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Folder Title: Issues – Tax Reform (3 of 5)

Box: P32

STATE OF CALIFORNIA RONALD REAGAN, Governor

DEPARTMENT OF FINANCE

SACRAMENTO

OFFICE OF THE DIRECTOR

July 14, 1970

To: Members of the Senate Finance Committee

From: Verne Orr, Director of Finance

As you consider the Administration's tax reform proposals (AB 1000 and AB 1001 by Assemblyman Bagley), there are two points about which some confusion has arisen and on which I should like to comment briefly. First, there have been allegations the program benefits primarily the rich and, second, statements have been made to the effect that the program shifts $70 or $80 million in taxes from business to the consumer.

I consider both allegations inaccurate. The following short resume may help clear misunderstanding on both points:

I. <u>Impact of Program on Individuals</u>

The tax program has the following impact based upon figures jointly developed by our office and the office of the Legislative Analyst:

a. 58.6% of all Californians will receive a tax reduction as a result of our proposed program, 22.8% will have a nominal change and only 18.6% will have a tax increase.

b. 99% of all homeowners will receive a tax reduction as a result of our program. The percentage of property tax relief is considerably greater for the lower priced home than for the higher priced home.

c. All renters will receive a $50 reduction on their income tax. Many renters will receive a net reduction in their total taxes. Only the wealthy renters pay significantly more (over $27 per year).

d. Higher taxes will be paid by the very wealthy--particularly with capital gains.

II. Effect of the Program on Business vs. the Individual

It has been alleged "that the Governor's program, when it is fully effective in 1972-73, provides tax reductions to business in an amount $78 million greater than the amount of tax increase imposed on business. Consumers pay $79 million more in taxes than they receive in tax reductions." This statement is totally incorrect.

This statement first appeared in Table 11 in the March 5, 1970 "Moscone Tax Reform Program: Explanation and Background Information." It has been repeated many times since then, always based on the same table. This table is incorrect for the following reasons (a partial listing):

a. It incorrectly assumes that all sales taxes not paid by business are paid by California individuals. Actually, a significant portion is paid by neither, but by state and local governments and tourists and visitors.

b. It incorrectly assumes that the entire expense of personal income tax withholding falls on individual taxpayers. Actually, unincorporated business income is subject to withholding through estimated payments. Also, no recognition is given to the increased costs to all business employers in withholding personal income taxes.

c. It incorrectly assumes that all personal income taxes on capital gains are paid by individuals. Actually, unincorporated businesses pay some of this amount.

d. It incorrectly assumes that the profits of unincorporated business are not subject to increased personal income taxes--they are.

e. It incorrectly assumes that the conformity feature of the Governor's Tax Program has no impact on business--it does.

f. It incorrectly assumes that the savings from property tax deductions from individual and corporate income tax is almost entirely at the expense of the individual taxpayer. This is not true.

The net benefit-cost impact of the Governor's tax program is highly favorable to California individual taxpayers and basically a break-even situation for business taxpayers.

Verne Orr

VERNE ORR
Director of Finance

cc: All Members of the Legislature

Tax Reform

July 15, 1970

SOAK THE MIDDLE INCOME CITIZENS

The latest so-called "Democratic alternative 'tax relief'" program is the third to be put forth by the Senate Democratic leadership this year. (#1 Moscone, #2 Balves)

It was announced July 13 by Senators George Moscone, Stephen Teale and Assembly Democratic Minority Leader John Miller. Aside from the question of whether it is fiscally in balance, this so-called 'tax relief' program actually is another gimmick effort to soak the middle income, working taxpayer.

1. To finance the program, the Moscone-Miller 'tax reform' program would Increase personal income taxes by about 10%. This would be accomplished by narrowing the income tax brackets in the lower income ranges. Instead of taxing the first $2,000 of taxable income at a 1% rate, the Democratic proposal would lower this bracket to tax only the first $1,500 of income at the 1% rate. The 2% rate would go into effect at $1500 instead of at $2,000 (the current rate).

The net effect of this would raise personal income taxes on the taxpaying, wage-earning working citizens of California by a total of $135 million in the first year of operation. That amounts to about a 10% Increase in personal income taxes.

This is exactly opposite of the goal the Reagan administration is trying to achieve--to lower the personal income tax burden of our citizens.

It is incredible that the Democratic lawmakers could suggest a 10% Increase in personal income taxes. Only this year, the Reagan administration managed to REDUCE state income taxes by 10% through a one-time income tax credit or rebate. Every taxpaying citizen of California received this tax credit.

If Governor Reagan's tax reform is adopted, 99% of all California homeowners will receive a net property tax reduction, ranging from 25 to 40%. The highest percentage reduction would go to the lower priced homes.

Renters would receive a $50 income tax credit to give them a share of this property tax relief and all California taxpayers would get another 35 per cent one-time state income tax reduction next April 15, to be applied against 1970 state income taxes. This reduction will be made possible because Governor Reagan's plan provides for returning to the taxpayers the so-called "windfall" of tax revenue that will result when withholding of income taxes goes into effect.

Unlike the Democratic "alternative", there will be NO NET TAX increase under Governor Reagan's tax reform plan. But homeowners, renters, middle and lower income taxpayers all will get relief, and counties will be relieved of part of the burdensome cost of welfare now being borne by local government.

2. The Legislative Counsel has pointed out the second major loophole in the Democratic tax scheme.

Under this incredible feature, the Democrats propose to give a refund or income tax credit of $70 to all renters. The refunds would be granted whether the renter had any tax liability. Thus, even if a renter's rent was paid for by someone else and he had no income, he would be given a "refund" of $70 under the Democratic proposal. In effect, this means that non-working renters could get tax relief, even though they paid no taxes!

The Legislative Counsel has questioned whether it is constitutional to grant a refund that exceeds a person's tax liability. His objection is based on the constitutional provision that forbids making a gift of public funds.

Governor Reagan's tax reform proposal provides for a $50 tax credit for renters. He could claim this credit by applying it against whatever personal income tax he might owe. This would guarantee that tax relief went only to taxpayers.

Under the Democratic proposal, renter relief claims would constitute a major tax loophole because the revenue set aside to provide tax relief actually might be diverted to non-taxpayers.

3. A brief description of the Democratic "tax reform" program announced July 13 would be: "For richer, for poorer--but forget about the middle income taxpayers."

The changes proposed by ~~Senators~~ Senator Moscone and Assemblyman Miller July 13 follow the traditional path of those who favor big government, big spending and welfare programs that benefit all except the working taxpayer. It amounts to a wholesale effort to further Increase the inequitable tax burden of middle income Californians from about $8,500 to $25,000 annual taxable income.

Instead of the equitable fair-share tax reductions proposed by Governor Reagan, the Democratic "alternative" shortchanges the middle income citizen. It favors both the highest income citizens and the lowest income brackets. Examples:

1.) Under the Governor's tax reform program, a married homeowning couple with two children and an adjusted gross income of $10,000 would receive a net tax reduction of $68 per year. Under the Democratic program, the same couple would receive only $57.

2.) The same size family with an income of $12,500 would have an average net tax reduction of $82 under the Governor's program. They would get only $50 relief under the Democratic alternative.

3.) The same imbalance occurs at all income levels until you reach the highest brackets. Then the Democratic program--which is supposed to help the "poor"--provides 20 times more tax relief for the wealthy than the Governor's program.

4.) At the $75,000 income level, a homeowning couple with two children would pay $299 more net taxes per year under Governor Reagan's program. Under the Democratic alternative, they would pay only $19.

5.) A similar couple with an adjusted gross income of $100,000 per year would pay $575 more per year in net taxes under Governor Reagan's fair share property tax relief program. Under the Democratic alternative, they would pay only $19 more.

RENTERS

The same imbalance occurs among renters. Under the Democratic proposal--the one that is supposed to help the poor--the couple with an adjusted gross income of $100,000 a year would pay only $20 a year more in net taxes. Under the Governor's more fair share tax program, the $100,000 per year family would pay about $1,154 more in taxes per year.

Tax Reform

OFFICE OF THE GOVERNOR RELEASE: IMMEDIATE
Sacramento, California
Contact: Paul Beck
445-4571 [redacted] [redacted]

Governor Ronald Reagan, informed of passage by the Senate of his tax reform program, today issued the following statement:

"Today's passage by the Senate of this administration's long-sought tax reform program represents a major step toward one of the greatest victories ever achieved by the taxpayers of California.

"For the first time in many years the vast majority of our citizens can now begin looking forward to significant reductions in the overall tax burden they have, for too long, been forced to bear. All that remains now is for the Assembly to concur in the Senate-passed version.

"The program guarantees that the property tax bill of the beleaguered California homeowner will be substantially reduced--by as much as 40 percent on the more modest home, and by an average of 25 percent on homes of higher value.

"At the same time, no middle and lower income taxpayer whose gross income is less than $32,000 a year will pay any increase whatsoever in his income tax.

"Moreover, this program--unlike a flurry of other hurriedly-dreamed-up, last-minute alternatives which have been proposed over the past several months--will not increase the net tax burden on the people.

"What it will do is overhaul and modernize the state's archaic tax structure by shifting the tax burden more equitably.

"Besides sharply reducing homeowner property taxes--and holding them down--the program also will:

--Provide tax relief for renters

--Reduce the welfare cost burden on the property taxpayer

--And, help save California jobs by reducing the discriminatory business inventory tax.

