Revenues and the 2010-11 Budget

LEGISLATIVE ANALYST’S OFFICE

Presented to:
Senate Budget and Fiscal Review Committee
Hon. Denise Moreno Ducheny
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.

☑ We present a menu of 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.
The administration’s revenue-raising proposals in its “trigger” plan generally extend or delay for one year policies that were adopted in the past two budgets. Our LAO alternative estimates reflect both changes in scoring from the Governor’s budget and our suggested policy changes.

Our approach would be to extend or delay these provisions for two years in recognition of the budget challenge created by the loss of $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.
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.
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.

### LAO Targeted Rate Increases

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