

## Almost Two-Thirds of All State Revenues Come From Income and Sales Taxes

1995-96 (In Billions)

General Fund Revenues	Total State Revenues \$59.6 Billion <sup>a</sup>	Special Fund Revenues
Personal Income Taxes \$20.5		Motor Vehicle-Related Taxes \$7.5
Sales and Use Taxes 15.7		Sales and Use Taxes <sup>b</sup> 3.3
Bank and Corporation Taxes 5.6		Tobacco-Related Taxes 0.5
All Other 3.6		All Other 3.1
<b>Total \$45.3</b>		<b>Total \$14.3</b>

<sup>a</sup> Includes transfers. Detail may not add to totals due to rounding. General Fund revenue projections are by Legislative Analyst. Special Fund revenue projections are by Department of Finance.

<sup>b</sup> Includes \$1.6 billion to Local Revenue Fund, and \$0.2 billion for transportation-related purposes. Also includes \$1.6 billion allocated to Local Public Safety Fund which is not included in Governor's Budget totals.

- General Fund revenues account for over three-fourths of total revenues.
- Personal income taxes are the largest individual revenue source—over one-third of total revenues and 45 percent of General Fund revenues.
- Special funds are usually earmarked for specific purposes, such as transportation funding. Motor vehicle-related levies account for over half of all special fund revenues.

## California's Governments Levy A Wide Variety of Different Taxes

State Taxes	1995 Rate	Description
Personal Income	Marginal rates of 1 to 11 percent  AMT <sup>a</sup> rate of 8.5 percent <sup>b</sup>	For the 1995 tax year, married couples who earn less than \$16,405 pay no tax. The 11 percent top rate applies to a couple's taxable income in excess of \$439,744.
Sales and Use Taxes	6 percent <sup>c</sup>	Applies to the final purchase price of tangible items.
Bank and Corporation Taxes— <i>General Corporations</i>	9.3 percent <sup>d</sup>  AMT rate 7 percent	Applies to the net income earned by corporations doing business in California.
Bank and Corporation Taxes— <i>Financial Corporations</i>	11.5 percent <sup>e</sup>  AMT rate 7 percent	Applies to the net income earned by financial corporations. A portion of the tax is in lieu of local personal property or business taxes.
Vehicle Fuel Taxes	18 cents per gallon of gasoline or diesel fuel	Tax is collected from fuel distributors or wholesalers. Equivalent taxes are levied on other types of vehicle fuels.
Insurance Tax	2.35 percent	Tax is assessed on the gross premiums received by most types of insurance companies.
Alcohol and Cigarette Taxes	Wine and beer: 20 cents/gal; Sparkling wine: 30 cents/gal; Spirits: \$3.30/gal; Cigarettes: 37 cents/pack	Tax is collected from manufacturers or distributors.
Estate/Inheritance/Gift Taxes	0.8 to 16 percent	The estate tax is a "pickup" tax to take advantage of the maximum state credit allowed against the federal estate tax. The inheritance and gift taxes apply only to deaths and gifts prior to Proposition 6.
Horse Racing License Fees/Taxes	0.5 to 6.45 percent	Fees/taxes are levied on amounts wagered.

## California's Governments Levy A Wide Variety of Different Taxes

CONTINUED

Local Taxes	1995 Rate	Description
Property Taxes	1 percent (plus amounts to pay off voter approved debt)	Tax is levied on the assessed value (usually based on purchase price plus a maximum annual inflation factor of 2 percent) of most real estate and various types of personal and business property (such as boats, airplanes, and business equipment).
Local Sales and Transaction Taxes	1.25 to 2.75 <sup>f</sup> percent	Collected with state sales and use tax. Revenues go to cities, counties, and special-purpose taxing districts.
Vehicle License Fees	2 percent	Tax is applied to original purchase price less depreciation as determined by statute. Tax is collected by the state and distributed to cities and counties.

<sup>a</sup> AMT refers to the Alternative Minimum Tax.

<sup>b</sup> The 10 percent and 11 percent tax brackets and 8.5 percent AMT rate are scheduled to sunset at the end of 1995.

