Making the Tax System Reflect California's Economy

The League has often looked at tax expenditures as one good way to address the state's structural budget deficit. (Another article in this series reports on a bill to require regular evaluation of tax expenditures.) However, there are many changes that would help our tax system more closely align with our 21st century economy and also help address the deficit. Thoughtful League members will want to consider the varied proposals for changes to our tax system that are being discussed around the state.

Our state's sales tax base has not reflected the changes in our economy to a more service-oriented one. Because a sales tax is meant to capture a small amount of the money spent by citizens in order to help finance public expenditures, the sales tax is a logical place to look for added revenue. Lenny Goldberg of the California Tax Reform Association suggests that there are many untaxed "services" that are actually a temporary use of tangible commodities which should be taxed. These include admission to golf courses, gyms, concerts and sporting events. Even without taxing labor services per se, adding such taxes for use of a commodity to our tax structure would add more than $800 million annually. Another consideration is that broadening the tax base would allow the possibility of lowering the sales tax rate.

Although progressive, our personal income tax base and rate structure has several weaknesses that should be considered. Having a top tax bracket that begins at the $40,000 income level for an individual ($80,000 for a couple) means that this tax system may not be as progressive as warranted. Additionally, high-income earners have received windfall savings due to federal income tax cuts—but federal spending cuts continue to lead to California budgetary losses. Reinstating the top tax brackets of 10 and 11 percent that the state had under Governor Pete Wilson in the early 1990s would greatly benefit California's treasury and more closely reflect the income distribution of today's families.

Corporate taxes provide a smaller percentage share of tax revenues than they did in the 1980s, even though the economy is growing. Addressing loopholes and incentives that may not be effective and making other reforms to the corporate tax structure could generate substantial revenue.

The local property tax is another area that must be addressed for the state as a whole to be solvent. An area of property tax law that may require changes is the complex "change of ownership" rules that define when investment property is reassessed. Currently, these laws allow for very similar commercial properties to pay disparate amounts in property taxes. This is not fair to newer owners or to the citizens of California. Another reform supported by League positions would be a constitutional amendment to require the periodic reassessment of nonresidential property at market value. The California Tax Reform Association has written extensively on this subject; to research it more thoroughly, visit their Web site, **www.caltaxreform.org**.

It is clear that substantial revenue could be generated through changes to some of California's tax policies. Such changes would also help alleviate the ongoing structural budget deficit. A review of the current tax system will certainly uncover many reforms that are appropriate, including some mentioned here. California needs the revenue that will provide a good education system, public services, and sound infrastructure. Our state's future depends on a tax structure that is sustainable—one that is fair, efficient and equitable.