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HEARINGS

before the

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Assembly of the State of California

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Personal Income Tax and Bank and Corporation Taxes

1. A Personal Income Tax Withholding and Estimates Plan

2. The 1967 Personal Income Tax Prepayment Plan

3. State Conformity with Recent Changes in the U. S. Internal Revenue Code

4. Proposed Federal Legislation Regarding the Taxation of Interstate Commerce

Statement by:

Martin Huff
Executive Officer
Franchise Tax Board

January 5, 1968
San Francisco, California

1. A PERSONAL INCOME TAX WITHHOLDING AND ESTIMATES PLAN

Assumptions

In order to quantify the additional revenue to be expected from a Personal Income Tax Withholding and Estimates Plan, it is necessary to make a number of assumptions as to specific provisions. For the purposes of this report we have assumed that the withholding and estimates provisions of A.B. 484 (1967 regular session) would be enacted with the effective dates set forward one year.

The key features of such a plan are:

(1) There would be no forgiveness.

(2) Payroll withholding would start October 1, 1968.

(3) Monthly withholding by employers would be paid over to the State by the fifteenth of the following month if more than $50.00, except that the payment for the final month of each quarter would not be due until the last day of the month following the close of the quarter.

(4) Quarterly estimates would start April 15, 1969, with succeeding payment dates to be June 15, September 15 and January 15.

(5) The present Prepayment Plan would be continued through December 31, 1968, and then repealed.

Fiscal Effect

Using the above assumptions for fiscal year 1968-69, the estimated one-time revenue would be $407,000,000 and the ongoing revenue would be $15,000,000. (See Exhibit A)

For 1969-70 the estimated one-time revenue would be $38,000,000 and the ongoing revenue would be $84,000,000. (See Exhibit B)

For 1970-71 the estimated ongoing revenue would be $89,000,000. (See Exhibit C)

These data are based on the same economic assumptions that were developed for the 1967 legislative session. When the Department of Finance releases more current data, revisions will be necessary.

Administrative Costs

The administrative costs of a Withholding and Estimates Plan were studied in the spring of 1967 and the following cost projections were made:

	(Millions)
1967-68	$4.1
1968-69	5.8
1969-70	4.6

A number of adjustments to these projections would be necessary:

(a) They must all be set forward one year.

(b) Changes in salary levels and price changes for equipment and supplies must be taken into account.

(c) Offsets to the costs arise from the fact that the department's budget for 1968-69 will include the costs of the present Prepayment Plan.

(d) Changes in both the Personal Income Tax Law and the Bank and Corporation Tax Law for 1967 made it necessary to expand the capacity of the department's electronic data processing system. As a result, the incremental cost of adopting withholding would be significantly less than previous projections.

Costs would vary to some extent depending on the specific provisions of any legislation. For this reason we have not attempted to refine the previous projections at this time. However, we believe they do give some indication of the general magnitude of the costs to be expected.

The full administrative cost of the tax legislation enacted in 1967 will not be accurately measurable for several years. A sharp rise in "no remittance" and collection cases could easily result in higher incremental costs for the 1967 legislation than for a withholding plan.

Employer Compliance Burden

How long an employer would have the use of tax withheld monies depends on the pay period of the particular employer.

Very large employers using sophisticated accounting and payroll systems would probably make effective use of the funds for the short term retained.

Small employers with a single payroll clerk would incur some cost because they would absorb it as an extension of one person's activities.

Employers using the services of bookkeeping companies would probably experience increased costs; however, this would be partially offset by their use of the money.

Federal Estimates Plan vs California Prepayment Plan

If a Withholding Plan were to be adopted, we believe serious consideration should be given to integrating the present Prepayment Plan into it, rather than adopting the Federal estimates plan. One of the main reasons for the success of the Prepayment Plan was the issuance of bills.

If the billing feature is retained, however, it would not be possible to have a quarterly estimate plan, as bills could not be issued in time for the first or second payments. A three-payment plan, with the first payment on October 15, the second payment on January 15 and a final payment with the return on April 15 would be feasible.

If a quarterly estimate plan were adopted, it would still be possible to base the estimate requirement on the prior year's tax which is another important feature of the present Prepayment Plan. It could be required, for example, that every individual owing tax of $100.00 in excess of that covered by withholding file an estimate.

The Federal Government and many states have serious problems with their estimates programs. The present Prepayment Plan avoids most of these problems. We feel that every attempt should be made to retain the good features of the present plan.

Present Withholding Program

The department's present withholding program is a very limited one. Taxes are withheld from nonresidents who are entertainers, winners of horse races, and individuals with similar types of income. The total tax collected for the year 1966 was $1,042,731 from 308 withholding agents' accounts and involving approximately 2,500 taxpayers.

