

June 29, 2016

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

LAO
75
YEARS OF
SERVICE

Tax Extension to Fund Education and Healthcare. Initiative Constitutional Amendment.

Presented to:
Assembly Budget Committee
Hon. Phil Ting, Chair

Assembly Education Committee
Hon. Patrick O'Donnell, Chair

Senate Budget and Fiscal Review Committee
Hon. Mark Leno, Chair





LAO Role in Initiative Process



Fiscal Analysis Prior to Signature Collection

- State law requires our office, alongside the Department of Finance, to prepare an impartial fiscal analysis of each initiative.
- State law requires this analysis to provide an estimate of the measure's fiscal impact on state and local governments.
- A summary of the fiscal impact is included on petitions that are circulated for signatures.



Analysis After Measure Receives Sufficient Signatures to Qualify for the Ballot

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide.
- This analysis includes a description of the measure and its fiscal effects.
- We are currently in the process of preparing these materials.



Background

- **Proposition 30 (2012).** Increased income tax rates on high-income taxpayers from 2012 through 2018. In addition, Proposition 30 increased the state sales tax rate by one-quarter cent from 2013 through 2016.
- **Proposition 98 (1988).** Requires the state to spend a minimum amount on schools and community colleges. This “minimum guarantee” grows over time based on growth in state tax revenues, the economy, and student attendance.
- **Medi-Cal.** Provides health care services to low-income people. The Medi-Cal program serves over 13 million people in California—roughly one-third of the population.
- **Proposition 2 (2014).** Requires the state to save a minimum amount each year in its rainy-day fund and spend a minimum amount each year to pay down state debts faster.



Provisions of Proposed Initiative

- Extends Income Tax Increases.** The measure would extend from 2019 through 2030 the Proposition 30 income tax increases on high-income taxpayers. The measure would affect roughly the 1.5 percent of taxpayers with the highest incomes.

Income Tax Rates Under Proposition 30 ^a				
Single Filer's Taxable Income ^b	Joint Filers' Taxable Income ^c	Marginal Tax Rate		
		Base Rate	Proposition 30 Increase	Total Rate
\$0 to \$8,000	\$0-\$16,000	1.0%	—	1.0%
8,000 to 19,000	16,000 to 37,000	2.0	—	2.0
19,000 to 29,000	37,000 to 59,000	4.0	—	4.0
29,000 to 41,000	59,000 to 82,000	6.0	—	6.0
41,000 to 52,000	82,000 to 103,000	8.0	—	8.0
52,000 to 263,000	103,000 to 526,000	9.3	—	9.3
263,000 to 316,000	526,000 to 632,000	9.3	1.0%	10.3
316,000 to 526,000	632,000 to 1,053,000	9.3	2.0	11.3
Over 526,000	Over 1,053,000	9.3	3.0	12.3

^a Income brackets shown are rounded to the nearest thousands of dollars. Brackets are in effect for 2015 and are adjusted for inflation in future years.

^b Single filers include married individuals and registered domestic partners (RDPs) who file taxes separately.

^c Joint filers include married and RDP couples who file jointly, as well as qualified widows or widowers with a dependent child.

Note: Income brackets for head-of-household filers are not listed, but those filers with taxable income of \$357,981 and greater (as of 2015) also are subject to 10.3 percent, 11.3 percent, or 12.3 percent marginal tax rates under Proposition 30. Tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of \$1 million.

- Does Not Extend Sales Tax Increase.** Whether or not voters pass this measure, Proposition 30's one-quarter cent sales tax increase will expire at the end of 2016.
- Creates New State Budget Formula for Supplemental Medi-Cal Spending.** The measure would require the Director of Finance to determine whether General Fund revenues exceed (1) constitutionally required spending on education and (2) costs of government services that were in place as of January 1, 2016. The lesser of (1) 50 percent of the resulting amount or (2) \$2 billion would be allocated to Medi-Cal.



Fiscal Effects of Proposed Initiative

- ***Increased Income Tax Revenues.*** Between \$4 billion and \$9 billion each year (in 2016 dollars), depending upon the economy and the stock market.
- ***Increased Funding for Schools and Community Colleges.*** Roughly half of the revenue raised by the measure.
- ***Increased Funding for Medi-Cal.*** Between \$0 and \$2 billion each year, depending upon decisions and estimates made by the Director of Finance.
- ***Increased Budget Reserves and Debt Payments.*** Between \$60 million and roughly \$1.5 billion each year (in 2016 dollars), depending upon revenues from capital gains.