



California Budget  
& Policy Center

# A Look at California's Tax System: What Does It Do for Us and How Can It Work Better?

ALISSA ANDERSON

SENIOR POLICY ANALYST

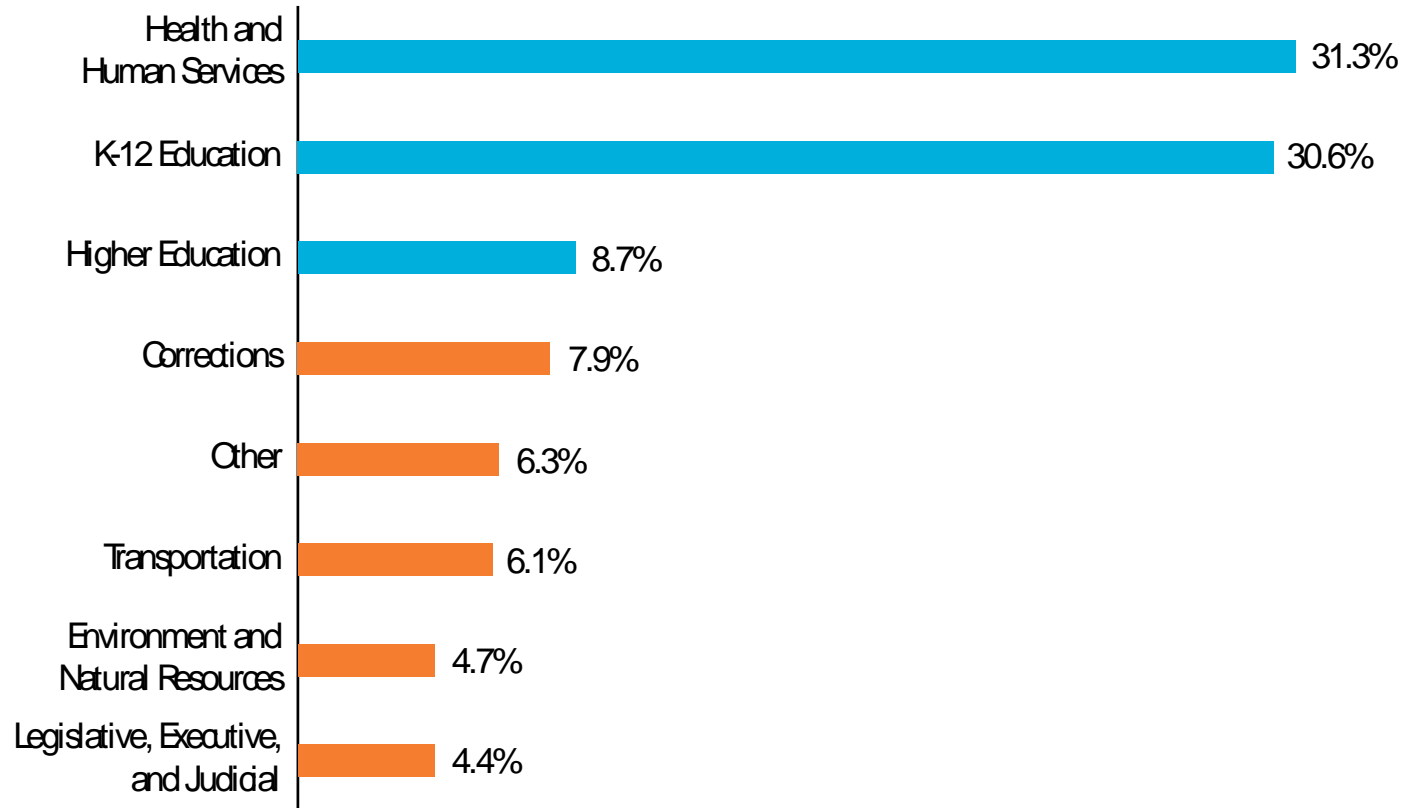
JULY 21, 2016

FAMILY ECONOMIC SECURITY PARTNERSHIP  
COORDINATING COUNCIL MEETING

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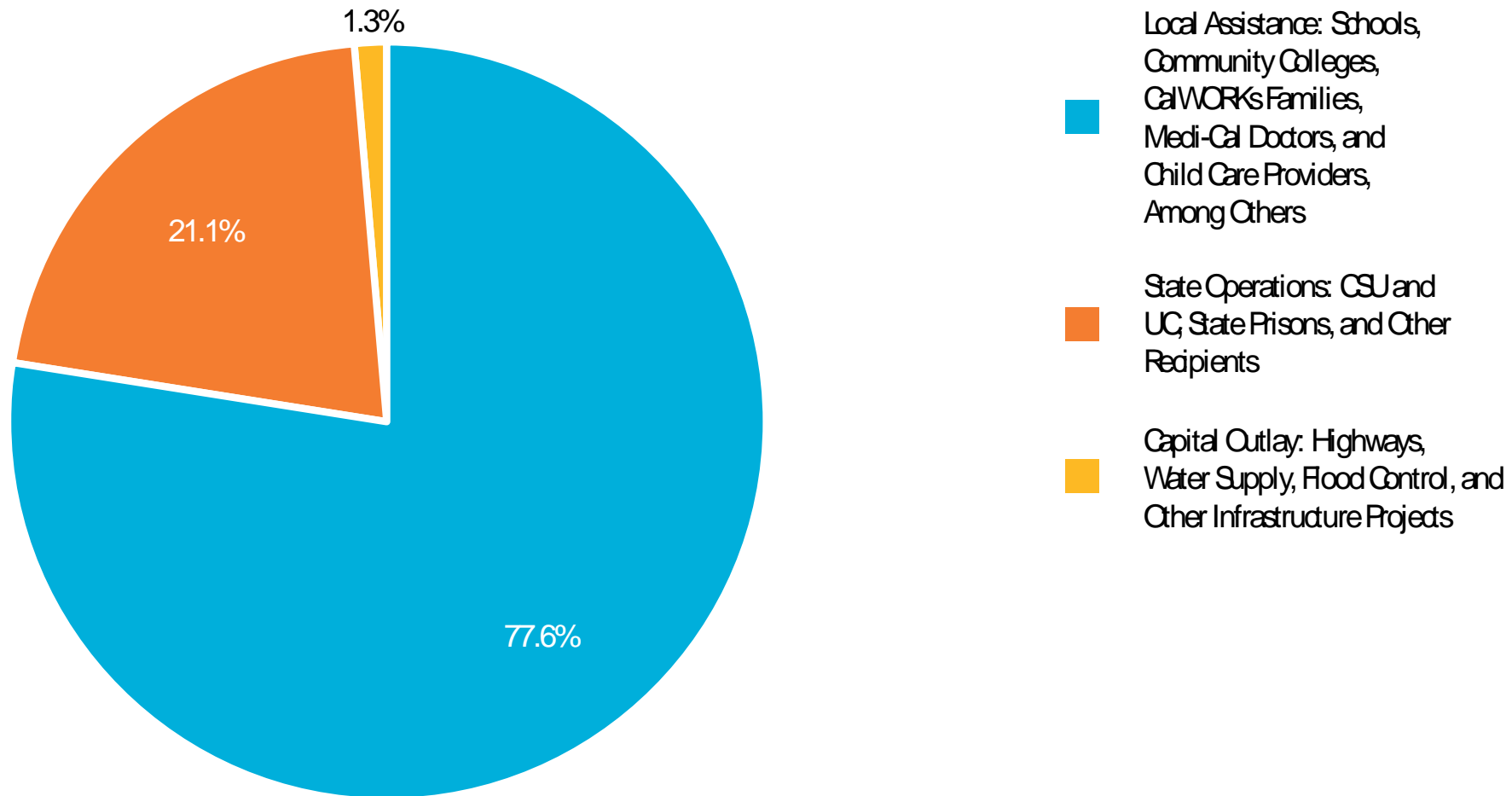
# More Than 7 in 10 State Dollars Support Health and Human Services or Education

Proposed 2016-17 General Fund and Special Fund Expenditures = \$167.6 Billion



# The State Budget Directs Dollars to Communities Across California Through Three Funding Categories

Total Enacted 2016-17 Expenditures



Note: Reflects federal funds as well as state General Fund, special fund, and bond fund dollars.