"I now want to urge the Assembly to act quickly so that substantial tax relief for California's homeowners can, indeed, become a reality."

EG

Tax Reform
Background
1970

DRAFT

CALIFORNIA TAX BURDENS: TOTAL, INDIVIDUAL, AND BUSINESS

1. The conventional methods of determining a state's total tax burdens are:

   (a) Taxes per capita - A state's total tax collections divided by population.

   On this basis California ranks extremely high among the 50 States -- No. 2 (New York No. 1)

   (b) Taxes as a percent of personal income - A state's total tax collections divided by its total personal income.

   Again, California ranks extremely high, ranking No. 3. (Behind Hawaii, Wyoming)

2. Tax burdens on individuals

Figures obtained in the application of the conventional methods of measuring tax burdens include taxes that are not actually levied on individuals since total tax collections include property, sales, income and other taxes paid by business.

When the actual taxes paid by California families -- individual income, property, sales, motor vehicle, and cigarette -- are compared with families in other states an entirely different picture is obtained. It shows that California families at the lower income levels have relatively lower tax burdens than found in most other states. This is for a family of four with adjusted gross incomes of $3,500, $5,000, $7,500, $10,000, $17,500. Not until $25,000 and $50,000 of adjusted gross income does California's tax burdens on a family of four become high relative to other states.

3. Why are total California tax burdens high and family (or individual) burdens relatively low?

This is because the California state-local tax structure falls heavily on business activity. Taxes paid by business reflect in total tax collections used in determining average tax burdens, but are excluded along with exported taxes in measuring the direct impact of taxes actually paid by individuals or families. Business pays:

- over 2/3rds of property taxes
- roughly 1/3 of sales taxes
- corporate income tax
- personal income tax (unincorporated businesses)
- local business license taxes
- motor vehicle taxes
- various other taxes.

4. Comparisons of California total tax burdens and family burdens vs. other states.

	California Ranking Among All States	% Above or Below All-State Average
Total Taxes, Fiscal Year 1968		
Per Capita	2	Above 44%
Per $1,000 Personal Income	3	Above 24%
Family Burdens (Adjusted Gross Income, Family of Four, Calendar Year 1968)		
$3,500	33	Below 6%
5,000	36	Below 10%
7,500	37	Below 11%
10,000	35	Below 9%
17,500	30	Below 2%
25,000	23	Above 6%
50,000	10	Above 21%

Sources:
"Interstate Tax Burdens in Family Tax Burdens", National Tax Journal December 1969, Governmental Finances in 1967-68; Bureau of Census, U.S. Department of Commerce.

5. Comparisons of California total property tax burdens and family burdens vs. other states.

The comparisons below show that while California ranks very high in total property taxes per capita and as a percent of personal income (No. 1 and No. 4) its burdens on a family of four with adjusted gross income of $10,000 are rather low (29th) when compared to other states. This phenomenon is due to the fact that California businesses pay a much greater proportion - over two-thirds - of total property taxes than occurs in other states, leaving homeowner property tax burdens relatively lower than found in most other states.

Total Property Taxes, Fiscal Year 1968		California Ranking Among All States	% Above or Below All-State Average
Per Capita			
U.S. Average	$138.83 California		
California	226.18	1	Above 63%
Wyoming	207.87	2	Above 50%
Massachusetts	204.02	3	Above 47%
New York	192.25	4	Above 38%
Per $1,000 Personal Income			
U.S. Average	44.39		
Wyoming,	69.21	1	Above 56%
Montana	68.48	2	Above 54%
South Dakota	68.44	3	Above 54%
California	61.92	4	Above 40%
Nebraska	60.60	5	Above 37%
Family Property Tax Burden			
(Adjusted Gross Income of $10,000, family of four, calendar year 1968)			
New Jersey	$662	1	
Maryland	566	2	
Maine	557	3	
Wisconsin	540	4	
Indiana	523	5	
California	302	29	

FINANCING PROPERTY TAX RELIEF

"Although it is traditionally described as a 'soak the poor' tax, our studies have shown that, in California, the sales tax can be considered a proportional tax if a person's net resources are used as the criterion of ability to pay. The basic necessities of life--food, shelter, and medical services and drugs--are exempt from the sales tax in this State. With these items removed from the tax base, this revenue source loses much of its regressive character."

"I think that it is past time for us to recognize that the sales tax is an equitable revenue source in a balanced revenue structure. By using the sales tax to substitute for a portion of the property tax, we can improve California's entire revenue system."

"Through the sales tax we place people on the tax roles as soon as they become consumers in California."

"The sales tax is geared directly and immediately to population growth, and as we all know, it is this fantastic rate of population increase that is a major source of our fiscal problems."

"The property tax can probably never be made perfect, but it can be improved to the extent that it is an acceptable part of a modern revenue system. Reduction of this tax burden is of the utmost urgency if the property tax is to survive as something more than an historical curiosity."

"We will make every effort to achieve this goal in 1967, but I would remind you that tax reform is among the most difficult of political feats. In his three years in office, President Kennedy was unable to get a tax reform bill through Congress. . . ."

"With your support, and the support of other concerned individuals and groups throughout the State, I am hopeful that we can finally achieve our goal this year."

----Speech "A New State Government and an Old State Problem"
By Jesse M. Unruh, Speaker of the Assembly

San Diego Open Forum,
San Diego, California
January 8, 1967

FOR IMMEDIATE RELEASE

Senator ____________________ today denounced the latest Democratic "tax reform" program as a "discredited, gimmicky plan which would raise the personal income taxes of the working citizens of California by $135 million a year."

"A key part of the program announced by Senators Moscone, and Teale, and Assemblyman John Miller, Democratic Minority Leader, is a narrowing of the tax brackets in the lowest income tax ranges," ____________________ said.

"This would mean an overall personal income tax INCREASE of $135 million. That's almost a 10 per cent personal income tax increase, based on the revenue level of 1969-70," Senator ________________ said.

"It is incredible that the Democratic leadership would seek to foist this kind of a tax increase on the working taxpayer."

"Governor Reagan has been trying to reduce the personal income tax burden and this would be accomplished in a fair and equitable manner under his tax reform program."

"This year, citizens of California received a one-time tax reduction of 10 per cent in their personal income taxes. If the Governor's tax reform program is approved, there will be another 35 per cent 'forgiveness' or tax reduction on every citizen's 1970 State income tax bill next April 15."

"The Democratic approach is exactly the opposite. It would raise personal income taxes. I believe the citizens of California cannot afford that kind of an increase in their tax burden."

Senator _______________ noted that Governor Reagan's homeowner property tax relief program is financed by a one cent increase in the sales tax, but this would be offset by the 27% reduction in property taxes and by the $50 tax credit provided for renters.

"The sales tax is a far more equitable way of financing homeowner tax relief," Senator _____________ declared. "It is fair because the sales tax is not collected on food, medical expenses, shelter, prescription drugs or gasoline."

STAFF DRAFT

To: Members of the Senate Finance Committee

From: Verne Orr, Director of Finance

As you consider the Administration's tax reform proposals (AB 1000 and AB 1001 by Assemblyman Bagley) there are two major points which I wish to call to your attention as emphatically as possible. First, the allegation that the program benefits primarily the rich is simply not true and second, the frequently repeated statement that the tax program shifts between 70 and 80 million dollars in taxes from business to the consumer is equally false. I would like to comment in a little more detail on each of these points in the following material:

I. Impact of Program on Individuals.

The tax program has the following impact based upon figures jointly developed by our office and the office of the Legislative Analyst:

a. 58.6% of all Californians will receive a tax reduction as a result of our proposed program, 22.8% will have a nominal change and only 18.6% will have a tax increase.

b. 99% of all home owners will receive a tax reduction as a result of our program. The percentage of property tax relief is considerably greater for the lower priced home than for the higher priced home.

c. All renters will receive a $50 reduction on their income tax. Many renters will receive a net reduction in their total taxes. Only the wealthy renters pay significantly more (over $27 per year). Renters who pay no income tax cannot be helped without violating the State Constitution. Many of these individuals have no income tax liability only because the 1967 tax bill eliminated their liability.

d. Higher taxes will be paid by the very wealthy -- particularly with capital gains.

II. Effect of the Program on Business vs. the Individual.

It has been alleged "that the Governor's program, when it is fully effective in 1972-73, provides tax reductions to business in an amount $78 million greater than the amount of tax increase imposed on business. Consumers pay $79 million more in taxes than they receive in tax reductions." This statement is totally incorrect.

This statement first appeared in Table 11 in the March 5, 1970 "Moscone Tax Reform Program: Explanation and Background Information." It has been repeated many times since then, always based on the same table. This table is incorrect for the following reasons (a partial listing):

1. It incorrectly assumes that all sales taxes not paid by business are paid by California individuals. Actually a significant portion is paid by neither, but by state and local governments and tourists and visitors.
2. It incorrectly assumes that the entire expense of personal income tax withholding falls on individual taxpayers. Actually, unincorporated business income is subject to withholding through estimated payments. Also, no recognition is given to the increased costs to all business employers in withholding personal income taxes.
3. It incorrectly assumes that all personal income taxes on capital gains are paid by individuals. Actually, unincorporated businesses pay some of this amount.
4. It incorrectly assumes that the profits of unincorporated

business are not subject to increased personal income taxes -- they are.

5. It incorrectly assumes that the conformity feature of the Governor's Tax Program has no impact on business -- it does.