<sup>c</sup> This rate includes all state-imposed tax rates including rates levied for program realignment and local public safety.

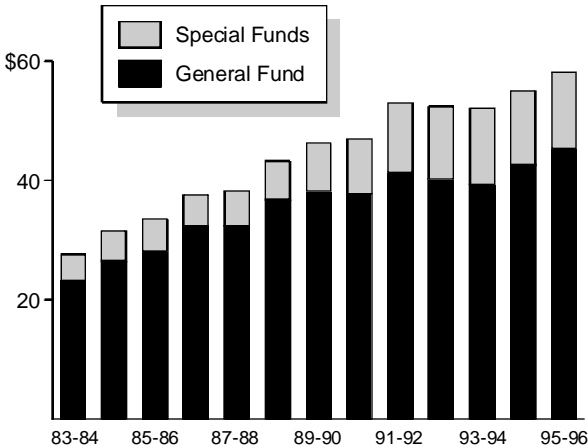
<sup>d</sup> Subchapter S corporations have a 1.5 percent tax rate.

<sup>e</sup> This rate is for 1995. Rate determined annually by the Franchise Tax Board.

<sup>f</sup> Maximum allowable combined rate, except maximum is 3.0 percent in San Francisco and 3.25 percent in San Mateo County. Currently, the highest actual local rate in the state is 2.5 percent in San Francisco.

## State Revenue Growth Has Resumed

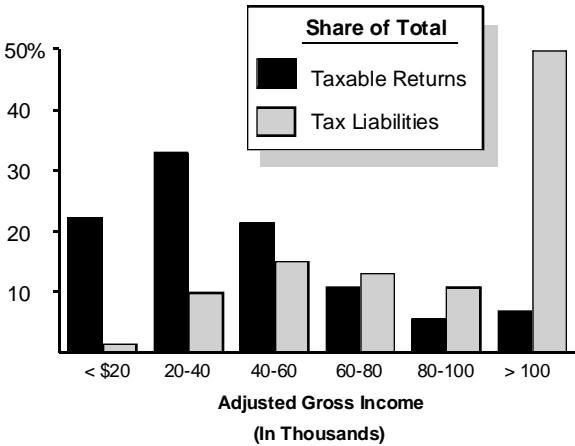
(In Billions)



- After declining during the recession, total state revenues (excluding transfers) have grown in each of the last two years, averaging 5.7 percent.
- During the past 13 years, however, total revenue growth has averaged 6.4 percent.
- Average growth since 1983-84 has been faster for special fund revenues than General Fund revenues—nearly 10 percent versus 5.7 percent.

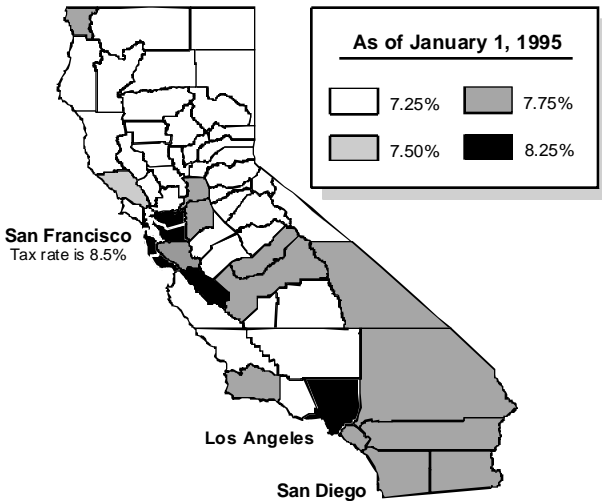
## California's Income Tax Structure Is Highly Progressive

1996 Income Year



- California has a highly progressive income tax structure, meaning that as one's taxable income rises, so does one's average tax rate.
- In 1996, marginal tax rates will range from 1 to 9.3 percent.
- The top 7 percent of taxpayers—those with incomes exceeding \$100,000 annually—will account for nearly 50 percent of total tax liabilities in 1996. This share is slightly lower than in 1995, primarily because of the scheduled elimination of the 10 percent and 11 percent tax brackets.

