May 11, 2010

Revenues and the 2010-11 Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Committee

Hon. Bob Blumenfield

Chair

Revenues and the 2010-11 Budget

☑ In our January *Overview of the Governor's Budget*, we concluded that additional revenues will be needed to fill the $20 billion budget problem facing the state.

☑ Revenues can include nontax sources (sale of state assets, securitization, etc.) and increases in the taxes owed or collected. Today, we present a menu of tax changes for the Legislature's consideration—focusing on those for which a reasonable case can be made on tax policy grounds.

☑ Our three basic approaches to increasing tax revenues include:

- Delaying tax policy implementation (Governor's approach).
- Broadening tax bases by eliminating tax expenditures.
- Enacting targeted tax rate increases.

☑ Assembly Subcommittee No. 4 has already heard some proposals that focus on improving enforcement and collection of existing taxes owed.

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Governor's "Trigger" Proposals and LAO Alternatives

(In Millions)		
	LAO Alternative	
Provision	2010-11	2011-12
Extend moratorium on use of NOLs	$1,500	$355
Reduce dependent credit	200	1,200
Delay credit sharing among related companies	315	260
Delay implementing single sales factor option	240	850
Slow phase-in of NOL "carrybacks"	—	465

- ☑ The administration's revenue-raising proposals in its federal funds "trigger" plan generally extend or delay for one year policies that were adopted in the past two budgets.

- ☑ Our approach would be to extend or delay these provisions for *two years* in recognition of the budget challenge created by the loss of nearly $10 billion in temporary taxes in 2011-12.

- ☑ We also suggest making the single sales factor mandatory. The change in apportionment adopted last year is a reasonable approach, but allowing businesses to choose their method of taxation is poor tax policy.

- ☑ In the case of the dependent credit, we recommend continuing the February 2009 change permanently. This ties the amount of the credit to the personal credit, which is the state's historical approach.

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LAO Changes to Tax Expenditures

(In Millions)

Provision	2010-11	2011-12	Comments
Personal/Corporate Income Tax			
Eliminate enterprise zone and similar subsidies	$400	$470	Program has not shown effectiveness
Eliminate favorable treatment of like-kind exchanges	350	350	Justification for not taxing gains is unclear
Eliminate senior credit	154	160	No rationale for extra credit
Eliminate exemption for employer-provided life insurance	105	105	Benefits should be taxed like other forms of income
Tax one-half of Social Security income	100	500	Income should be taxed like other pension income
Eliminate exemption for employer-provided parking	100	100	Benefits should be taxed like other forms of income
Eliminate small business stock exclusion	20	20	Program has not shown effectiveness
Sales Tax			
Sales—Doctor and veterinarian sales	80	80	Sales taxes are not applied to "markup"

☑ We include two suggestions that eliminate favorable treatment of certain business activities.

☑ We also include four proposals that attempt to ensure that income—either cash or in-kind income—is treated equally.

☑ Our approach for taxing Social Security income would differ from federal taxable Social Security income. We would tax the benefits similarly to the way other pension income is taxed.

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LAO Targeted Rate Increases

(In Millions)

Provision	2010-11	2011-12	Comments
Alcohol tax—update rates to reflect inflation since 1991	$210	$210	Excise tax partially compensates for societal costs of drinking
Vehicle license fee—set at property tax rate	—	1,300	Align fee with property tax rate permanently

- ☑ While we generally discourage higher rates in our main state taxes (the big three), we have two proposals that would raise other tax rates while adhering to sound tax policy principles.

- ☑ The alcohol tax rates have not been updated since 1991. Given the significant societal costs associated with drinking, we think it is reasonable to maintain the real value of these taxes.

- ☑ We also suggest aligning the vehicle license fee with local property tax rates, as it represents a tax on property—with the proceeds going into the General Fund.