6. It incorrectly assumes that the savings from property tax deductions from individual and corporate income tax is almost entirely at the expense of the individual taxpayer. This is not true.

<u>Summary of Net Cost-Benefit Impact of AB 1000-1001</u>

A more realistic allocation of the tax increases and reductions proposed in AB 1000-1001 between California individual taxpayers and business can be found on the attached table. It shows that under the Governor's tax program:

1. The impact on individual California taxpayers is a substantial net benefit of at least $55 million and up to $270 million if revenues from personal income tax withholding are excluded from the allocations.

2. The impact on business ranges from an estimated net increased cost of $43 million to a net benefit of $44 million. (The higher figure results from excluding personal income tax withholding revenues from the computation).

3. The net benefit-cost impact of the Governor's tax program is highly favorable to California individual taxpayers and basically a break-even situation for business taxpayers.

cc all members of the Legislature

ALLOCATION OF TAX BURDENS AND BENEFITS -- BUSINESS VS. INDIVIDUALS

(AB 1000-1001 as amended June 25, 1970)
(in millions of dollars)

Assumption #1: Allocating all tax reductions and new revenues (whether actual tax increases or not) between California individuals and businesses.*

	California Individuals (range)			Business (range)		
Benefits	619	-	628	271	-	280
Revenue Increases	564	-	512	314	-	262
Net Benefits	55	-	116	-43	-	18
	(Low)		(High)	(Low)		(High)

*This includes allocating revenues from personal income withholding between individual (85%) and business (15%) although such revenues are not derived from increased tax liabilities. Increased sales tax paid by state and local governments and non-Californians are also excluded. (See Schedule III for further detail).

Assumption #2: Allocation of tax reductions and actual tax increases between California individuals and businesses.*

	California Individuals (range)			Business (range)		
Benefits	619	-	628	271	-	280
Tax Increases	410	-	358	288	-	236
Net Benefits	209	-	270	-17	-	44

*This excludes revenues from withholding since it does not increase tax liabilities and increased sales tax paid by state and local government and non-Californians. (See Schedule III for further detail).

6/29/70

DETAIL OF ALLOCATION OF TAX BURDENS AND BENEFITS - AB 1000-1001

BUSINESS VS. INDIVIDUALS
(in millions)

	Total	California Individuals	Businesses	Other
Property Tax Relief				
Home Owner Exemption ~~H. O. E.~~	$461	$461	--	--
Renters	95	95		--
Business Inventory Exemption ~~B. I. E.~~	135	--	$135	--
Welfare	186	56 (30%)	130 (70%)	--
Open Space	15	--	15	--
Senior Citizens	7	7	--	--
	$899	$619	$280	--
If Property Tax Allocation 35%-65%	$899	$628	$271	--
Financing				
Sales Tax Income (See Sched. IV)	$525	$315 (60%)	$157 (30%)	$53 (10%)
Bank and Corporation Income	43	--	43	--
Depletion Conformity	5	--	5	--
Income Tax				
Withholding	170	144	26	--
Rate Increase	58	49	9	
Capital Gains Change	26	23	3	--
Selective Conformity	21	13	8	--
Savings From Interaction	27	15	12	--
Interest Saving From ~~W.H.~~ Withholding	10	8	2	--
Sub-Total	$885	$567	$265	$53
Administrative Cost Offset	-6	-3	-3	--
Total	$879	$564	$262	$53
If Sales Tax Split 50%-40%-10% (See Schedule IV)	--	-52	+52	--
Total	879	512	314	53
If W.H. Excluded	--	-154	-26	170
Revised Estimates	$879	$358	$288	$223

Schedule IV

ALLOCATION OF CALIFORNIA SALES TAX RECEIPTS BY SOURCE*

PURCHASES BY BUSINESSES	PURCHASES BY CALIFORNIA STATE AND LOCAL GOVERNMENTS	PURCHASES BY INDIVIDUALS	
		CALIFORNIANS	NON-CALIFORNIANS Tourists Visitors
30% - 40%	6%	60% - 50%	4%
- Construction materials (including Fed. projects) - Mfg. machinery - Office equipment & furnishings - Fixtures - Office supplies - Alcoholic Bev. (expense accounts) - Materials consumed in manufacturing process - Autos, trucks - Farm implements - Heavy equipment - Restaurant meals (expense accounts) - Furniture of hotels, apts., etc. - Aircraft - Personal property leased	- Construction materials - Machinery, e.g., power generators - Office supplies - Autos, trucks - Heavy equipment - Office equipment and furnishings	- Furniture - Clothing - Autos, trucks (not used commercially) - Appliances - Jewelry - Household supplies - Restaurant meals - Alcoholic beverages - Aircraft - Hardware - Personal property leased Exempt - Food - off premises - Medicines & prescript. - Shelter	- Restaurant meals - Sporting goods - Clothing - Personal property leased - Alcoholic beverages Exempt - Food - off premises - Medicines & prescript.
TAXES PAID DEDUCTIBLE FROM INCOME TAXES AS A BUSINESS EXPENSE	PURCHASES BY CALIFORNIA STATE AND LOCAL GOVERNMENTS - CITIES, COUNTIES SCHOOL DISTRICTS, SPECIAL DISTRICTS	TAXES PAID DEDUCTIBLE FROM FEDERAL AND CALIFORNIA INCOME TAXES	TAXES PAID DEDUCTIBLE FROM FEDERAL AND OTHER STATE'S INCOME TAXES

*Schedule IV shows the four basic types of taxpayers subject to the California sales tax levies, with examples of kinds of taxable purchases made. It is estimated that business purchases comprise 30-40% of taxable sales, purchases by individual Californians -- 50-60%, purchases by state and local government -- 6%, purchases by non-Californians (tourists, visitors) -- 4%.

Table 3

Estimated Number of People and Family Units

Who Would Experience Net Tax Savings or Increases Under

AB 1000 and AB 1001

Red figures are % of last column

this was added by us

Total Population (in thousands)

	Net Tax Savings	Nominal Tax Change*	Net Tax Increase	Total
1. Families				
a. Homeowners				
with capital gains	955 91.8	—	85 8.2	1,040
without capital gains	8,947 99.7	—	31 0.3	8,978
subtotal	9,902 98.8	—	116 1.2	10,018
b. Renters				
with capital gains	— ~~78~~ 0	78 21.4	~~287~~ 287 78.6	365
without capital gains	— ~~1,000~~ 0	2,731 46.9	~~4,829~~ 3,098 53.1	5,829
subtotal	— ~~1,078~~ 0	2,809 45.4	~~5,116~~ 3,385 54.6	6,194
Family totals				
Population	9,902 61.1 ~~10,980~~	2,809 17.3	~~5,232~~ 3,501 21.6	16,212
Family Units	2,676 61.1 ~~2,968~~	759 17.3	~~1,414~~ 947 21.6	4,382
2. Single and others				
a. Homeowners				
with capital gains	61 95.3	—	3 4.7	64
without capital gains	885 99.7	—	3 0.3	888
subtotal	946 99.4	—	6 0.6	952
b. Renters				
with capital gains	65 57.5 ~~65~~	-	~~48~~ 48 42.5	113
without capital gains	684 27.2 ~~894~~	1,707 67.8	~~1,625~~ 128 5.1	2,519
subtotal	749 28.5 ~~959~~	1,707 64.9	~~1,673~~ 176 6.7	2,632
Household totals				
Population	1,695 47.3 ~~1,905~~	1,707 47.6	~~1,679~~ 182 5.1	3,584
Household Units	1,474 47.3 ~~1,656~~	1,484 47.6	~~1,460~~ 158 5.1	3,116
3. Grand Total				
Population	11,597 ~~12,885~~ 58.6	4,516 22.8	~~6,911~~ 3,683 18.6	19,796
Household Units	4,150 ~~4,624~~ 55.3	2,243 29.9	~~2,874~~ 1,105 14.7	7,498

*Plus or minus $10

Moretti handout

Tax Reform

HISTORY OF TAX REFORM IN 1971

The Democrats in the Assembly have made every effort to achieve tax reform in 1971.

-- THE DEMOCRATIC BILL WAS INTRODUCED ON MARCH 25.

The Governor's program was introduced on May 26 in the Senate and not until June 4 in the Assembly.

-- THE DEMOCRATIC PROGRAM HAS PASSED TWO COMMITTEES AND IS NOW ON THE FLOOR OF THE ASSEMBLY.

The Governor's program is stalled in committee and has heavy opposition.

-- The Democrats have made every effort to compromise with the governor on this issue - the bill has been amended twice since it was introduced to meet some of the Governor's objections:

(1) The bill as originally introduced exempted the home structure from the property tax.

The Governor thought this was too much relief for the homeowner.

The Democrats have reduced the relief to a flat $2500 assessed value exemption - growing in $100 increments each year.

(This still is meaningful relief for the homeowner -- affording at least $200 each year in added relief for each homeowner.)

(2) The bill as originally introduced eliminated the <u>oil depletion allowance</u>.

The Governor opposed this.

The Democrats have now changed this so the repeal is phased out over 7 years.

(3) The bill as introduced reduced the <u>capital gains income</u> tax exemption from 50% to 15%.

The Governor opposed this.

The Democrats have attempted to meet him part way by reducing this now to 25%.

(4) The bill as introduced provided for the state to take over the cost and administration of welfare -- to take this burden off the back of the property taxpayer.

The Governor opposed this.

