THE 2001 STATE BUDGET

TAX RELIEF

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The Administration estimates that ongoing tax relief provided by previous legislation will total $4.3 billion in 2001-02, including the $3.6 billion from reductions in vehicle license fees. The 2001 State Budget Act and related budget "trailer" legislation provides additional tax relief totaling $126 million in 2001-02. The additional tax cuts provided by the budget are targeted toward California senior citizens and rural areas in need of economic incentives. The following provides a summary of the tax cuts contained in the 2001 State Budget Act.

Senior Citizens' Property Tax and Renters' Tax Assistance

Assembly Bill 426 (Cardoza) permanently increases benefits under this program by 45 percent. The program provides property tax assistance to low-income homeowners and renters who are either senior citizens (age 62 and older), disabled, or blind. Current law provides cash assistance to seniors and disabled persons with incomes of up to $35,251 in 2001. This income limit is adjusted annually by the change in the California Consumer Price Index. The assistance provided is inversely related to the amount of total household income. The current maximum assistance payments (for households with incomes less than $8,813) are $326 for homeowners and $240 for renters, and the minimum payment is $10 for those at the income limit of $35,251. The Budget Act increases these payment amounts by 45 percent—to a maximum of $473 for homeowners and $348 for renters. Assembly Bill 440 (Cardoza) amends the Budget Act to appropriate an additional $75 million (General Fund) for this purpose.

Agricultural and Rural Tax Relief

Assembly Bill 426 (Cardoza) provides the following permanent agricultural and rural sales and use tax exemptions:

- **Liquified Petroleum Gas (LPG) -** Under the budget, LPG purchased for household use (for example, heating and cooking) in a primary residence not served by natural gas lines or for use in producing and harvesting agricultural products, will be exempt from all state and local sales and use tax. The exemption for rural residential use equalizes tax treatment with other energy sources used for similar purposes, such as electricity and natural gas. The General Fund revenue reduction from this exemption is estimated to be $6.9 million in 2001-02.

- **Farm and Forestry Machinery -** The budget paritally exempts from the sales and use tax (1) farm equipment and machinery for use in agricultural activities and (2) off-road equipment and machinery designed for use in timber harvesting operations. The revenue reduction from this exemption is estimated to be $20.1 million in 2001-02. The exemption applies to the portion of the tax used for state general revenues (currently 4.75 percent and returning to 5 percent on January 1, 2002). Local revenues will not be affected.

- **Diesel Fuel -** The budget exempts diesel fuel purchased for use in farming activities and food processing from the state general purpose sales and use tax (existing law dedicates the bulk of these fuel-related revenues to the Public Transportation Account). Farming activities include not only those related to activities at the production site but also the transportation and delivery of farm products to the marketplace. The revenue reduction from this exemption is estimated to be $18.6 million in 2001-02.

- **Racehorse Breeding Stock** -The budget establishes an exemption from the state general purpose portion of the sales and use tax for purchases of thoroughbred racehorses used for breeding purposes. For purposes of the exemption, the purchaser must state that the purchaser's sole intent is to use the horse for breeding purposes. The revenue reduction from this exemption is estimated to be $1.3 million in 2001-02.

- **September Implementation -** The Board of Equalization anticipates implementation of the tax exemptions on September 1, 2001, as required by AB 426.

College Savings Federal Conformity

Senate Bill 733 (Brulte and Alpert) provides a state income tax exemption for earnings of qualified college savings accounts (including accounts in California's Scholarshare Program). This change conforms with recent federal legislation to provide a federal tax exemption for these earnings, which previously have been taxed at the beneficiary's rate. This change will not have any significant revenue impact in 2001-02.

Revision to the Quarter-Cent Sales Tax Trigger

The provisions of AB 426 include revisions to the trigger mechanism for the one-quarter cent state General Fund sales and use tax component, which triggers on or off depending on the state's fiscal condition. Under current law, the quarter cent rate is triggered *off* if the General Fund reserve exceeded 4 percent of General Fund revenues and transfers during the prior fiscal year, and the Director of Finance estimates that the reserve in the current-year also will exceed 4 percent of revenues and transfers (excluding revenue from the quarter-cent tax). The director must make this annual determination by November 1, and the quarter cent rate triggers on or off on January 1 for that calendar year. The tax was triggered off for calendar year 2001. The budget revises this trigger mechanism effective with the determination to be made on November 1, 2001. The revision provides that the state sales and use tax rate shall be reduced by one-quarter cent in any year the Director of Finance determines (by November 1) that both of the following conditions are met:

- The estimated General Fund reserve for the current year will exceed 3 percent of revenues, excluding the revenues derived from the one-quarter cent sales and use tax, and;

- Actual General Fund revenues for the period May 1 through September 30 equal or exceed the May Revision forecast for that period.

The budget's General Fund revenue estimate of $75.1 billion for 2001-02 includes $548 million from the reinstatement of the one-quarter cent component of the sales tax on January 1, 2002. Without this revenue, the projected year-end balance in the Special Fund for Economic Uncertainties (the General Fund reserve) would be 2.7 percent of estimated revenues, which is less than the 3-percent threshold for suspending the tax.