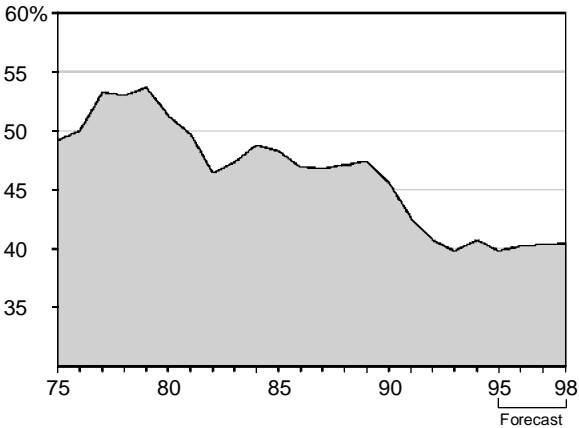
## Sales Tax Rates Vary by County



- Sales tax rates vary by county because of the optional sales taxes which localities can choose to levy.
- Existing sales tax rates range from 7.25 percent in counties with no optional sales and use taxes, to 8.5 percent in the City and County of San Francisco.
- San Mateo and San Francisco can impose an additional 0.5 percent and 0.25 percent rates, respectively, beyond the 8.75 percent maximum statewide rate.

## Taxable Sales Ratio to Hold Steady

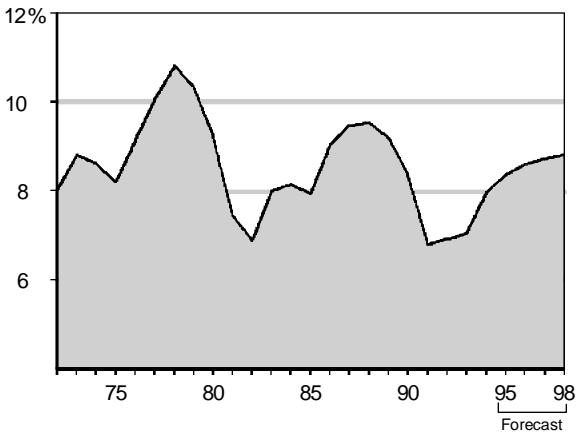
*Taxable Sales as a Percent of Personal Income*



- The ratio of taxable sales to personal income has fallen significantly over the past 15 years.
- This decline is consistent with the long-term shift in consumer spending towards services, which generally are not taxed in California.
- The ratio is projected to remain relatively stable over the next few years.

## Profits Recovering From Historic Lows

*Corporate Profits as a Percent of Personal Income*

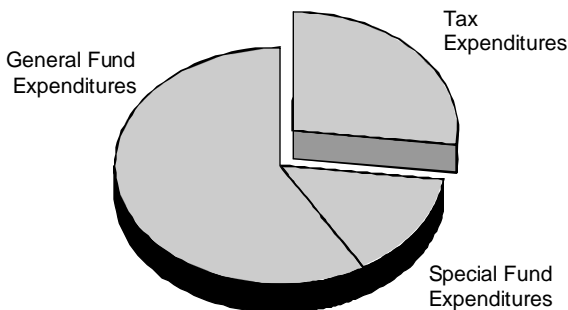


- The ratio of corporate profits to state personal income is one key measure of the strength of the corporate tax base relative to the economy.
- This ratio has rebounded in recent years from its historic 1990s low and is forecast to trend upward.
- There are a number of factors contributing to the ratio's recent upward trend, including corporate cost containment, increased productivity, and higher sales volumes.



## State Tax Expenditures—Over One-Third of Direct Expenditures

1991-92



- Tax expenditure programs (TEPs) are the various tax exclusions, exemptions, preferential tax rates, credits, and deferrals which reduce the amount of revenues collected from the state's "basic" tax structure.
- There are currently nearly 300 TEPs, including about 200 state-level TEPs and over 70 local property tax TEPs, which can impose state costs because the state backfills the lost local revenues.
- The largest TEPs include income tax deductions for mortgage interest expenses, income tax exclusions for employer contributions to pension plans, and sales tax exemptions for general foodstuffs.
- State-level TEPs cost \$20 billion when last estimated in 1991-92.