The Democrats have now modified our program on this to conform to the Governor's formula for welfare tax relief, providing that the state will pick up 60% of the county cost after the first 25¢ of the tax rate welfare allocation.

(5) The bill as introduced did not give local governments money to fund the farm land assessment reductions under the Williamson Act.

The Governor objected to our bill because we did not include this provision.

The Democrats have now amended Assemblyman Mobley's AB 68 into our bill to take care of this demand.

(6) The bill as introduced proposed to use the one-time money from withholding for property tax relief.

The Governor objected.

The Democrats have given in on this point and have taken the formula in the Governor's bill on withholding, including 20% forgiveness.

Tax Reform

1971

TAX PROGRAM

Property Tax Relief	Estimated Fiscal Impact (In Millions) 1970-71	1971-72	1972-73	1973-74
1. Homeowner's exemption - $1,000 plus 20% -- owner-occupied multiples receive $1500 exemption.	$388	$422	$461	$502
2. Renter relief - $50 per person	85	88	90	92
3. Inventory tax - at 50% - starts 1-1-71	-	64	122	137
4. Welfare, Medi-Cal property tax relief	164	191	221	256
5. Open space program	8	13	15	17
Totals	$645	$778	$909	$1,004

Revenues	1970-71	1971-72	1972-73	1973-74
1. Sales tax increase of $.01 - starts 7-1-70	$450	$480	$515	$550
2. Bank and Corporation tax up ½% - starts 7-1-72	-	10	52	53
3. Limit oil depletion	15	16	17	18
4. Capital Gains - starts 1-1-70	20	23	26	30
5. Income tax changes, withholding	150	208	170	178
Add 11% rate 1-1-71; Add 12% rate 1-1-73	-	43	68	96
6. Selective conformity with Federal tax reform including minimum income tax	13	15	19	26
7. Savings from interaction	-	35	43	49
Totals	$648	$830	$910	$1,000

1. Program includes statewide property tax for schools which equalizes first $2.05 of existing school property taxes.
2. Expenditure control program includes expenditure limitations for school districts and counties. Requires permissive overrides for cities to be subject to referendum.
3. To increase the visibility of the state-financed homeowner exemption, the existing exemption ($750) and the increased exemption would be computed as a reduction in net tax on the face of each tax bill.

TAX REFORM PROGRAM

I. Property Tax Relief (Outgo)

1. Homeowner's Property Tax Relief

The homeowner's property tax exemption would be increased from $750 to an average of about 40% of each homeowner's assessed valuation. The amount of the relief would vary, according to area and current tax rate, -- but the total relief would average about 26% over and above the 14% now provided by the state for the current $750 exemption.

Specifically, the homeowner's exemption would be increased to $1,000 of assessed value plus an additional reduction of 20% of the remaining assessed value of the home.

As an example, a home with a market value of $20,000, and a tax rate of $10, would have taxes of roughly $460 per year. The total state contribution to the tax bill, on the average, would be about $190, or over 40% off. For a home with a market value of $15,000, and a property tax of $345, the total state contribution would total $149, or 43% off. (For additional examples, see impact tables.)

Owner-occupied multiple dwellings such as co-ops and triplexes (which are not covered by Proposition 1-A) and farms, condominiums, residences above stores, etc. (which currently are covered) would all receive an exemption of $1,500.

2. Renter Relief

The program provides the equivalent of property tax relief for renters. Each renter who files an income tax return will receive $50 as a credit against his tax. If he owes less than $50, his entire income tax will be removed. This relief is in addition to the double standard deduction for renters which was provided in 1968.

3. Welfare, Medi-Cal Property Tax Relief

Local property taxes for the state's social welfare programs vary considerably from county to county. The proposed program would equalize these costs and relieve a portion of these taxes by (a) requiring counties to pay 100% up to a tax rate of 25¢ per $100 of assessed valuation for the local share of categorical aid, (b) dividing remaining costs of the county's share of categorical aid at a ratio of 70% state and 30% county.

Additionally, the counties would no longer be required to participate financially in the Medi-Cal (Title XIX) program. Current fiscal year county costs for this program totals $105.2 million. The State of California would, however, no longer contribute to any county medical indigent programs. The state is budgeted at $35 million for this program for the current fiscal year. The net county tax relief would total over $70 million in the forthcoming fiscal year.

The advantages of this proposal include: (a) tax relief to all counties from 1.5¢ to 37.3¢ (see attached table); (b) restores full local control to counties in the management and design of their medically indigent programs; (c) encourages counties to operate more efficiently; and (d) provides administrative simplification and substantial cost savings in Health Care Services.

Finally, this proposal would provide a uniform sharing ratio of 25% county, 75% state for the Categorical Aid programs (which now have five different sharing ratios). This proposal would (a) simplify welfare administration; (b) provide tax relief for counties with higher tax rates; (c) discourage the movement of caseload to categories offering the most favorable cost ratios.

4. Inventory Tax

The proposed program would finance a permanent reduction in the business inventory tax of 50%. The business inventory tax reduction is currently 30%, but there is no financing provided by law after 1971-72 for more than a 15% reduction. This proposal would provide a very powerful stimulus to the economy and would reduce the loss of jobs occasioned by the annual removal of inventories from California to escape this tax. The state will pay for the loss of assessed value to local government to prevent the shifting of this exemption to other property taxpayers.

5. Open Space Program

The proposed program would mandate the availability of the use-assessment provisions of the Williamson Land Conservation Act and provide replacement revenue for the counties. This proposal would help preserve the rapidly-disappearing open spaces in California. There would be considerably less pressure for owners of agricultural and other open space lands to sell their properties to the developer due to increasing tax assessments. The program will pay $1.50 per acre to counties and school districts for prime agricultural land in the program and $.50 per acre for other land under restriction.

6. School Equalization Plan

The proposed program includes a special school equalization plan which will produce additional funds for about 80% of the state's 1144 school districts. The proposal would raise about $60 million from 20% of the state's wealthiest school districts which generally have very heavy concentrations of industry and few children. The program would increase the foundations support program by placing the first $2.05 in the existing school tax equally behind all the school children in California by means of a statewide property tax.

7. Expenditure Control

The proposal includes a new program to put an expenditure limit on counties and school districts (which collect 85% of the property taxes) to guarantee that property taxes will not increase after the state finances a 40% reduction. School district expenditures would be adjusted annually by a factor based on average daily attendance and the cost-of-living. (Consumer Price Index -- Services Index). General county expenditures would be adjusted annually by the population and the cost-of-living. Additionally, the county budgets for welfare would include a factor for the welfare caseload and the state relief of local property taxes for welfare. Above these levels, the expenditure levels could only be increased by a vote of the people.

Tax rate limits have been failures in controlling increases in property taxes. Data developed indicate expenditure limits, while being more rational limits, will also be more effective. Studies show that property tax increases for schools over the past 10 years would have been reduced had an expenditure limit, rather than tax rate limits, been in effect.

Mechanically, expenditure limits are effective devices to insure that property tax rates are kept under control. When schools or counties can only expend a fixed amount of money if more state money is spent in such programs, the local share must drop correspondingly. This automatically precludes the ability of local government to use property tax relief money for additional spending and, in fact, forces local government to use property tax relief money to reduce taxes.

Although cities do not get any direct property tax relief funds from this program, it is proposed to tighten the ability of such jurisdictions to raise property taxes. As cities in almost all cases are subject to property tax rate limits, theprogram reinforces these limits by allowing local referendum of any new permissive tax rate overrides allowed cities.

II. Revenue Changes

1. Sales Tax

The state sales tax would be increased from 4% to 5% on all sales taxable transactions. This proposal would not remove any current sales tax exemptions such as food, housing or prescription drugs. Studies show that these exemptions remove most of the regressivity of this tax.

2. Bank and Corporation Tax Increase

Effective July 1, 1972, the state's bank and corporation franchise tax rate will be increased from 7% to 7½%. It is equitable that the business community share in the costs of a program of property tax relief as the benefits of such a program will be widely distributed among all segments of the state's economy. The timing of this increase has been set to correspond to the increase in the cost of the inventory tax exemption for the 1972-73 fiscal year. Under present law, the exemption will drop back by 15% if increased financing is not forthcoming in 1972.

3. Restrict Oil Depletion Allowance

At the present time, net income from certain natural resource production, such as oil and gas, enjoy a tax deduction not available to any other segment of the state's economy. Oil and gas companies are allowed to deduct 27½% of their gross revenue, up to 50% of their net, from income subject to tax.

While tax laws should allow deductions of all costs associated with theproduction of income, under the present operation of the depletion allowance, oil and gas companies are allowed deduction substantially in excess of costs -- up to 40 times their costs in some instances.

In order to remove a major part of this inequity, the depletion allowance will be limited so the deduction will not exceed five times the cost of the property being depleted.

4. Capital Gains

The taxes on capital gains would be adjusted to minimize the impact of inflation by basing the tax on the holding period of the gain. Gains held less than one year would be taxed as regular income and the tax would be reduced progressively with the length of the holding period. Shorter holding periods are more characteristic of speculation and less subject to the erosion of inflation. The following chart indicates the proposed schedule which is similar to the California schedule prior to 1959.