Withholding - Other States

Thirty-six states (including Washington, D. C.) have personal income tax laws. All of these have withholding except California, Mississippi and North Dakota.

2. THE 1967 PERSONAL INCOME TAX PREPAYMENT PLAN

The payments made under the Prepayment Plan provided by S.B. 556 (1967 regular session) are deductible for Federal income tax purposes in the year of payment as are the estimate payments made under the provisions of the laws of other states.

Our opinion is supported by a specific Federal ruling in respect to Maryland (Revenue Ruling 56-24, Cumulative Bulletin 56-1, page 27) and News Releases issued by the Los Angeles and San Francisco District Directors of Internal Revenue as to the California provisions.

Through November 1967, the Prepayment Plan produced cash receipts of $130,540,000. Further comparatively small sums were received during December and are being received currently.

Forty-seven percent of the revenue was received from taxpayers whose prepayment liability was under $600. Twenty-one percent was received from those whose liability was under $200. The under $200 cases constituted 57% of the total number of items billed. (See Exhibit F)

Of the 375,000 items billed, 4.6% were non response cases. In the under $200 class, the non responses were slightly higher than the over-all average and amounted to 5.4% (See Exhibit G)

Those paying estimates rather than one-half of last year's tax represented 2.75% of those billed. Ten thousand three hundred taxpayers were billed for $14,000,000 and paid $4,000,000. Eleven thousand five hundred individuals, or 3.1%, paid more than the amount billed. In this group, the amount billed was $5,500,000 and the amount paid was $12,000,000. These two categories tend to offset one another. The State received within

$3,500,000 of the amount billed on a combined basis. (See Exhibits H and I)

Some individuals did have difficulty understanding the estimate provisions and we received a number of letters, telephone calls and visits at the counter. In several hundred cases individuals thought they were being billed for 1966 taxes which they had already paid. While we did receive several thousand inquiries, the total was small compared with the number billed.

The procedure in handling estimates to date has involved the identification of those required to file estimates, issuance of bills, and the handling of the remittances and correspondence. Through November, the direct costs of this operation were approximately $211,000.

Future processing procedures, involving verification of credits claimed, will run about an additional $245,000 in direct costs.

It is possible for an individual to prepay more than the 1967 tax liability. If this occurs, the taxpayer will normally claim the credit on his 1967 return. A refund will be made as soon as the verification of the payment is made and the necessary formal steps involved in making refunds are completed.

It is, also, possible for the State to derive some revenue from unclaimed refunds but this is somewhat unlikely. All payments received which are not matched against returns will be audited. Thus, if a taxpayer pays $500 on an estimate and fails to claim it on his return, this will come to our attention and a refund will be initiated by the department.

There may be a few cases where estimated payments are made, no return is filed, and the taxpayer cannot be located. In such cases the State would retain the payment. It is unlikely there will be any significant number of such cases.

Based on Finance Department revenue projections made some time ago, and on our 1967 experience with this new program, we anticipate the Prepayment Plan will realize $241,000,000 in October and November 1968 receipts.

3. <u>STATE CONFORMITY WITH RECENT CHANGES IN THE U. S. INTERNAL REVENUE CODE</u>

The first session of the 90th Congress has produced only one amendment to the Internal Revenue Code which affects the laws administered by the Franchise Tax Board. Public Law 90-78 amended Section 152 of the Internal Revenue Code. This is equivalent to Sections 17056 through 17059 of the Personal Income Tax Law and relates to the $600 deduction for dependents with respect to the children of divorced or separated parents. The determination of which parent is entitled to the deduction has been a troublesome administrative problem. Public Law 90-78 provides rules designed to facilitate the determination of which parent is entitled to the deduction in these cases.

It is our recommendation that we conform our law to the Federal law, since we also have numerous problems in this area. Conformity here would result in a negligible revenue loss. This is because the California law now provides for an exemption credit of $8.00 for a dependent rather than a $600 deduction which under prior law could be deductible at the maximum rate of tax.

We have prepared the draft of a bill to accomplish this.

4. PROPOSED FEDERAL LEGISLATION REGARDING THE TAXATION OF INTERSTATE COMMERCE

This is my third report to the Committee upon the status of Federal legislation which would limit the right of the states to impose taxes upon corporations engaged in interstate commerce. H.R. 2158 is the bill presently before Congress. It is known as "The Interstate Taxation Act" or, more popularly, "The Willis Bill" after its author, Congressman Willis of Louisiana. It is the third bill to bear these titles.