Source: Department of Finance



# Our tax system is a means to an end.

Taxes generate resources that allow us to strengthen our communities and economy.

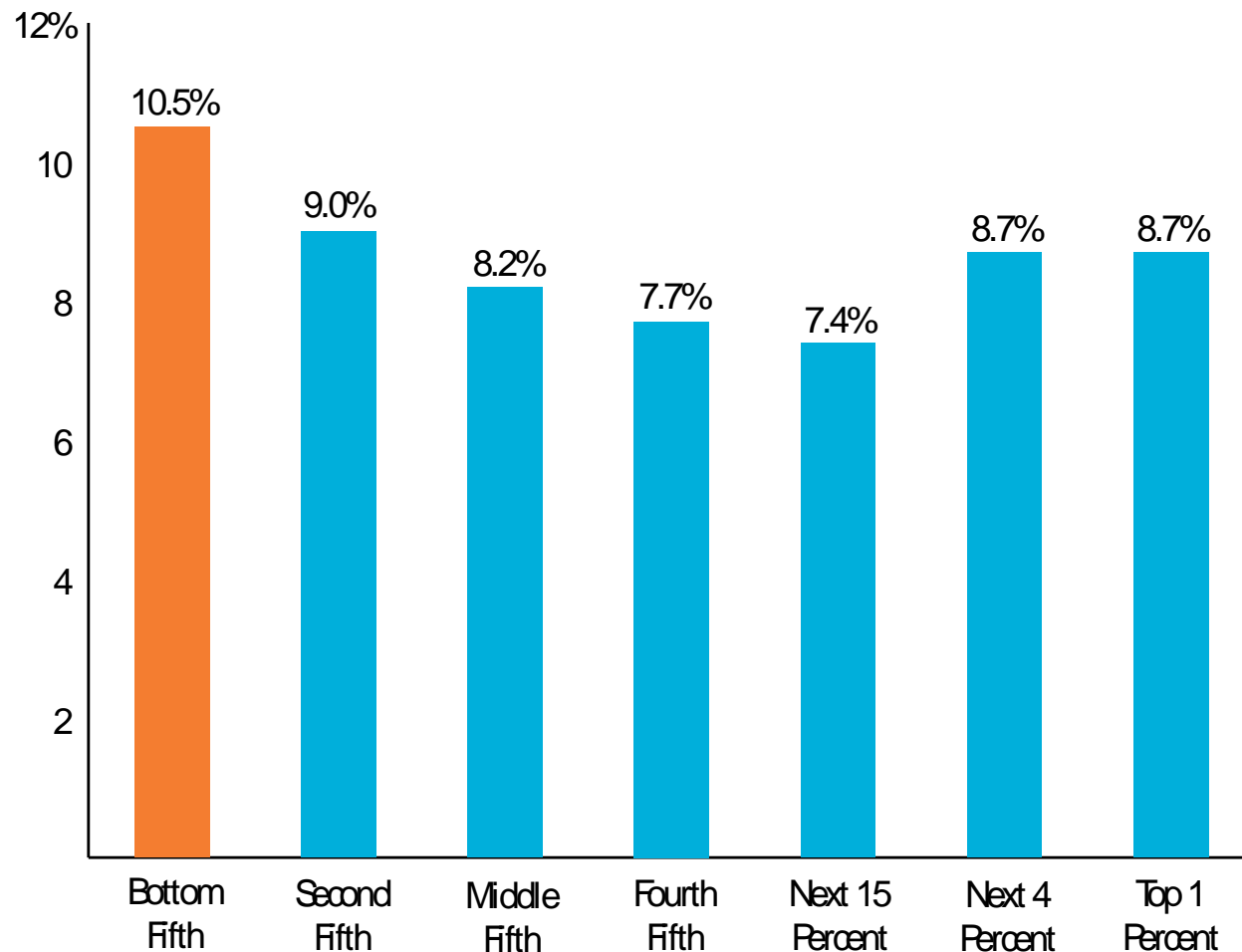


**California's tax system as a whole is regressive.**



# California's Lowest-Income Families Pay the Largest Share of Their Incomes in State and Local Taxes

Average Percentage of Family Income Paid in State and Local Taxes



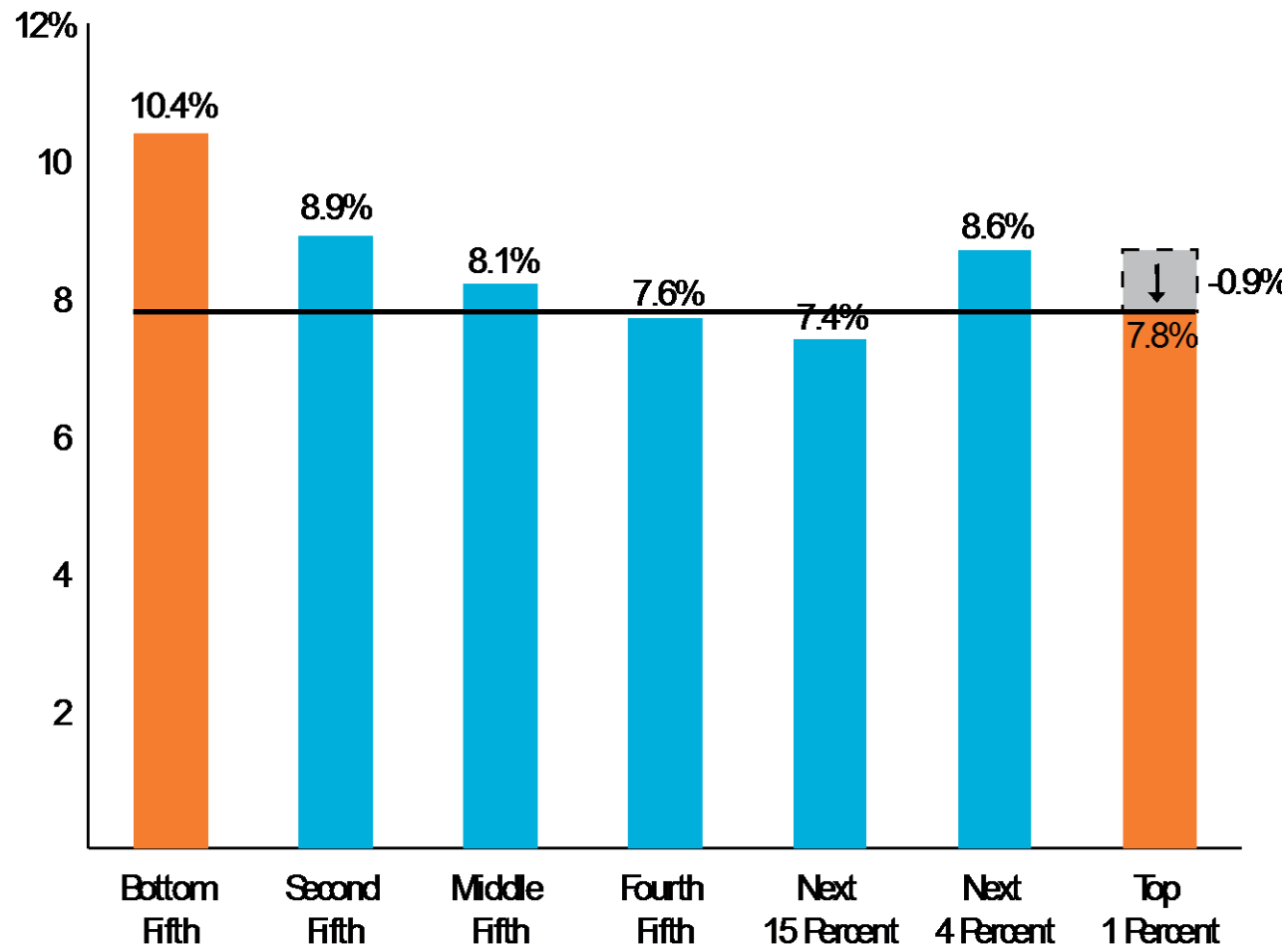
Note: Data are for nonelderly taxpayers only and include the impact of Proposition 30 temporary tax rates and the offset for federal deductibility of state and local taxes.