Holding Period	Amount Taxed	Revenue Change (millions)
0-1	100%	$ 9.3
1-2	80%	8.9
2-5	65%	10.0
5-10	50%	--
+ 10 years	40%	-8.0
		$20.2 million

5. Income Tax Changes

The proceeds of the additional, on-going revenues from withholding of personal income taxes would be used in lieu of an approximate 10% increase in tax rates. Withholding would start January 1, 1971. About $400 million, or 36% of the April payment for 1970 would be "forgiven" and would not be collected. This represents the so-called windfall from double taxation. There would be no increase in personal income tax rates for joint returns below $32,000 and single returns below $16,000.

An 11% bracket would be added for incomes above $32,000 and, in 1973, a 12% bracket would be added for incomes above $36,000. This final increase is staged to correspond with the increased costs of property tax reduction in 1972-73.

6. Conformity With Federal Tax Reform

In 1969 the most far-reaching changes ever made in the federal income tax structure were enacted into law. Those changes which are appropriate for California are included as a part of the tax reform program.

ESTIMATED IMPACT OF GOVERNOR'S TAX PROGRAM
ON MARRIED COUPLES WITH TWO CHILDREN

HOMEOWNER

	Personal Income Tax					Property Tax		
Income	11% & 12% Tax Rates	Capital Gains	Interaction of other changes	Total Income Tax	Additional Sales Tax	Additional Homeowners Exemption	Reduced Welfare Tax	Total Net Change
Without Capital Gains								
$5,000	---	---	---	---	$22	-$70	-$6	-$54
7,500	---	---	---	---	31	-82	-8	-59
10,000	---	---	$2	$2	39	-99	-10	-68
12,500	---	---	3	3	47	-120	-12	-82
15,000	---	---	4	4	54	-134	-14	-90
17,500	---	---	6	6	56	-152	-16	-106
20,000	---	---	8	8	62	-169	-18	-117
25,000	---	---	11	11	69	-208	-23	-151
50,000	$180	---	36	216	89	-346	-40	-81
75,000	617	---	43	660	126	-435	-52	299
100,000	1,020	---	61	1,081	209	-638	-77	575
With Capital Gains								
$10,000	---	$3	$2	$5	$39	-$99	-$10	-$65
15,000	---	5	4	9	54	-134	-14	-85
20,000	---	13	8	21	62	-169	-18	-104
25,000	---	20	11	31	69	-208	-23	-131
50,000	$180	86	36	302	89	-346	-40	5
75,000	617	154	43	814	126	-435	-52	453
100,000	1,020	251	61	1,332	209	-638	-77	826

NOTE: Standard deduction used for joint returns below $10,000. Average itemized deductions used otherwise.

1/30/70 (70/5)

ESTIMATED IMPACT OF GOVERNOR'S TAX PROGRAM
ON SINGLE INDIVIDUALS

HOMEOWNER

	Personal Income Tax					Property Tax		
Income	11% & 12% Tax Rates	Capital Gains	Interaction of other changes	Total Income Tax	Additional Sales Tax	Additional Homeowners Exemption	Reduced Welfare Tax	Total Net Change
Without Capital Gains								
$3,500	---	---	---	---	$15	-$61	-$5	-$51
5,000	---	---	---	---	20	-66	-6	-52
7,500	---	---	$3	$3	28	-84	-8	-61
10,000	---	---	4	4	35	-98	-10	-69
12,500	---	---	5	5	42	-102	-10	-65
15,000	---	---	9	9	47	-143	-15	-102
17,500	---	---	12	12	50	-158	-17	-113
20,000	$4	---	16	20	55	-177	-19	-121
25,000	84	---	22	106	61	-222	-25	-80
50,000	488	---	40	528	78	-370	-43	193
75,000	899	---	49	948	111	-466	-55	538
100,000	1,300	---	70	1,370	184	-682	-83	789
With Capital Gains								
$10,000	---	$8	$4	$12	$35	-$98	-$10	-$61
15,000	---	20	9	29	47	-143	-15	-82
20,000	$4	40	16	60	55	-177	-19	-81
25,000	84	63	22	169	61	-222	-25	-17
50,000	488	150	40	678	78	-370	-43	343
75,000	899	216	49	1,164	111	-466	-55	754
100,000	1,300	320	70	1,690	184	-682	-83	1,109

NOTE: Standard deduction used for single returns below $7,500. Average itemized deductions used otherwise.

1/30/70 (70/5)

ESTIMATED IMPACT OF GOVERNOR'S TAX PROGRAM
ON SINGLE INDIVIDUALS

RENTER

Income	Personal Income Tax: 11% & 12% Tax Rates	Personal Income Tax: Capital Gains	Personal Income Tax: Rent Relief Credit	Personal Income Tax: Interaction of other changes	Total Income Tax	Additional Sales Tax	Total Net Change
Without Capital Gains							
$3,500	---	---	-$5	---	-$5	$15	$10
5,000	---	---	-40	---	-40	20	-20
7,500	---	---	-50	-$1	-51	28	-23
10,000	---	---	-50	-2	-52	35	-17
12,500	---	---	-50	-3	-53	42	-11
15,000	---	---	-50	-4	-54	47	-7
17,500	---	---	-50	-5	-55	50	-5
20,000	$4	---	-50	-6	-52	55	3
25,000	84	---	-50	-7	27	61	88
50,000	488	---	-50	-9	429	78	507
75,000	899	---	-50	-13	836	111	947
100,000	1,300	---	-50	-22	1,228	184	1,412
With Capital Gains							
$10,000	---	$8	-$50	-$2	-$44	$35	-$9
15,000	---	20	-50	-4	-34	47	13
20,000	$4	40	-50	-6	-12	55	43
25,000	84	63	-50	-7	90	61	151
50,000	488	150	-50	-9	579	78	657
75,000	899	216	-50	-13	1,052	111	1,163
100,000	1,300	320	-50	-22	1,548	184	1,732

NOTE: Standard deduction used for single returns below $7,500. Average itemized deductions used otherwise.

1/30/70 (70/5)

ESTIMATED IMPACT OF GOVERNOR'S TAX PROGRAM
ON MARRIED COUPLES WITH TWO CHILDREN

RENTER

Income	Personal Income Tax: 11% & 12% Tax Rates	Personal Income Tax: Capital Gains	Personal Income Tax: Rent Relief Credit	Personal Income Tax: Interaction of other changes	Total Income Tax	Additional Sales Tax	Total Net Change
Without Capital Gains							
$3,500	---	---	---	---	---	$16	$16
5,000	---	---	---	---	---	22	22
7,500	---	---	-$4	---	-$4	31	27
10,000	---	---	-43	-$1	-44	39	-5
12,500	---	---	-50	-1	-51	47	-4
15,000	---	---	-50	-2	-52	54	2
17,500	---	---	-50	-3	-53	56	3
20,000	---	---	-50	-4	-54	62	8
25,000	---	---	-50	-5	-55	69	14
50,000	$180	---	-50	-11	119	89	208
75,000	617	---	-50	-15	552	126	678
100,000	1,020	---	-50	-25	945	209	1,154
With Capital Gains							
$10,000	---	$3	-$46	-$1	-$44	$39	-$5
15,000	---	5	-50	-2	-47	54	7
20,000	---	13	-50	-4	-41	62	21
25,000	---	20	-50	-5	-35	69	34
50,000	$180	86	-50	-11	205	89	294
75,000	617	154	-50	-15	706	126	832
100,000	1,020	251	-50	-25	1,196	209	1,405

NOTE: Standard deduction used for joint returns below $10,000. Average itemized deductions used otherwise.

Welfare/Medi-Cal Tax Relief Measure

(1969/70 Data)

.25/70-30 -- Equalization
&
25/75 Uniform Sharing Ratio

A. Highest - 50 Cents and Over

County	Property Tax Rate Reductions (Cents) Welfare	Medi-Cal	Total	Existing Total Property Tax Rate
1. Stanislaus	35.7	37.3	73.0	$10.74
2. San Francisco	37.7	28.0	65.7	12.09
3. Tulare	28.6	34.3	62.9	8.76
4. Yuba	25.1	34.3	59.4	8.58

B. Next Highest - 40 to 49 Cents

County	Welfare	Medi-Cal	Total	Existing Total Property Tax Rate
5. Humboldt	13.5	34.7	48.2	9.53
6. Kings	20.0	27.5	47.5	8.66
7. Mendocino	14.4	32.5	46.9	8.86
8. Fresno	31.2	12.5	43.7	9.68
9. Madera	14.7	27.8	42.5	7.32

C. Third Highest - 30 to 39 Cents

County	Welfare	Medi-Cal	Total	Existing Total Property Tax Rate
10. Merced	20.0	19.2	39.2	8.87
11. Sonoma	21.4	15.4	36.8	9.99
12. Butte	8.4	27.9	36.3	8.69
13. Trinity	1.5	34.8	36.3	6.75
14. San Joaquin	28.0	7.9	35.9	10.67
15. Sacramento	33.9	1.9	35.8	11.38
16. Tuolumne	9.9	23.2	33.1	8.21

County	Property Tax Rate Reductions (Cents) Welfare	Medi-Cal	Total	Existing Total Property Tax Rate
17. Alameda	13.0	19.6	32.6	$11.22
18. Imperial	16.7	14.2	30.9	9.34
19. Lassen	4.8	25.2	30.0	9.02
20. Solano	17.2	12.9	30.1	8.64