Attempted Federal intervention in the field of taxation of interstate commerce stemmed from two decisions of the United States Supreme Court rendered in 1959. These were Northwestern States Portland Cement Co. v. Minnesota and Williams v. Stockham Valves & Fittings, Inc. These decisions merely reaffirmed the right of a state to impose an apportioned income tax upon a corporation whose only activities in a state were interstate commerce activities. This was not a new holding. The California corporation income tax, enacted in 1937, and similarly taxing corporations engaged in interstate commerce, had been upheld by both our state courts and by the United States Supreme Court.

However, much publicity was given to the 1959 decisions, and it was contended by the business world that interstate corporations would be unduly burdened if all of the states enacted income taxes of the type upheld. Congress reacted by enacting for the first time legislation which restricted a state's right to impose a tax. After very limited hearings, Congress hastily enacted Public Law 86-272.

This law provided that a corporation could not be subjected to a state income tax if its activities within the state were confined to soliciting sales.

This law was stop gap legislation. The act contained a time limitation and it directed that a study be made by Congress of state taxation of interstate commerce to serve as a basis for future legislation.

This study was made by a Special Subcommittee on State Taxation of Interstate Commerce of the Committee on the Judiciary of the House of Representatives. After four years a report was made and a Subcommittee bill, H.R. 11798, was introduced by Subcommittee Chairman Willis.

Although only income taxes were the subject of the Supreme Court decisions I have mentioned, H.R. 11798 proposed to regulate most phases of state and local taxation and further provided for Federal administration of at least a part of these taxes.

The bill was vigorously opposed by industry and by the states. A principal reason for the opposition was the danger the bill posed to the continuation of our Federal system of government.

As a result of the widespread opposition, the Subcommittee dropped H.R. 11798 shortly after the hearings on the bill were concluded. In its place, a substitute bill, H.R. 16491 was introduced.

H.R. 16491 eliminated some of the more objectionable features of the original bill, including the provisions for Federal administration of state taxes.

No hearings were held upon this bill. It was voted out of the House Judiciary Committee but was held in the Rules Committee. It did not reach the House floor during the 89th Session of Congress.

In early 1967, shortly after the 90th Congress convened, Congressman Willis introduced a new bill, H.R. 2158. This bill was identical to the old H.R. 16491. Before voting this bill out, the Special Subcommittee amended the bill to extend the power of states to tax corporations engaged in interstate business beyond the severe restrictions contained in the earlier bills. These amendments represented substantial improvements in the bill. These changes had been suggested by California to the California delegation and to Congressman Willis.

Arguments for the bill are that while state taxes are not now a burden upon interstate business, they might become so if state tax compliance is vigorously enforced. Some groups of small businesses argue that diverse state taxing methods and requirements cause inconvenience and unreasonable compliance expenses.

Arguments against the bill are: (1) it is an unwarranted Federal invasion in the state tax field, (2) it places many California businesses at a substantial competitive disadvantage with out-of-state business (5% on gross sales and 7% of net income under the new rates), (3) it deprives California of revenues at a time when revenue needs are most acute, and (4) it would require Californians to incur an additional tax burden because they would be forced to subsidize multistate businesses not based in California, which are taking advantage of our markets.

In February of this year, the Judiciary Committee voted the bill out, as amended, after a skirmish in the Committee whereby it was sought to delete all income tax provisions, except for jurisdictional standards. The motion to do this was lost by a 14-14 tie vote.

The bill was sent to the Rules Committee in March of last year. In July, it passed out of the Rules Commitee under an open rule which would permit amendment on the floor of the House. To date it has not been called up for consideration. We understand that the rule given the bill is still good for the session of Congress that will start ten days from now. Our best information is that the bill was not brought up at the last session because the Speaker of the House didn't feel there were enough votes for passage. At this point in time, we don't know what the prospects for 1968 are.

Problems do exist in the area of interstate taxation. The states, including California, are working on these problems and considerable progress has been made. One major problem has been the diverse methods used by the states to apportion income of multistate businesses. There are 39 states which impose a tax on or measured by income. To date, 21 of these, including California, have enacted the Uniform Act for apportioning such income. This Act is under consideration by 11 more of the states. It is felt that the states can best solve these problems and should be given time to do so. We feel that H.R. 2158 in its present form is unacceptable.

This unacceptability is spelled out in detail in Assembly Joint Resolution No. 25, passed by the Legislature in the 1967 session.