Source: Institute on Taxation and Economic Policy



# Our Tax System Will Become More Regressive When the Proposition 30 Taxes Expire

Average Percentage of Family Income Paid in State and Local Taxes



Note: Data are for nonelderly taxpayers only and include the offset for federal deductibility of state and local taxes.

Source: Institute on Taxation and Economic Policy



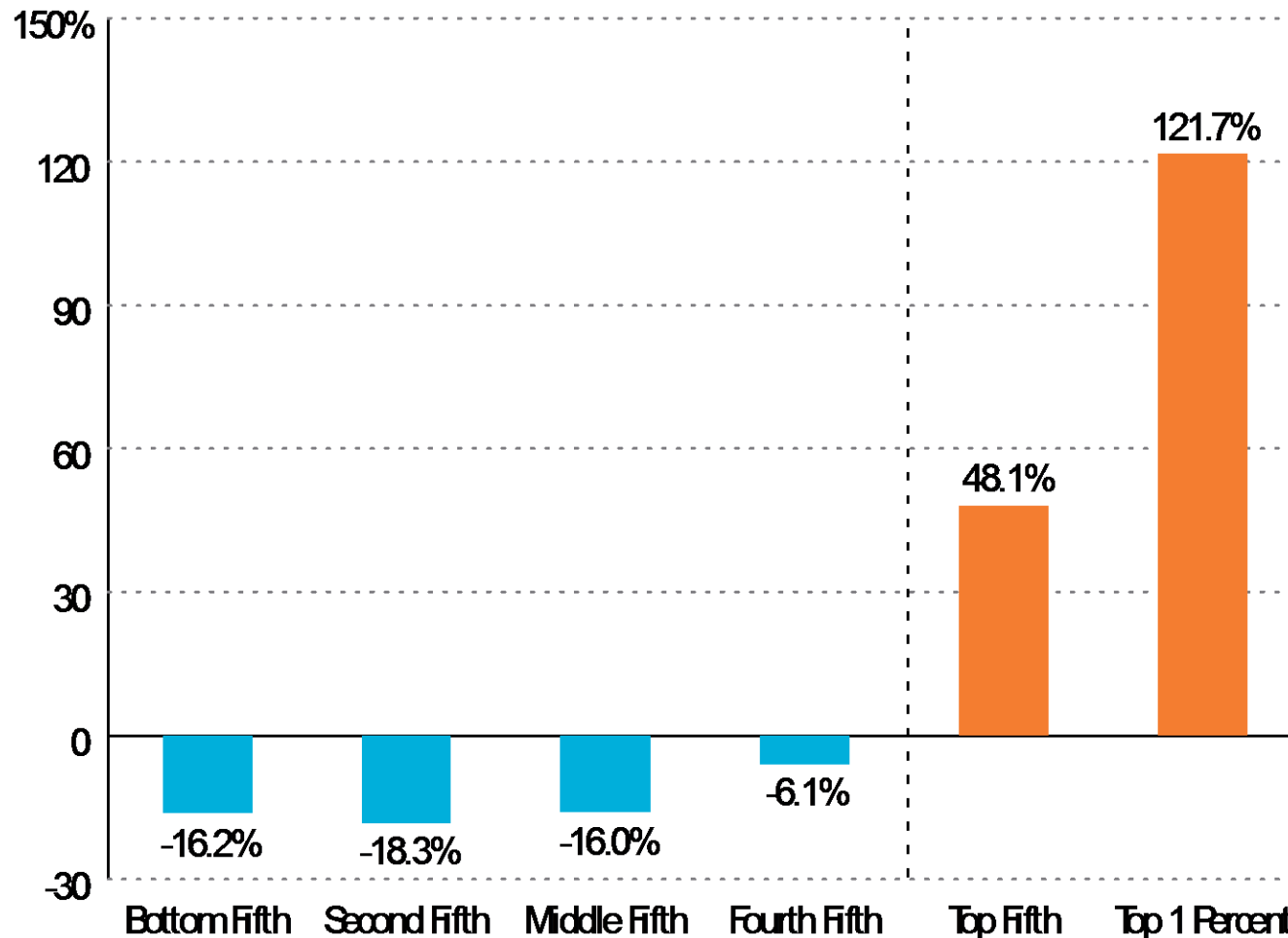
# Why should we be concerned that California's tax system is regressive?