D. Fourth Highest - 20 to 29 Cents

County	Welfare	Medi-Cal	Total	Existing Total Property Tax Rate
21. Del Norte	9.4	20.3	29.7	9.58
22. San Luis Obispo	10.7	17.8	28.5	9.71
23. Kern	9.7	17.7	27.4	8.78
24. San Bernardino	13.7	13.3	27.0	10.20
25. Siskiyou	(.3)	27.0	26.7	7.85
26. Shasta	9.9	16.7	26.6	7.78
27. Santa Cruz	(.8)	27.3	26.5	9.46
28. Los Angeles	14.2	11.1	25.3	9.93
29. Nevada	(4.2)	29.4	25.2	6.69
30. Contra Costa	12.9	12.2	25.1	11.51
31. Napa	2.7	21.7	24.4	9.68
32. Tehama	1.8	21.9	23.7	8.03
33. Yolo	9.6	13.9	23.5	9.52
34. Placer	5.0	18.2	23.2	8.58
35. Calaveras	(2.5)	25.5	23.0	6.92
36. Santa Clara	7.3	14.4	21.7	10.38
37. Modoc	(1.7)	23.3	21.6	7.04
38. Inyo	(2.2)	23.6	21.4	7.13
39. San Diego	8.0	13.2	21.2	9.33

County	Property Tax Reductions (Cents) Welfare	Medi-Cal	Total	Existing Total Property Tax Rate
E. Fifth Highest - 10 to 19 Cents				
40. Plumas	(1.5)	21.3	19.8	$ 5.97
41. Riverside	7.9	8.2	16.1	9.54
42. Amador	(3.1)	18.2	15.2	5.85
43. Glenn	(1.7)	16.8	15.1	6.48
44. Marin	2.0	12.2	14.2	10.71
45. Lake	(3.4)	17.3	13.9	6.72
46. San Benito	(2.0)	15.7	13.7	6.48
47. San Mateo	1.3	12.4	13.7	9.84
48. El Dorado	(1.2)	13.1	11.9	8.30
49. Colusa	(1.3)	11.7	10.4	6.64
F. Lowest - Under 10 Cents				
50. Santa Barbara	3.1	4.9	8.0	9.59
51. Monterey	2.7	5.2	7.9	8.87
52. Orange	(0.4)	7.8	7.4	9.39
53. Alpine	1.1	6.1	7.2	4.70
54. Ventura	(0.9)	7.1	6.2	9.13
55. Sierra	(2.5)	8.6	6.1	6.08
56. Mono	(0.1)	4.9	4.8	5.23
57. Mariposa	(4.7)	8.7	4.0	5.23
58. Sutter	(1.8)	1.5	(.3)	6.98

7120
COMPARE 5-27-
WITH TAX
DAY LD

JJ-EM-GRS-VO-MKD-KH-JSC
ESG-JK-WE-WAS-PB

SACRAMENTO (UPI) --HERE IS A COMPARISON OF THE TAX PLAN DETAILED WEDNESDAY BY SEN. GEORGE MOSCONE, D-SAN FRANCISCO, AND THE ONE PROPOSED BY GOV. RONALD REAGAN:

REVENUE--THE MOSCONE PLAN RAISES ABOUT $1 BILLION IN NEW REVENUE FOR 1971-72. THE REAGAN PROPOSAL RAISES ABOUT $720 MILLION.

COST--THE MOSCONE PLAN SPENDS ABOUT $997 MILLION IN 1971-72. THE REAGAN PLAN SPENDS ABOUT $720 MILLION.

BUDGET--THE MOSCONE PLAN INCLUDES $300 MILLION TO BALANCE THE PROPOSED 1971-72 STATE BUDGET BUT THE REAGAN PLAN DOES NOT INCLUDE BUDGET BALANCING FUNDS.

WITHHOLD--BOTH PLANS PROVIDE FOR THE WITHHOLDING SYSTEM OF INCOME TAX COLLECTION BUT THE MOSCONE VERSION SPENDS THE ENTIRE $500 MILLION COLLECTED WHILE THE GOVERNOR'S PLAN "FORGIVES" ABOUT $245 MILLION AND SPENDS $245 MILLION ON HIGHER EDUCATION CONSTRUCTION PROJECTS, BEACH ACQUISITION AND SCHOOL EARTHQUAKE SAFETY IMPROVEMENTS.

PROPERTY--MOSCONE'S PLAN PROVIDES $547 MILLION IN PROPERTY TAX RELIEF FOR 1971-72, ANOTHER $799 MILLION IN 1972-73 AND $837 MILLION IN 973-74 INCLUDING INCREASING THE HOMEOWNERS TAX EXEMPTION FROM $750 TO $1,500. THE GOVERNOR'S GIVES PROPERTY TAX RELIEF ON A SLIDING SCALE WITH A HIGHER PERCENTAGE OF RELIEF GOING TO THE MORE EXPENSIVE HOMES. IT ALSO EXTENDS THE $1,500 FLAT EXEMPTION TO DUPLEXES, COOPERATIVES AND SIMILAR HOUSING. 65

SALES--THE MOSCONE PROGRAM HAS NO SALES TAX INCREASE BUT THE GOVERNOR'S PLAN RAISES THE FIVE-CENT-ON-THE-DOLLAR SALES TAX BY 5 ½ cent CENTS FOR A TOTAL OF $205 MILLION IN 1971-72.

SPEND--THE GOVERNOR'S PROGRAM INCLUDES LIMITS ON COUNTY AND SCHOOL DISTRICT SPENDING, WITH COST-OF-LIVING ADJUSTMENTS AND OVERRIDE ELECTIONS NEEDED TO INCREASE SPENDING. THE PROVISION IS DESIGNED TO CURTAIL LOCAL TAX INCREASES. THE MOSCONE PLAN DOES NOT INCLUDE THAT PROVISION BUT HAS AN "INFLATION FACTOR" TO INCREASE SCHOOL AID.

INCOME--BOTH PLANS IMPOSE A "MINIMUM INCOME TAX" DESIGNED TO INSURE THAT THE WEALTHY PAY TAXES ON "PREFERENTIAL INCOME" FROM SOURCES SUCH AS OIL. THE MOSCONE PLAN ADDS THREE NEW UPPER INCOME BRACKETS WHILE THE GOVERNOR'S ADDS TWO.

OIL--THE MOSCONE PROGRAM REDUCES THE PRESENT 27 1/2 PER CENT OIL DEPLETION ALLOWANCE TO JUST THE COST OF DEVELOPMENT OF A WELL. THE REAGAN PLAN REDUCES IT TO 22 PER CENT, THE SAME AS ALLOWED BY THE FEDERAL GOVERNMENT.

RENT--THE MOSCONE PACKAGE PROVIDES AN INCOME TAX CREDIT OR REBATE OF $75 AS RENTERS RELIEF. THE GOVERNOR'S PROGRAM GIVES RENTERS A $50 PERSONAL INCOME TAX CREDIT.

WELFARE--THE MOSCONE PLAN REQUIRES THE STATE TO ASSUME THE COUNTY WELFARE COSTS AND IMPOSES A STATEWIDE PROPERTY TAX TO FUND THE TAKEOVER. THE GOVERNOR PROPOSED STATE PAYMENT OF 60 PER CENT OF COUNTY WELFARE COSTS ABOVE THE FIRST 25 CENTS ON EACH DOLLAR.

BUILD--ABOUT $150 MILLION IS ALLOCATED IN THE MOSCONE PLAN FOR CONSTRUCTION PROGRAMS. REAGAN'S BILL SETS ASIDE $135 MILLION FROM THE WITHHOLDING "WINDFALL" FOR HIGHER EDUCATION CONSTRUCTION AND $60 MILLION FOR SCHOOL EARTHQUAKE SAFETY IMPROVEMENTS.

SENIOR--THE MOSCONE BILL INCREASES THE REIMBURSEMENT TO SENIOR CITIZENS FOR THE PROPERTY TAXES THEY PAY. THE GOVERNOR'S PLAN PROVIDES REIMBURSEMENT FOR PERSONS 62 YEARS OLD WITH AN INCOME OF UP TO $5,000. THE PRESENT REIMBURSEMENT LEVEL IS AGE 65 WITH A $3,500 INCOME.

COURTS--REAGAN'S PLAN PROVIDES STATE TAKEOVER OF THE COST OF OPERATING THE SUPERIOR COURTS. THE MOSCONE PLAN DOES NOT HAVE THAT PROVISION.

INVENTORY--THE BUSINESS INVENTORY TAX EXEMPTION WOULD STAY AT 30 PER CENT UNDER MOSCONE'S PLAN. REAGAN WOULD KEEP IT AT 30 PER CENT IN 1971-72 AND INCREASE THE EXEMPTION TO 50 PER CENT THEREAFTER.

BANK--THE MOSCONE PLAN INCREASES THE BANK AND CORPORATION TAX FROM 7 PER CENT TO 8.5 PER CENT EFFECTIVE IN JANUARY. REAGAN'S PROPOSAL RAISES THE BANK AND CORPORATION TAX TO 7.5 PER CENT THIS YEAR AND TO 8 PER CENT IN 1974.

CAPITAL--CAPITAL GAINS WOULD BE TAXED AS ORDINARY INCOME, WITH THE EXCEPTION OF OWNER-OCCUPIED HOMES, BEGINNING IN JANUARY UNDER MOSCONE'S PLAN. THE GOVERNOR WOULD GRADUATE THE CAPITAL GAINS TAXATION DEPENDING ON THE LENGTH OF TIME THE INVESTMENT WAS HELD.