HEARINGS

before the

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Assembly of the State of California

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APPENDIX

to

Statement by Martin Huff, Executive Officer, Franchise Tax Board

January 5, 1968 San Francisco, California

Personal Income Tax

EXHIBIT A - A WITHHOLDING AND ESTIMATES PLAN
Revenue Sources - 1968-69 Fiscal Year

EXHIBIT B - A WITHHOLDING AND ESTIMATES PLAN
Revenue Sources - 1969-70 Fiscal Year

EXHIBIT C - A WITHHOLDING AND ESTIMATES PLAN
Revenue Sources - 1970-71 Fiscal Year

EXHIBIT D - A WITHHOLDING AND ESTIMATES PLAN
Estimated Cash Flow - By Source of Revenue

EXHIBIT E - A WITHHOLDING AND ESTIMATES PLAN
Forgiveness

EXHIBIT F - 1967 PREPAYMENT PLAN
Revenue Generated - By Class

EXHIBIT G - 1967 PREPAYMENT PLAN
Nonresponse Cases - As a Percentage of Items Billed

EXHIBIT H - 1967 PREPAYMENT PLAN
Revenue from Those Paying Estimates Rather Than Billed Amount

EXHIBIT I - 1967 PREPAYMENT PLAN
Revenue from Those Paying More Than Billed Amount

General

EXHIBIT J - October 31, 1967 Letter From Hon. John G. Veneman, Chairman,
Assembly Revenue and Taxation Committee

EXHIBIT A

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN

Revenue Sources - 1968-69 Fiscal Year

(Effective October 1, 1968 without forgiveness and including quarterly estimates)

	Fiscal effect
1. ONE TIME REVENUE	
A. Withholding - accelerated collection: Taxes withheld by employers during January - May 1969, would be remitted to the State during fiscal 1968-69. These taxes would not normally be collected until April 1970..	$282,000,000
B. Declarations of estimated tax - accelerated collection: Declarations of estimated tax on 1969 income would be due on April 15, 1969, and June 15, 1969. This is the counterpart to withholding. These taxes would not normally be collected until October 1969 and April 1970........	$135,000,000
C. Accounts receivable: Some taxpayers would not completely understand the new system and others would resist it. As a result it is expected that "no remittance" returns would increase on April 15, 1969. These taxes would not be collected until 1969-70............................	-$10,000,000
Subtotal - One time revenue..	$407,000,000
2. ONGOING EFFECTS OF PROGRAM	
A. Improved compliance: Primarily from people who file "no remittance" returns or who do not file returns at all. The amounts are frequently too small to be collected under the present system. Also included are returns with small computational errors that are below the billing limits....	$5,000,000
B. Accelerated collection: Primarily attributable to earlier collection of revenues otherwise receivable through the department's filing enforcement programs, as well as a drastic reduction in the number of "no remittance" and "partial remittance" returns on which payment is received during the billing cycle, but before collection effort is instituted.........................	$5,000,000
C. Other: Attributable to monies withheld from people who fail to file for a refund, deaths, emigrants whose taxes are uncollectible, and bankruptcies.......................................	$5,000,000
Subtotal - Ongoing revenue...	$15,000,000
Total - 1968-69 fiscal effect..	$422,000.000

FTB 1/5/68

EXHIBIT B

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN

Revenue Sources - 1969-70 Fiscal Year

(Effective October 1, 1968 without forgiveness and including quarterly estimates)

	Fiscal effect
1. ONE TIME REVENUE	
A. Accounts receivable: This is the converse of the $10,000,000 of delayed receipts in 1968-69 indicated in 1C for 1968-69..........	$10,000,000
B. Declarations of estimated tax - improved compliance: Many taxpayers will underestimate their declarations filed on April 15, 1969. This will be corrected when they have a year's experience and make more precise estimates on April 15, 1970. If taxpayers correctly estimated their 1969 liabilities on April 15, 1969, this $15,000,000 would be realized during 1968-69..........	$15,000,000
C. Delayed refunds: All refunds on 1969 income year taxes would not be paid during 1969-70 because of a delay in receiving the refund claims and some backlog in the processing of claims (primarily because of the necessity for selected prerefund audits)..........	$13,000,000
Subtotal - One time revenue..........	$38,000,000
2. ONGOING EFFECTS OF PROGRAM	
A. Improved compliance: Primarily from people who file "no remittance" returns or who do not file returns at all. The amounts are frequently too small to be collected under the present system. Also included are returns with small computational errors that are below the billing limits....	$20,000,000
B. Accelerated collection: Primarily attributable to earlier collection of revenues otherwise receivable through the department's filing enforcement programs, as well as a drastic reduction in the number of "no remittance" and "partial remittance" returns on which payment is received during the billing cycle, but before collection effort is instituted..........	$10,000,000
C. Withholding - accelerated collection: This is the result of an expanding economy. The benefit of economic growth is realized during the income year rather than the subsequent year..........	$29,000,000
D. Declarations of estimated tax - accelerated collection: This is the result of an expanding economy. The benefit of economic growth is realized during the income year rather than the subsequent year..........	$15,000,000