# Only California's Wealthiest Households Saw Substantial Increases in Average Income Between 1987 and 2014

Percent Change in Average Adjusted Gross Income, 1987-2014, Inflation-Adjusted

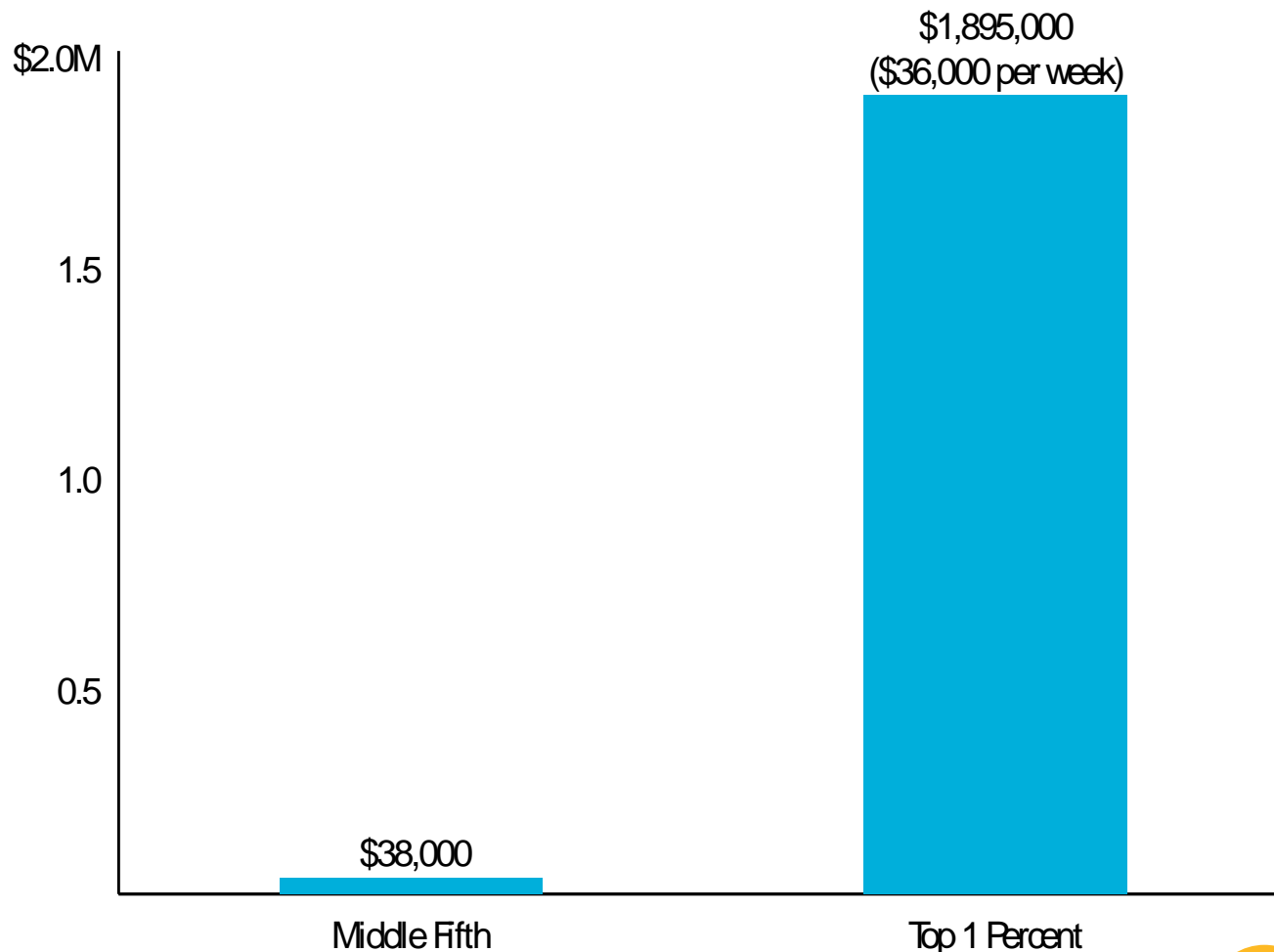


Source: Franchise Tax Board



# On Average, the Top 1 Percent Earns in About One Week What Middle-Income Residents Earn in One Year

Californians' Average Adjusted Gross Income, 2014



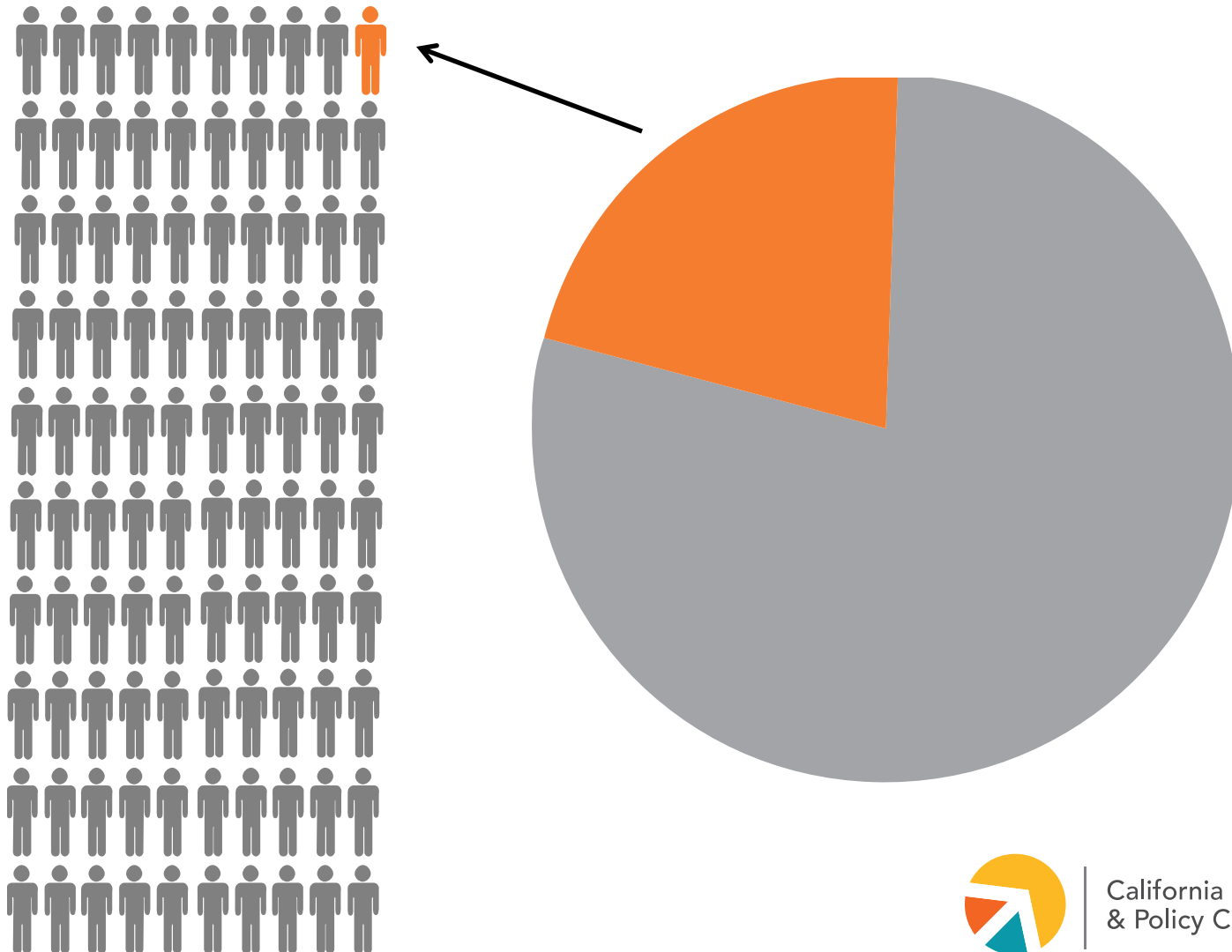
Note: Figures are in 2014 dollars and are rounded to the nearest hundred.  
Source: Franchise Tax Board



# California's Top 1 Percent Holds Nearly One-Quarter of State Income

About 160,000 Households Had Roughly 24 Percent of Total Income in 2014

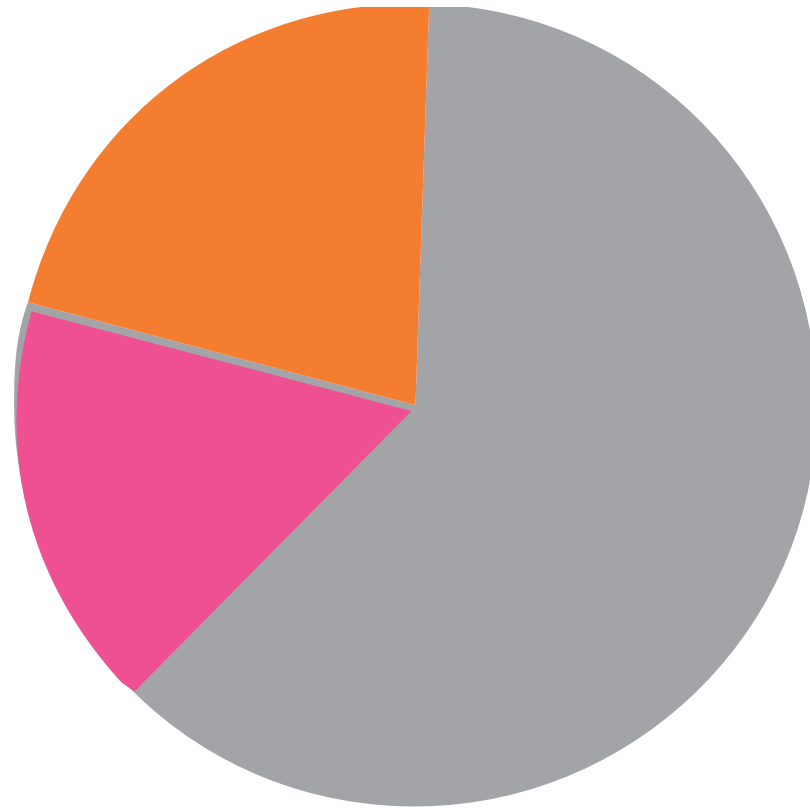
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# California's Top 1 Percent Holds More Income Than the Bottom 60 Percent

About 160,000 Households Had Roughly 24 Percent of Total Income in 2014

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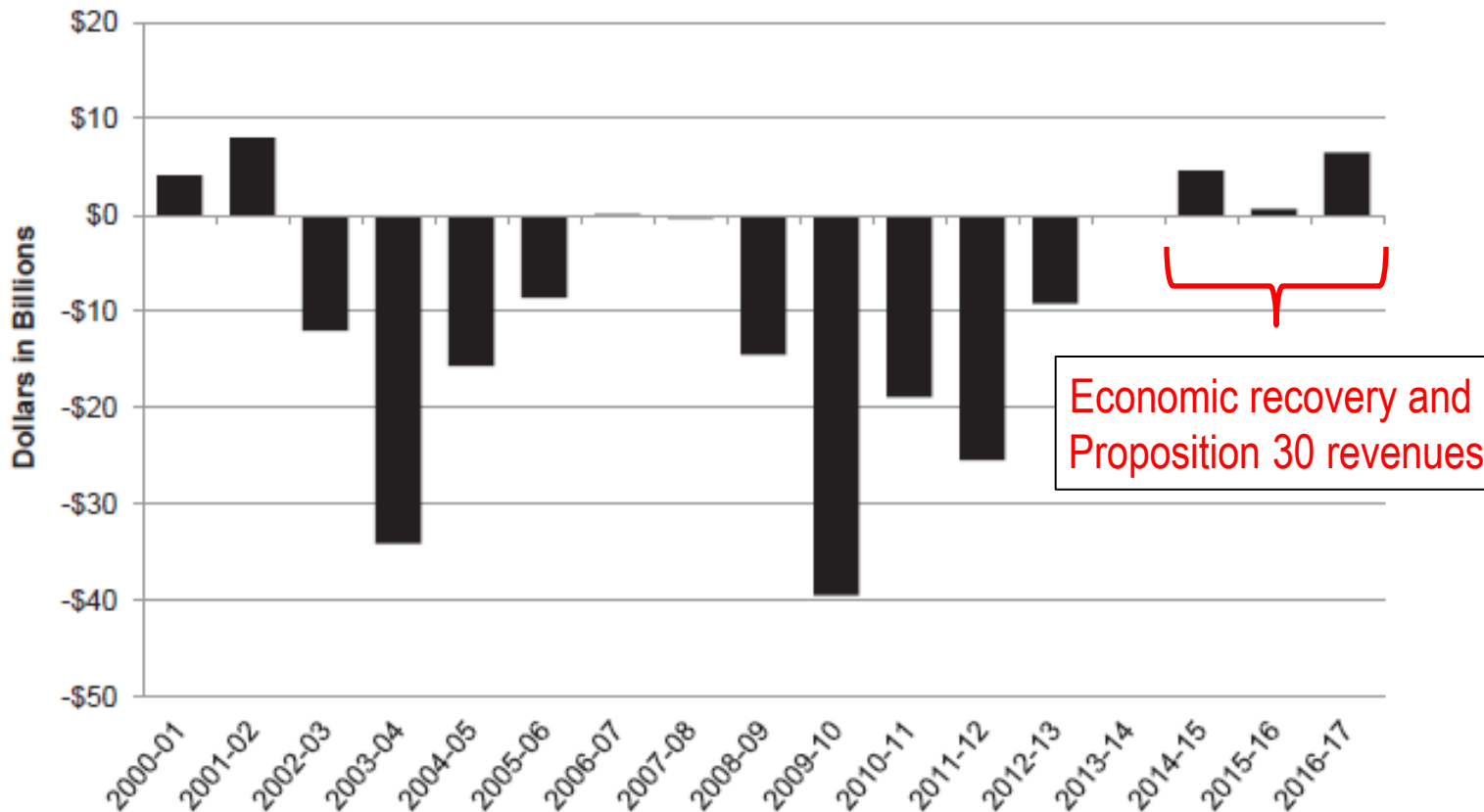


