

January 13, 2010

# LAO Analysis of COTCE Revenue Proposals

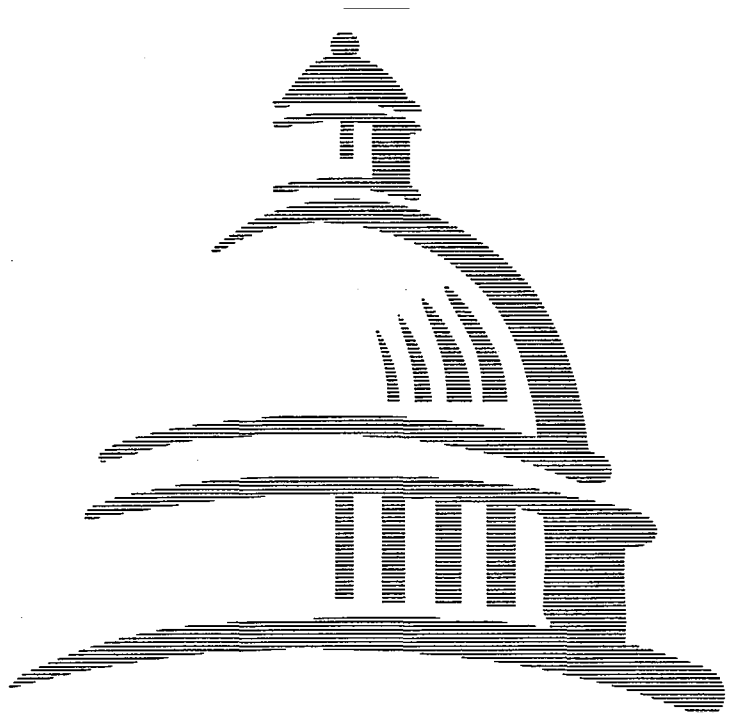
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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Revenue and Taxation Committee

Hon. Charles M. Calderon, Chair





## LAO Simulation Suggests the COTCE Proposal Is Not Revenue Neutral

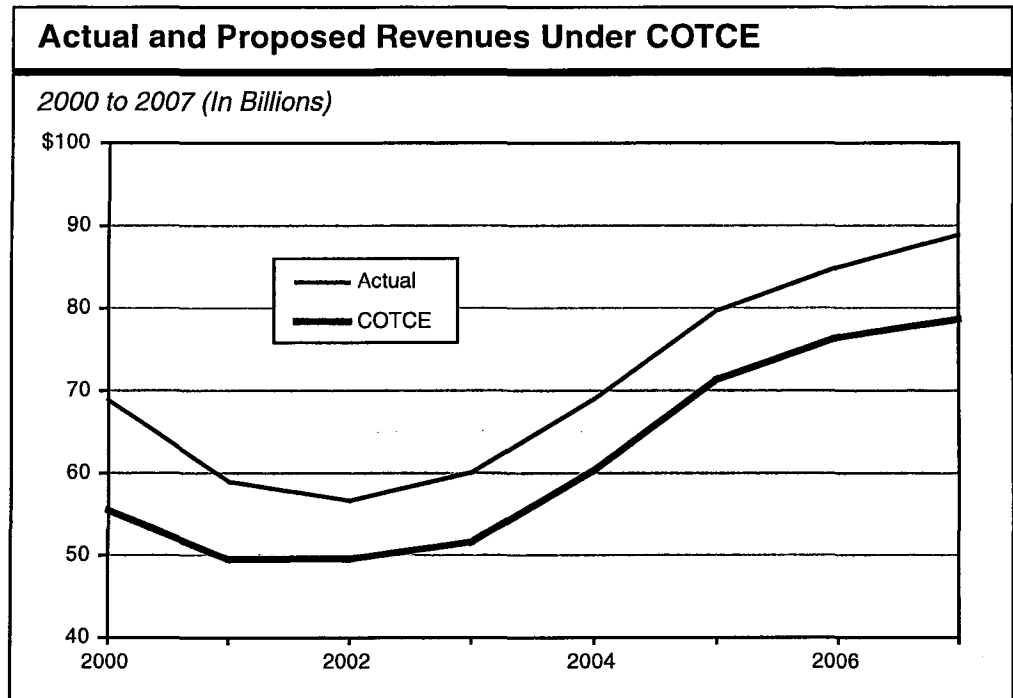
<b>Projected State Revenues in 2007 COTCE Tax Proposals</b>			
<i>(In Billions)</i>			
	<b>Actual</b>	<b>Estimated COTCE</b>	<b>Difference</b>
Personal Income Tax	\$52.1	\$39.1	-\$13.0
Sales and Use Tax	28.1	—	-28.1
Corporate Tax	8.7	—	-8.7
Business Net Receipts Tax	—	39.6	39.2
<b>Totals</b>	<b>\$88.9</b>	<b>\$78.7</b>	<b>-\$10.2</b>

COTCE = Commission on the 21<sup>st</sup> Century Economy.

