loss due to Single Sales Factor apportionment occurs in 2015-16.
Source: Franchise Tax Board and Senate Floor Analysis