**California's tax system is not meeting the needs of our growing, changing population.**



# California Faced Significant Budget Shortfalls in Nine of the Past 17 Years

## State Budget Shortfalls or Surpluses



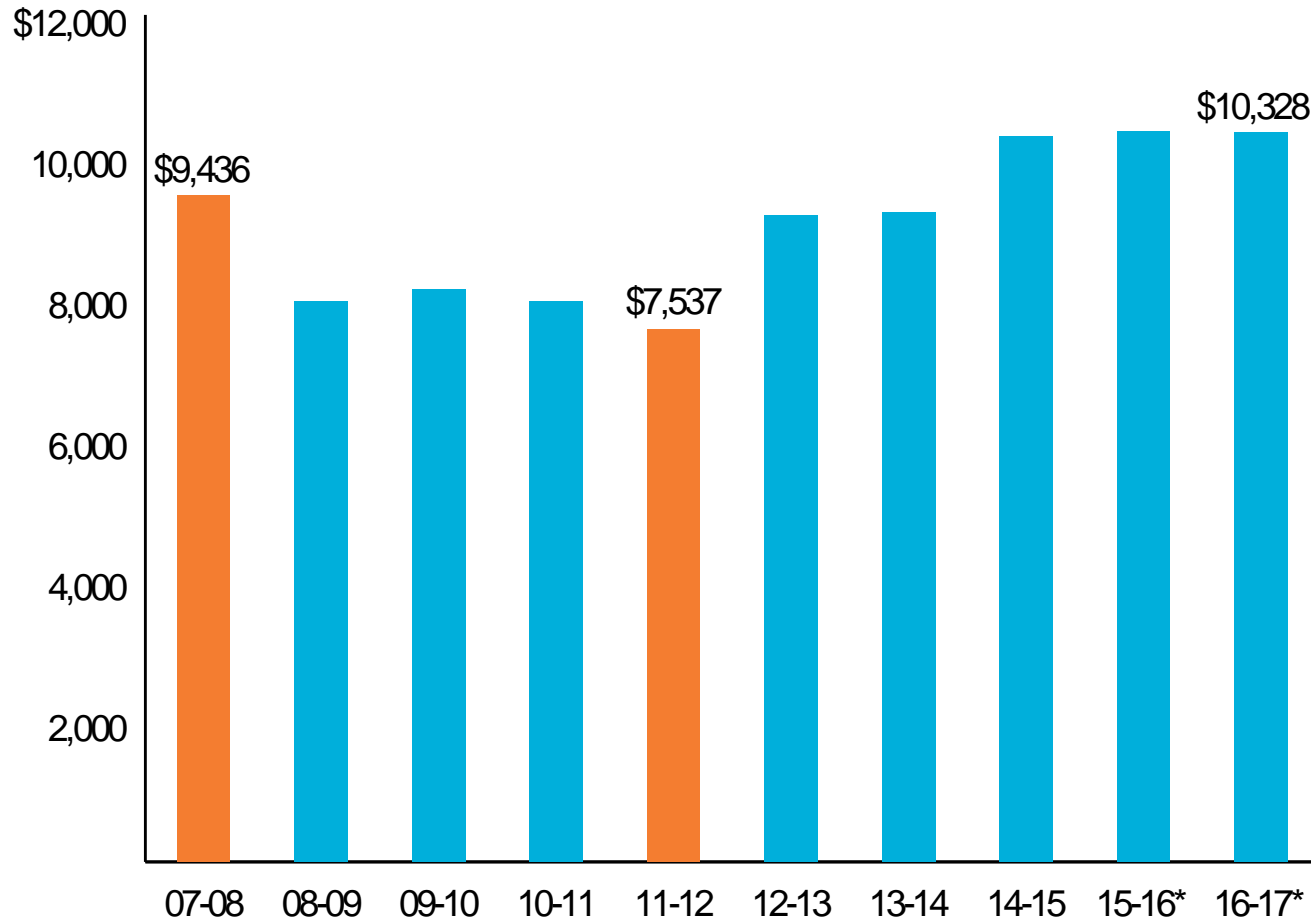
<sup>1)</sup> Budget shortfalls or surplus, measured by the annual Governor's Budget.

**California made deep cuts to core public systems during and after the Great Recession.**



# Spending Per Student Declined by 20 Percent Between 2007-08 and 2011-12

K-12 Proposition 98 Spending Per Pupil, Inflation-Adjusted



\* 2015-16 estimated and 2016-17 proposed.

Note: Figures reflect 2016-17 dollars and exclude adult education, preschool spending, and child care. Proposition 98 spending reflects both state General Fund and local property tax dollars.