5-27

State of California

Memorandum

To : Ed Meese
Jim Jenkins
Cabinet
Senior Staff
Ken Hall
Jim Dwight

Date : July 16, 1971

Subject: Gonsalves-Moretti Tax Reform Scheme

From : Jerry Martin

We now have a brief analysis in narrative form pointing out the shortcomings of the Gonsalves-Moretti tax reform scheme, as of the third version (July 6, 1971).

If anyone needs a copy, please let us know.

The analysis is being made available by party channels to Republican publications and news media editorial outlets. It is a composite analysis that includes the summary prepared by the Assembly GOP Minority experts.

We also have a copy of the complete Assembly Republican Caucus analysis of the Gonsalves-Moretti tax plan. If you need it, we can provide a copy of this, too.

July 15, 1971

Gonsalves-Moretti Tax Package

In an editorial March 28, 1971, the Los Angeles Times described the Gonsalves-Moretti tax "relief" program as a "real mind blower."

Although it has been amended since its introduction and does contain some elements of realistic tax reform, the overall package is totally unacceptable because in its present form it represents a guaranteed tax increase for the people of California. It creates inequities in a program designed to reform the tax structure.

Examples:

Illegal Subsidy to Non-Taxpaying Renters

This is supposed to be a homeowner tax relief program. As it is now written, the program favors renters.

Furthermore, it provides a $35 tax credit or rebate to all renters, whether they owe any income or property taxes. This rebate may well be an unconstitutional gift of public funds because it would provide a "tax relief refund" to renters who don't pay any taxes. Under this program, a married renter with an adjusted gross income of $10,000 not only would pay no state income tax, he would also receive a $35 rebate. Thus, taxes would be raised on many Californians to provide "tax relief" to non-taxpayers.

Senior Citizen Property Tax Relief

While everyone agrees senior citizen property tax relief should be increased, this program does this in a way that would give unreasonable tax benefits to owners of more expensive homes. It is possible under this program for a senior citizen over 60 to own a $60,000 home and pay no property taxes. Yet working taxpayers living in less expensive dwellings would pay more through higher income taxes.

Unbalanced Program

The Gonsalves-Moretti tax package is billed as property tax relief. Yet as it is written, the program actually is simply a means of providing enough money to balance the inflated budget approved by the Assembly Ways and Means Committee. The program raises $1.76 billion in various taxes and increased rates. In the third version of the Gonsalves-Moretti tax package, $454 million is earmarked to make up the deficit in the Assembly Ways and Means Committee budget.

In effect, this is a tax increase disguised as "tax reform." Governor Reagan recognized the built-in tax increase in the Ways and Means budget when he vetoed $503 million of the spending it authorized.

Inequitable Tax Reform

Democratic spokesmen have repeatedly implied that most of the revenue in the Gonsalves-Moretti tax plan would come from the "oil industry or insurance companies."

The fact is that middle income and upper middle income homeowners would pay for the overwhelming majority of tax "relief" in this program, through higher income and other taxes.

In the original version, only about $25 million or 1.8% of the revenue would come from changes in the oil depletion allowance and about $69 million or 4.9% would come from increased insurance premium taxes. That totals 6.7%. In the revised version, less than 10 per cent of the revenue required to finance the Gonsalves-Moretti tax scheme would come from business taxes. The revised version would raise approximately $19 million by reducing the oil depletion allowance. Even that is a questionable figure because new oil well drilling has been declining sharply in recent years and this could cause the oil industry to simply invest in new drilling elsewhere rather than pay the higher taxes. That means a loss of jobs in the oil industry at a time of high unemployment.

Governor Reagan's program calls for reducing the oil depletion allowance to from 27 to 22 percent, in conformity with the federal reduction. This would keep California competitive with other states in oil exploration, which provides revenue and jobs.

Governor Reagan's program also would return approximately half of the $500 million first year "withholding windfall" to the taxpayers in the form of a tax rebate.

The revised version of the Gonsalves-Moretti tax plan calls for income tax collections to INCREASE by $1.205 billion in the first year (1971-72).

That is a 90 per cent increase in total income taxes over the estimated $1.335 billion collected in the 1970-71 fiscal year under present personal income tax rates.

A billion dollar plus increase in personal income tax collections is too big a bite in one year for a balanced tax reform program and demonstrates how hard the Gonsalves-Moretti program would hit the middle and moderate income taxpayers.

Increased Spending For Schools

The Gonsalves-Moretti program compounds the inequities that are built into California's present school aid distribution formula, in which rich districts fare well and poor districts receive less than they need. The revised program provides some $250 million in new money for schools, according to categorical aid formulas which everyone concedes are outmoded and inequitabl

Further, simply providing more money for schools does not guarantee that schools will use this increased aid effectively. (Under Governor Reagan's administration, schools received $533 million of increased state aid between 1967 and 1971).

No Expenditure Controls

Possibly the most objectionable feature is the fact that the Gonsalves-Moretti program hides a tax increase in a tax reform bill. There is no guarantee that the homeowner property tax relief will be permanent because there are no expenditure controls to assure lasting property tax relief. It took only 18 months for the $750 homeowner exemption approved in 1968 to be eaten up by increased property tax rates and assessments. Governor Reagan's program includes expenditure controls to protect the homeowner's property tax relief.

Built-In Tax Increase

The Gonsalves-Moretti program provides flat rate homeowner exemptions that increase by $100 each year. No state revenue sources grow fast enough to offset this kind of relief, so the result would be a built-in tax increase every three years. That defeats the very purpose of "tax reform."

Minimum Income Tax

The Gonsalves-Moretti tax program includes a provision for a minimum income tax.

Governor Reagan has tried to include such a provision in his tax reforms for two years so that every taxpayer would pay at least a minimum state income tax.

Democratic opposition stalled enactment of this minimum income tax in a comprehensive tax reform plan in 1970. It is Democratic opposition this year that has prevented bipartisan agreement on the realistic tax reform plan Governor Reagan is sponsoring, a plan that includes a minimum income tax.

Tax Reform

BOB MORETTI
SPEAKER
CALIFORNIA ASSEMBLY

PRESS CONFERENCE

(Unofficial and Unedited)

October 5, 1971

W Press

SPEAKER: I thought that you might be interested in some elaboration of where we are with regard to tax reform.

Let me try to clearly point out if I can, what the differences are and why at least at this point the negotiations are not continuing. There is in this year's budget a $330 million deficit. That deficit can be picked up without any general tax increases to the people of this state. We can easily pick it up by closing some of the loopholes that exist in the tax law in California today. For example, if we were to treat capital gains as ordinary income, we would realize $225 million. If we were to cut off the oil depletion allowance, we would realize $25 million. If we were to adopt the minimum income tax schedule that Senator Moscone has proposed, we would realize $73 million.

The implementation of withholding nets $210 million. So you can take all or part of any or each of those taxes and realize the fulfillment of the budget needs. When we talk about tax reform, we talk about trying to adapt our system to the needs of growth and to put it on as equitable a basis as we possibly can. Tax reform need not mean a tax increase. They can be and they are two separate issues. What the Democrats strived to do in the negotiations was to present a plan and achieve a plan that would not result in a tax increase for the average Californian. The plan that we presented last week would have cut the taxes or broken even for 92 percent of all married home owners with two children, which is a standard family we operate with. It would have cut taxes for 96 percent of single renters and 98 percent of married renters. That's what we mean when we say tax reform. We can pick up from other than the average citizen, from other than the individual income tax those items necessary to develop a system which will meet the growth problem. Our emphasis was on the income tax because we believe the only way we can realize that growth is to put it on a tax that is progressive, that will grow with the needs that we come into every year. The basic difference was what reliance should be placed on income tax and what reliance should be placed on flat taxes that are, at least in our minds, regressive to one degree or another.

Apparently Senator Harmer said something yesterday about the Democrats acting in bad faith. That statement is absolutely and totally inaccurate, incorrect and false. We went down to the Governor's Office because we wanted to accomplish tax reform. We knew that the Governor's agreement was tremendously important. In order to realize tax reform, we got both houses, both parties and the Administration together to attempt to realize that end. I think that all the other Republicans who were involved in those negotiations can tell you that they individually and collectively reject what Senator Harmer mentioned yesterday. I think that's all I want to open with.

PRESS: Bob, your first statement was to explain why at least at this point negotiations are not continuing. I wonder whether you're indicating that negotiations will continue some time in the future.

SPEAKER: Larry, at any time that the Republican legislators or the Administration or both are willing to sit down again and be reasonable with regard to their demands, we will be happy to sit down and meet with them and try to reach an agreement. I don't want to give up on this issue as I didn't want to give up on the other major issues of this session and I think that if there really is a spirit of compromise and a desire to negotiate, we can reach some settlement. Tom.

PRESS: Bob, can you explain one thing that seems to be a gap between your accounting and some of the Republicans. The Republican position after the meeting broke up yesterday seemed to be that general agreement was being reached on these issues that you discussed but that the thing really broke down over expenditure controls to be placed on local government.

