Measure K350

BALLOT MEASURE K350

BACKGROUND

In the early 1990s California faced a severe recession, which resulted in significant shortfalls in the state budget. In response, the state acted to increase revenues and reduce expenditures. As one way of increasing revenues, the state imposed a temporary income tax rate increase in 1991, adding 10 percent and 11 percent rates for the highest-income taxpayers. This temporary tax increase ended in 1995.

In addition, the state reduced its expenditures by lowering the share of school funding paid by the state and raising the share paid by local property taxes. To do this, the state shifted property tax revenues from counties, cities, and special districts to schools. This action did not change the overall level of spending on schools. Instead, it reduced the amount the state needed to pay from its revenues in support of schools.

The loss of property tax revenues lowered the amount of money available to local governments for programs such as parks, libraries, social services, and public safety. Overall, the state shifted about $3.6 billion in property tax revenues, reducing the amount of property tax revenues going to local governments each year by about 25 percent. These property tax revenue losses are partially offset by $1.6 billion in increased sales tax revenues as a result of the passage of Proposition 172 in 1993. These sales tax revenues are dedicated to local public safety programs.

PROPOSAL

This measure (1) reinstates, beginning with the 1996 tax year, the income tax increase for higher-income taxpayers that ended last year and (2) allocates the money from this tax increase to schools and local governments.

Personal Income Tax Rates. Under California's personal income tax, taxpayers pay different rates depending on their income. These rates currently vary from 1 percent to 9.3 percent. Individual taxpayers pay at the 9.3 percent rate on taxable income over about $32,000 and married couples pay 9.3 percent on taxable income over about $65,000. This measure would reinstate the 10 percent and 11 percent personal income tax rates. We estimate that under the measure an individual would pay at the 10 percent rate on taxable income between $115,000 and $230,000 and at a rate of 11 percent on taxable income over $230,000. A married couple would pay at the 10

percent rate on taxable income between $230,000 and $460,000, and at a rate of 11 percent on taxable income over $460,000.

The measure would affect about 1 percent of taxpayers in the state. These taxpayers currently pay approximately $6.5 billion, or 31 percent, of the total personal income taxes collected each year. The measure also restricts the ability of the state to reduce the income taxes paid by higher-income taxpayers in the future without a vote of the people.

Allocation to Schools. Under the State Constitution, increases in state General Fund revenues generally result in an increased level of funding for schools. We estimate that over the next several years schools would get about half of the additional money resulting from this tax increase.

Allocation to Local Governments. About half of the additional money raised by this tax increase would be allocated to local governments. The allocations would be based on the amount of money that a local government lost as a result of the property tax shifts (less the amount received in Proposition 172 sales tax revenue). The local share would be allocated as follows:

- 54 percent to counties.
- 22 percent to cities.
- 24 percent to special districts.

The measure also prohibits the state from shifting additional property tax revenues away from these local governments.

STOP!

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