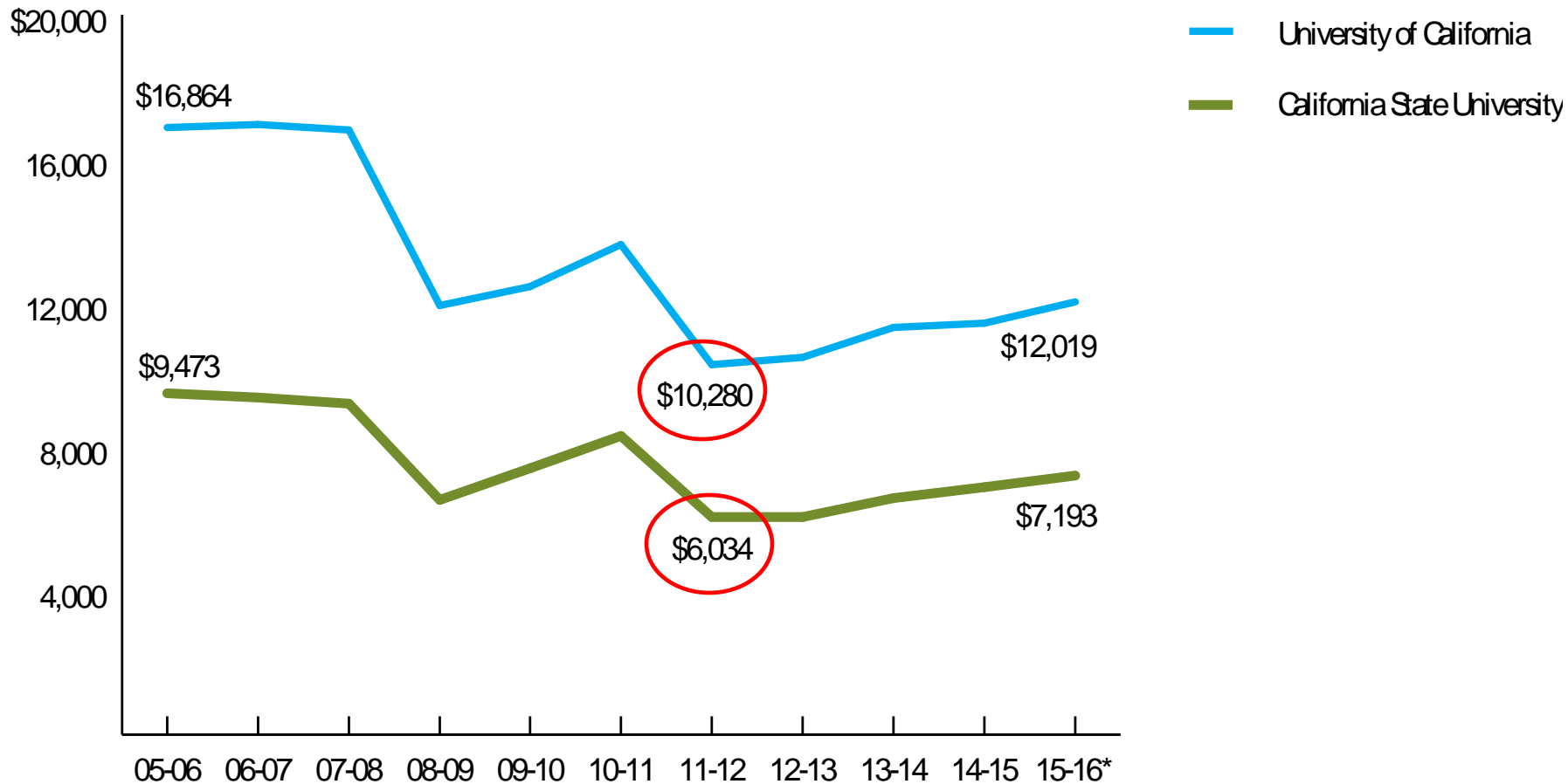
Source: Legislative Analyst's Office





# State Spending Per Student at CSU and UC Dropped Between 2005-06 and 2011-12

Direct General Fund Expenditures Per Full-Time Student, Inflation-Adjusted



\* Estimated.

Note: Figures are in 2015-16 dollars and reflect "full-time equivalent" enrollment, which accounts for credits taken by each student relative to a full-time course load. Data exclude indirect state funding for CSU and UC attributable to Cal Grant tuition and fee payments.

Source: California State University, Department of Finance, and University of California

