

August 24, 2007

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Toni Melton
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed the statutory initiative relating to state taxation (A.G. File No. 07-0033).

Background

The state levies a personal income tax (PIT) on the California income of individuals. Taxpayers are allowed either to claim a standard deduction or deduct certain itemized expenses from their adjusted gross income (AGI) when computing their taxable income and tax liability. One class of itemized deductions allowed is for the amount of qualified medical care expenses that are in excess of 7.5 percent of the taxpayer's AGI.

Provisions of the Initiative

This measure expands the definition of medical care expenses deductible for state PIT purposes to include purchases of dietary supplements and food for special dietary needs, as defined.

Fiscal Effects of the Initiative

If approved by the voters, this measure would reduce state PIT revenues. The magnitude of the reduction would depend on how the measure is interpreted in terms of what specific items are deductible within the above two broad categories. The revenue loss, however, would likely range from the low millions of dollars to the low tens of millions of dollars annually beginning in 2008-09.

Summary of Fiscal Effects. The measure would have the following fiscal effect:

- Annual reduction in state revenues from the low millions of dollars to the low tens of millions of dollars.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Michael C. Genest
Director of Finance