- Simulation uses 2007 corporate and personal income tax data to estimate revenues from the proposed net business receipts tax (BNRT). The simulation suggests the proposal would yield a \$10 billion annual drop in state revenues.
- Results should not be considered definitive. The BNRT is so different it is difficult to estimate using existing data.
- The size of the gap, however, suggests that the Legislature would need to consider a higher BNRT rate or smaller reductions in existing taxes if the proposal was to be revenue-neutral (as the commission intended).



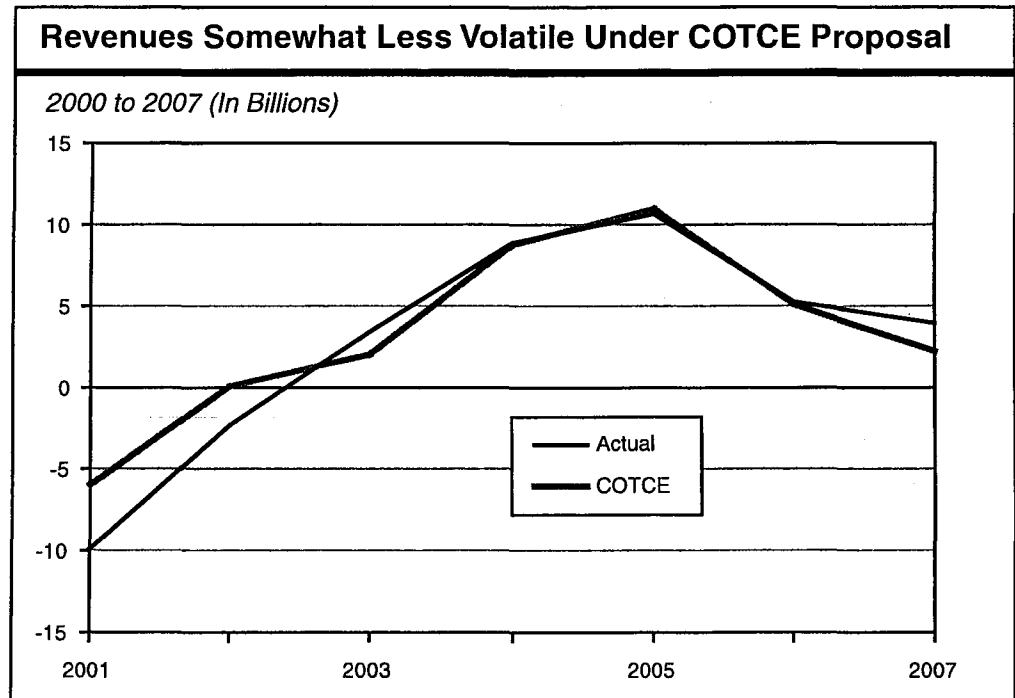
## Funding Gap Persists Over the Business Cycle



- We extended the simulation of BNRT revenues back to 2000.
- The revenue gap between the current tax system and the COTCE proposal persists.



## Volatility Improvements Under the COTCE Proposal



- This chart illustrates the annual change in General Fund revenues.
- Annual revenue changes under the COTCE proposal are similar to the existing system. The proposal appears to limit volatility in some years.



## BNRT Shifts Tax Burden to Companies That Do Not Pay the Corporate Income Tax

<b>Business Taxes Would Be Shifted Estimated BNRT Payments, 2007</b>			
<i>(In Billions)</i>			
<b>Type of Company</b>	<b>Current CT Taxpayers</b>	<b>Not Current CT Taxpayers<sup>a</sup></b>	<b>Total</b>
Multistate corporations	\$10.4	\$1.6	\$12.0
In-state corporations	2.7	1.1	3.8
Subchapter S corporations	5.4	0.4	5.8
Limited liability companies	6.5	3.3	9.8
Partnerships	—	7.3	7.3
Sole proprietors	—	0.9	0.9
<b>Totals</b>	<b>\$25.0</b>	<b>\$14.6</b>	<b>\$39.6</b>

<sup>a</sup>Corporations and Limited Liability Companies (LLCs) pay a minimum \$800 tax even when they lose money. Profits earned by partnerships, LLCs, and sole proprietors are subject to personal income taxes.

BNRT = business net receipts tax; CT = corporate tax.

- The COTCE proposal would introduce large changes in business taxes.
- Many businesses that annually do not pay an income-based tax would be subject to the BNRT.
- This includes corporations and limited liability companies (when they report zero or negative taxable income) and partnerships and sole proprietors (which do not pay corporate taxes).