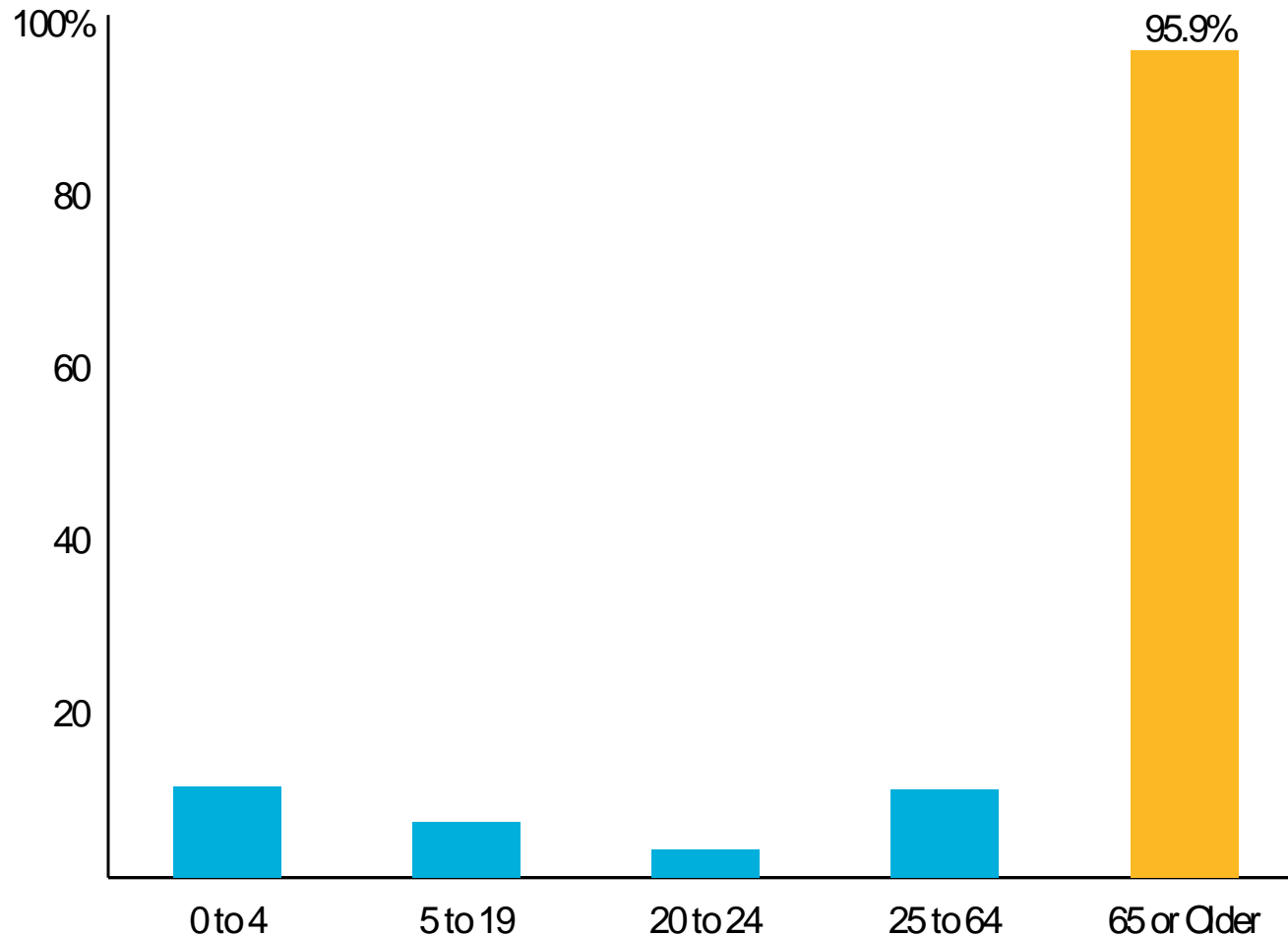


**California's population will continue to grow and age, increasing the need for public services.**



# The Number of Seniors Living in California Will Nearly Double by 2030

Projected Percent Change in Population, 2010 to 2030



Source: Department of Finance



# How can we make our tax system work better for us?



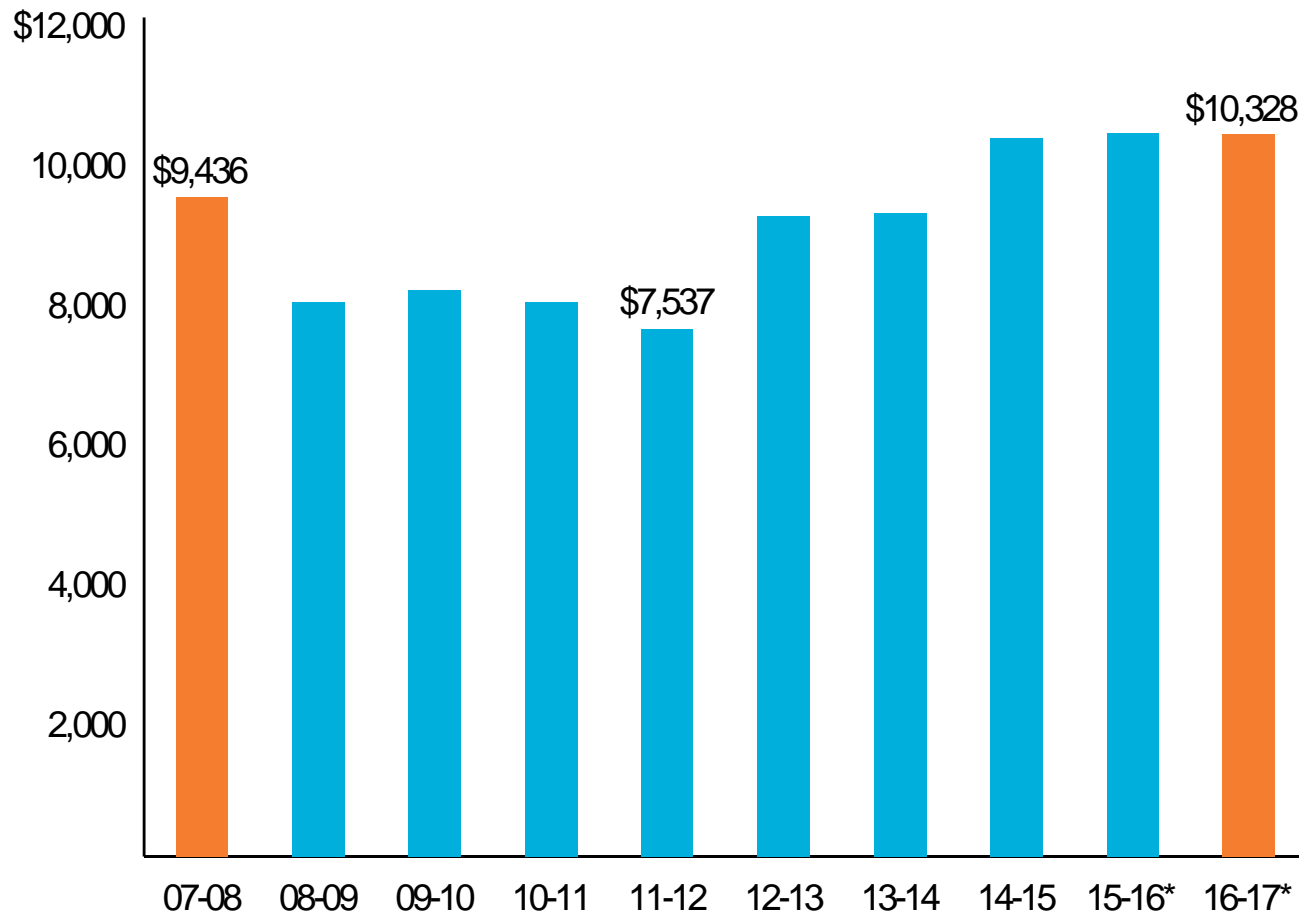
# Proposition 30 helped California begin reinvesting in education and other critical services.

The expiration of Proposition 30 tax rates will leave a permanent gap in state revenues.



# Due to Higher Revenues, 2016-17 Spending Per Student Would Be Nearly \$900 Above 2007-08

## K-12 Proposition 98 Spending Per Pupil, Inflation-Adjusted



\* 2015-16 estimated and 2016-17 proposed.

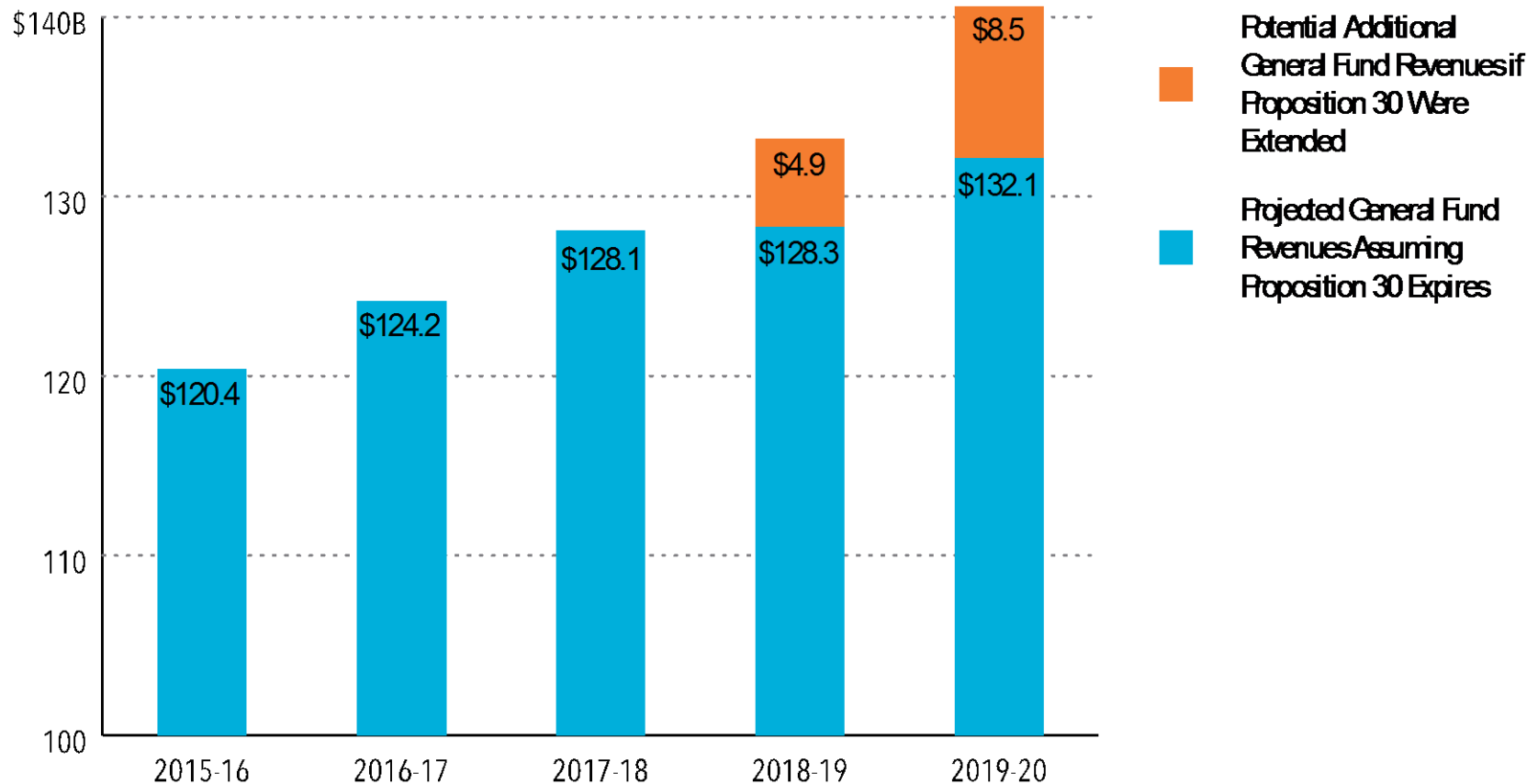
Note: Figures reflect 2016-17 dollars and exclude adult education, preschool spending, and child care. Proposition 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office



# Expiration of Proposition 30's Personal Income Tax Rate Increases Would Leave Permanent Gap in State Revenues

General Fund Revenues Before Transfers to the Budget Stabilization Account, in Billions



Note: 2015-16 is estimated; 2016-17 onward are projected. Additional revenues for 2018-19 and 2019-20 assume that personal income tax (PIT) revenue growth under an extended Prop. 30 would reflect the Administration's projected underlying PIT growth rate absent Prop. 30 taxes. Source: Department of Finance (DOF) and Budget Center calculations based on DOF data



# The CalEITC significantly boosts the incomes of low-earning workers.

Expanding the CalEITC would further reduce economic hardship, encourage work, and help make the tax system more progressive.