SPEAKER: Let me outline the sequence of events. The Governor supplied us with his suggestion as to how we could wrap it all up and put it together. All right. We went over the list. There were eighteen items on that list and we were in agreement on twelve item and in disagreement over six items. And, as we began to discuss those items, one of the Republican members of the negotiating team said it was his understanding that we had been talking about having expenditure controls in the bill for cities, counties, and schools. I said at that point, that I am generally not against expenditure contro but I want to know what you are talking about. Are you talking about what was in the Bagley bill which was the administrations' bill last yea No, we are not talking about that, that's not strong enough. They went back to the original version of the Bagley bill. And I said, well look, why don't you do this. Why don't you supply us with the language that you are talking about with regard to expenditure control. Because, I said, how can I respond unless I know specifically what you are talking about. And then we started to discuss the six items with which we had some disagreement on the Governor's list. At that point he stood up, gathered his papers and said I've got to catch a plane. He said, that's our offer, if you don't accept there's not going to be any tax reform. And he walked out of the room. Well, you know, we were not going to accept what had been offered; so apparently that ended it and I walked out and met with you fellows and told you that I thought it was all over.

PRESS: Are you waiting for them to telephone you, or are you going to initiate a telephone call to them to resume talks?

SPEAKER: I'm not one to stand on ceremony. I met Ed Meese in the basement when I was coming in this morning. And I said if you do certain things we've got some place to go. And he said, well o.k. we are going to work up a few ideas. We'll show you our language and we will be back to you as soon as we can. I think that the formal negotiations are not going to continue at this point. If we can informally reach a meeting of the minds I think that it is still possible.

PRESS: Do you think you could do it before the Governor leaves for the far East on Friday?

SPEAKER: I'm willing, as I have been all along, to spend whatever time is necessary. I don't know that it is possible but I'm sure willing to give it a try.

PRESS: Are you trying to do it this week?

SPEAKER: I would try to do it today if I could get through it. There's nothing going to stop any progress that might come about.

PRESS: How soon do you expect to meet back with him again, or is his initiative the next one that has to take place?

SPEAKER: No. We've both talked about some things we were interested in and he (Meese) said that he would get the information together and would get back to me as soon as he could.

PRESS: How long do you think that is going to take?

SPEAKER: Well, I suspect some time this afternoon or tomorrow morning.

PRESS:

SPEAKER: Yes. There is a slight difference though. For example, as I said, if we treat capital gains as normal income, we would raise $225 million. In our original package we had $155 million in reduction to the capital gains and the Governor had $25 million. The Governor is now at 50 and we are now at 110. Somewhere in between the two I think is a figure that we could all agree to. The administration's position is that the $50 is it and we are not going to go any farther.

On the minimum income tax, originally the Republicans came in with $2 million and we came in with $73 million. They are now talking about $22 million and I think that between $22 and $25 million would be an acceptable figure. On oil depletion, originally they talked about five times which would have been about 9 per cent depletion versus the current twenty-seven per cent. They came back and said no, we didn't really mean five times, we meant fifteen per cent because that is what we thought five times was.

Those are the kinds of differences that are just not being resolved. Now we originally had gone forward with the program that included no sales tax whatsoever. The Republicans insisted there be a sales tax element in the program. We injected the sales tax into the program. But every time we made a compromise they said, well that's a good place to start. And we made another compromise and they said well that's a good place to start. Well, after a while we just got to the point, I think, neither side was really willing to give on the final issues.

PRESS: What kind of tax reform or changes are possible if you don't meet to negotiate anymore?

SPEAKER: There have been cases in the history of California where the Legislature has been able to do something on its own, and I'm not sure it's beyond possibility at this point. Maybe the Governor is not going to totally agree with us, but maybe the Republican Legislators might be more willing to go ahead with it.

PRESS: Are you putting together amendments to the Gonsalves bill, for example, now that you will move with?

SPEAKER: Yes we are. And they will reflect many of the compromises that have been made.

PRESS: When do you expect to move?

SPEAKER: I would say about the beginning of the week. Pardon me?...well, there will be the amendments that I talked about that we made some progress on during the negotiations. The sales tax I suspect will be included and we will come down on the capital gains deduction and come down on the minimum income tax schedules.

SPEAKER: I will negotiate with any Republicans who are willing to negotiate whether it be the Governor or the Legislative leadership.

PRESS: Is there any plan that way?

SPEAKER: There are no formal negotiations scheduled now.

PRESS: Someone said you overreacted when the Governor got up and left the meeting yesterday. Is there any possibili that what happened is a misinterpretation of some sort that you could clear up with a couple of phone calls back and forth and get back into negotiations?

SPEAKER: Well, anything is possible but prior to the time that the Governor walked out, Senator Deukmejian I think probably hit it on the head when he said, "look we have been here for 16 days. We have been working mornings and evenings and we are just not really putting it together.
We are still too far apart on those five or six items" and he said, "I think we are just fooling ourselves if we think we are going to reach final agreement." Well that was basically the way I felt and I echoed what Senator Deukmejian said. I just felt that we were all fatigued and unhappy and it certainly wasn't the best atmosphere to continue negotiations. People were getting uptight and slamming their fists on the desks and giving speeches and I just felt that we really weren't in a position to make any more progress at all.

PRESS: What happened during the welfare negotiations... how did you manage to complete those?

SPEAKER: Yes. There were 8 or 9 or 10 times when I thought the welfare negotiations had broken down. Well, we are up to about 12 on this issue and at some point you know diminishing returns sets in. We are in real disagreement over the impact of a program on business and the income tax and I don't know that those are going to be resolvable. We are 36th out of 38 states that impose an income tax on our reliance on the income tax for state support. If you want revenues that will grow with the needs and a more progressive tax system you must tax on the basis of one's ability to pay. To do so means using the income tax more than we presently use it in California, and I think anything else is shortsighted, short-range answer. If we want to come back to the people every two or three years with a new tax increase then we go the way the Republicans suggest. If we want some kind of long term answer we are going to have to shift dependance from the property tax to the income tax.

PRESS: Is the atmosphere you speak of going to be better next week when the Governor is not here?

SPEAKER: I really don't know. Let me tell you one thing so there is no misunderstanding whatsoever. I do not believe the Governor acted in bad faith. The Governor has not broken his word to me. He has been tough but he has been straight as we found out during the welfare negotiations. You know he did what he said he would do as we did, and under no circumstances am I saying the Governor is at fault for these negotiations breaking down. I think both sides made a good effort and a strong effort but we just got to the point where we really couldn't agree.

PRESS: How is capital gains income taxed now?

SPEAKER: 50% of the gains are exempted from taxation. You pay taxes on the remaining 50%. That is what the California law is now.

PRESS: You want to cut it to 25 is that right?

SPEAKER: That's right. We want to cut the exemption to 25%. There are a great many arguments that capital gains should be treated as ordinary income and you should pay full tax on the entire amount of the gains.

PRESS: That's 25% exempt not 25% paid on?

SPEAKER: I said there are arguments that you should pay ordinary income tax on the full amount of capital gains. That's one extreme. The other is that you don't change it at all from what it is now. A person does not invest on capital gains basis because of the State law. It is the federal law where the real exemption helps and California is not the first state to move in this direction. There are 10 states in this country that treat capital gains as ordinary income. Two major states, Illinois and Massachusetts, so we are not moving in a direction that is wild or new or radical. We just think that this is a tax that can and should be imposed. It does not result in a tax increase for the people of the state across the board but only those who are in a position to realize capital gains.

PRESS: You said you want to cut it in half. Is that where you stand now?

SPEAKER: Yes.

PRESS: 25%. o.k.

PRESS: Bob, when do you expect to bring the Gonsalves bill up on the Assembly floor, and with the compromises you have talked about, how many Republican votes do you think you can attract?

SPEAKER: I'll answer two ways. I think at the beginning of the week we will bring up the Gonsalves proposal. How many Republicans I can get at this point I just can't tell you. We haven't worked the floor on it. We had hoped that negotiations would result in some agreement and we wouldn't have to face that one, but we haven't really taken any kind of count at this point.

PRESS: The fact that the Governor will be gone two weeks ________________________________?

SPEAKER: I don't know. I suspect they will be in daily communication with him and he is going to know what's been proposed and whether or not it is acceptable to him and they can talk to him from wherever he is going to be.

PRESS: As you negotiated, did it appear that the Governor and his Republican legislators were together on most of the points?

SPEAKER: Well, I understand they had their very strong differences too. Although the Republicans that were sitting at that table do not come from the same philosophical position within the Republican party. So what they did was meet each day before we met with them. And they would try to hammer out some kind of agreements so that when they came in the room they were basically together on the issues.

PRESS: How about the Democrats, are you all of similar faiths?

SPEAKER: Yes, we did the same thing. We got together and figured out what our position would be and presented those positions in the negotiations.

PRESS: Getting back to this poor atmosphere for negotiations, does it just need a cooling off period?

SPEAKER: That's possible. And it's possible that it may need nothing more than that. But you understand there are some deep philosophical differences on which taxes should be imposed. We believe the emphasis has to be on the income tax. Republicans want to rely very heavily on the sales tax. They are not willing to cut as deeply into the loopholes as we are. It doesn't matter whether you're talking about minimum tax, or capital gains, or oil - in no instance are they as willing to cut into those loopholes as we are. Those are philosophical differences that may not be resolvable. So, I don't know whether or not the cooling off period's going to help, because I don't think it's going to change anyone's philosophy.

PRESS: A lot of you have said that you'd resume the talks if the right circumstances arise. At this point, what odds would you give on a resumption of those talks?

SPEAKER: Well, I don't know. We don't have off-track betting, the odds aren't set, but I'd guess one in five, or something like that.

PRESS: Pretty slim, huh?

SPEAKER: The Saint Paul book says one in five