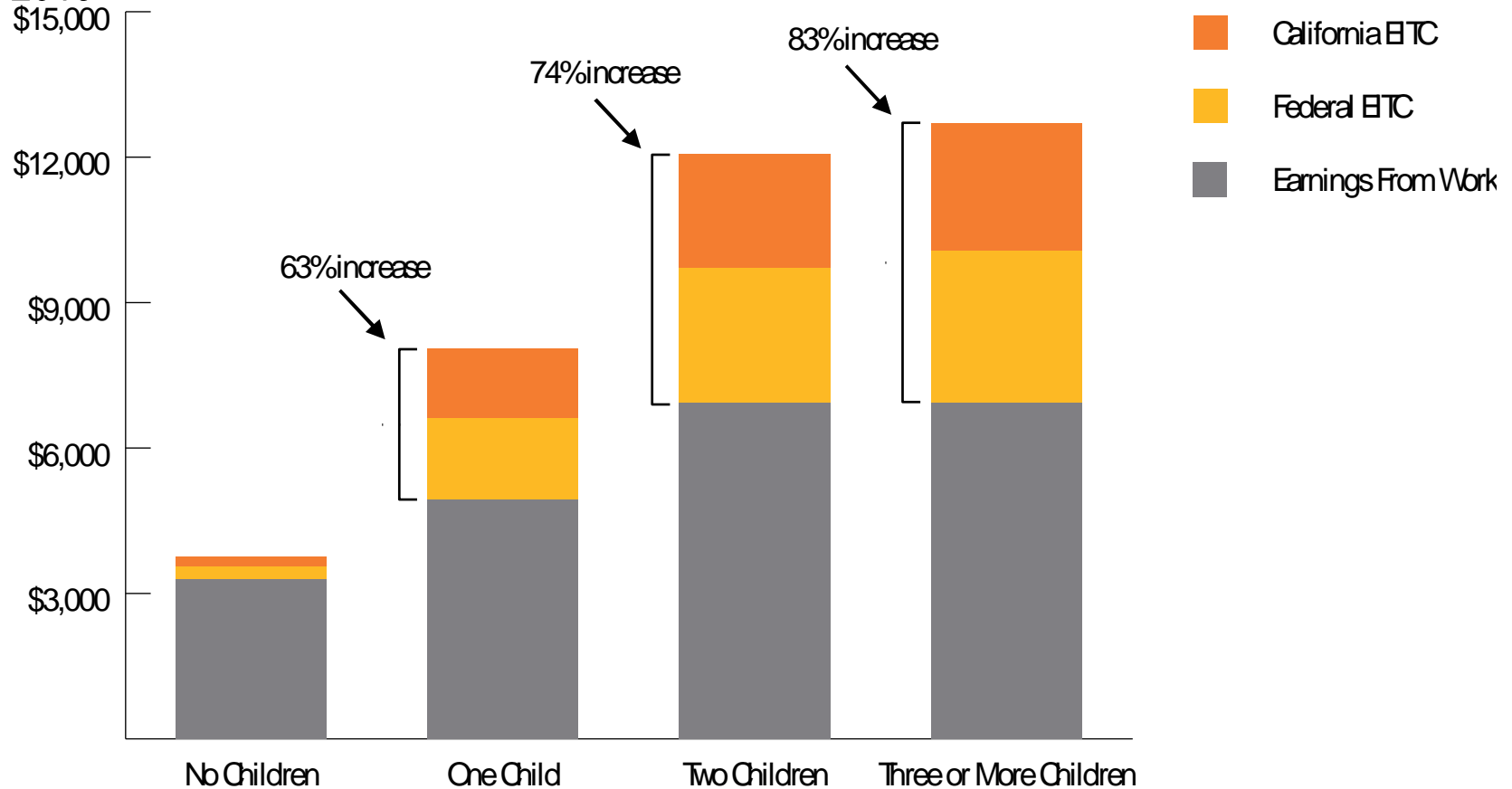


# The California and Federal EITCs Significantly Boost the Incomes of Working Families With Children

Maximum Increase in Income From the State and Federal Earned Income Tax Credits,

2015

\$15,000



Source: Budget Center analysis of the California and federal Earned Income Tax Credits



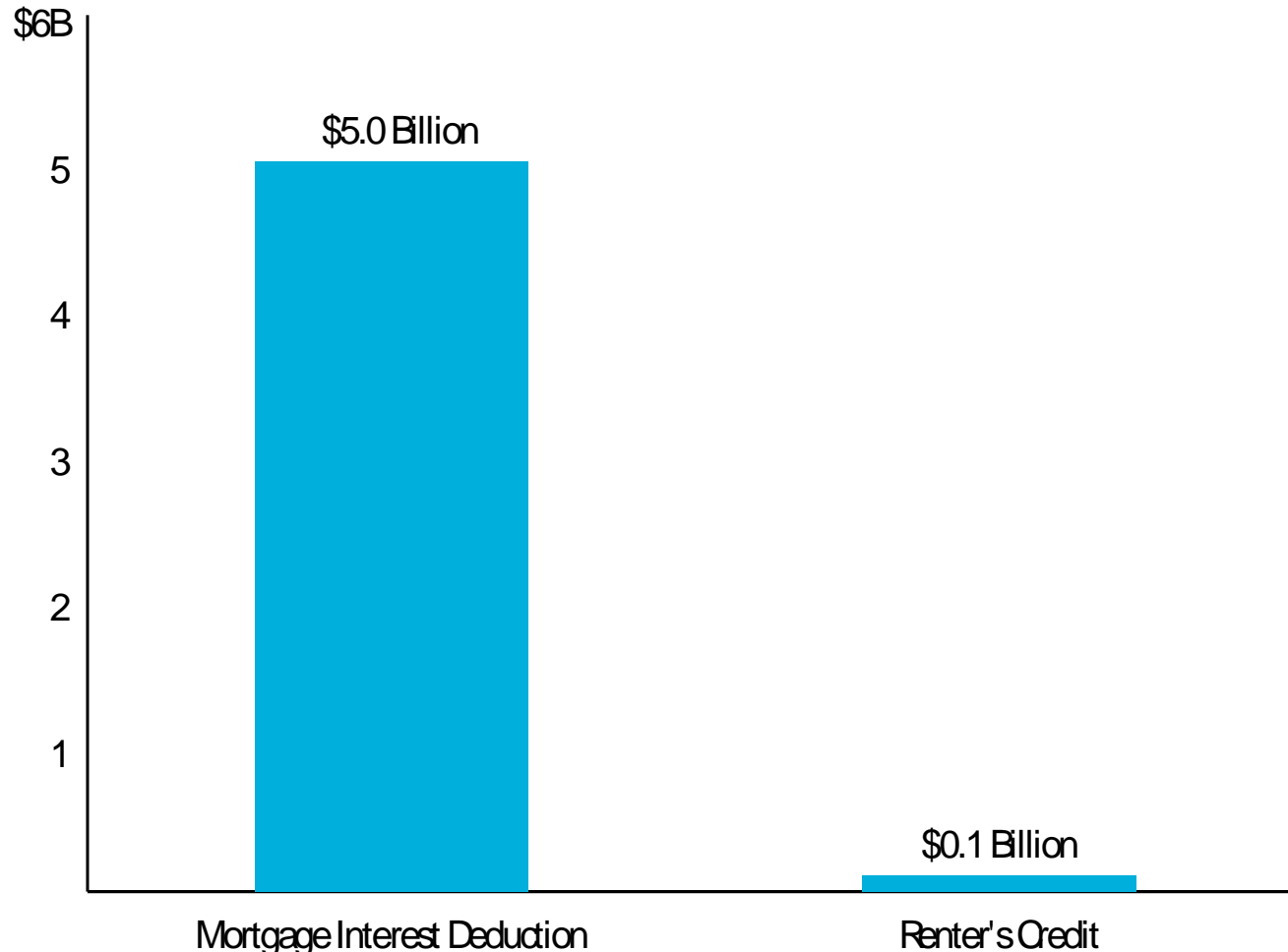
# Major tax breaks will cost the state over \$48 billion in 2016-17.

Tax expenditures reduce revenues for other purposes and are often not subject to annual review.



# California Spends 45 Times as Much on One Tax Break for Homeowners as It Does on a Credit for Renters

Projected Revenue Loss, 2016-17



Note: Renter's tax credit is nonrefundable and only available to low-income households.  
Source: Department of Finance



# Improving Our Tax System Would Allow Us to Strengthen Our Communities

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- Our tax system is a means to an end.
  - Taxes generate resources that improve the quality of life for all people.
  - Most state tax dollars return to our communities, benefiting all of us.
  - We can create a stronger California by improving our tax system.
- Improving our tax system requires:
  - Making it more equitable (progressive), so that people contribute based on their ability to pay.
  - Making sure that it produces enough resources to meet the needs of our communities.





California Budget  
& Policy Center

1107 9th Street, Suite 310  
Sacramento, California 95814

916.444.0500

[aanderson@calbudgetcenter.org](mailto:aanderson@calbudgetcenter.org)

[@alissa\\_brie](#)

[@CalBudgetCenter](#)

[calbudgetcenter.org](http://calbudgetcenter.org)