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Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN

Revenue Sources - 1969-70 Fiscal Year

(Effective October 1, 1968 without forgiveness and including quarterly estimates)

	Fiscal effect
C. Other: Attributable to monies withheld from people who fail to file for a refund, deaths, emigrants whose taxes are uncollectible, and bankruptcies	$10,000,000
Subtotal - Ongoing effects of program	$84,000,000
Total - 1969-70 fiscal effect	$122,000,000

EXHIBIT C

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN

Revenue Sources - 1970-71 Fiscal Year

(Effective October 1, 1968 without forgiveness and including quarterly estimates)

	Fiscal effect
1. ONE TIME REVENUE	
None	
2. ONGOING EFFECTS OF PROGRAM	
A. Improved compliance: Primarily from people who file "no remittance" returns or who do not file returns at all. The amounts are frequently too small to be collected under the present system. Also included are returns with small computational errors that are below the billing limits....	$20,000,000
B. Accelerated collection: Primarily attributable to earlier collection of revenues otherwise receivable through the department's filing enforcement programs, as well as a drastic reduction in the number of "no remittance" and "partial remittance" returns on which payment is received during the billing cycle, but before collection effort is instituted..........................	$10,000,000
C. Withholding - accelerated collection: This is the result of an expanding economy. The benefit of economic growth is realized during the income year rather than the subsequent year..........	$30,000,000
D. Declarations of estimated tax - accelerated collection: This is the result of an expanding economy. The benefit of economic growth is realized during the income year rather than the subsequent year..	$17,000,000
E. Delayed refunds - annual growth: This is the result of an expanding economy. The benefit of economic growth is realized during the income year rather than the subsequent year............	$2,000,000
F. Other: Attributable to monies withheld from people who fail to file for a refund, deaths, emigrants whose taxes are uncollectible, and bankruptcies..................................	$10,000,000
Total - 1970-71 fiscal effect..	$89,000,000

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN

Estimated Cash Flow - By Source of Revenue

(Effective October 1, 1968 without forgiveness and including quarterly estimates)

Fiscal month	Present law	Withholding law					Estimated change 2/
		With-holding	Declar-ations	Returns & misc. coll.	Refunds	Net 1/ flow	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		(M I L L I O N S)					
July 1968	$20	-	-	$20	-	$20	-
Aug. 1968	10	-	-	10	-	10	-
Sept. 1968	10	-	-	10	-	10	-
Oct. 1968	160	-	-	140	-	140	-$20
Nov. 1968	90	$52	-	80	-	132	42
Dec. 1968	30	54	-	40	-	94	64
Jan. 1969	20	90	-	15	-	105	85
Feb. 1969	20	48	-	20	-	68	48
Mar. 1969	50	49	$5	50	-$2	102	52
Apr. 1969	440	85	60	294	-3	436	-4
May 1969	120	49	10	100	-4	155	35
June 1969	20	51	60	30	-1	140	120
1968-69 total (See Exhibit A)	$990	$478	$135	$809	-$10	$1,412	$422
July 1969	$10	$85	$3	$10	-	$98	$88
Aug. 1969	10	50	3	10	-	63	53
Sept. 1969	10	51	68	5	-	124	114
Oct. 1969	165	85	3	5	-	93	-72
Nov. 1969	105	58	-	5	-	63	-42
Dec. 1969	30	59	15	10	-	84	54
Jan. 1970	30	100	80	10	-$1	189	159
Feb. 1970	30	53	3	15	-4	67	37
Mar. 1970	60	54	4	20	-26	52	-8
Apr. 1970	480	94	77	100	-42	229	-251
May 1970	130	54	7	20	-68	13	-117
June 1970	25	56	77	15	-16	132	107
1969-70 total (See Exhibit B)	$1,085	$799	$340	$225	-$157	$1,207	$122

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Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN

Estimated Cash Flow - By Source of Revenue

(Effective October 1, 1968 without forgiveness and including quarterly estimates)

Fiscal month	Present law (1)	Withholding law: With-holding (2)	Declar-ations (3)	Returns & misc. coll. (4)	Refunds (5)	Net 1/ flow (6)	Estimated change 2/ (7)
		(M I L L I O N S)					
July 1970	$10	$94	$3	$10	-$6	$101	$91
Aug. 1970	10	55	4	5	-3	61	51
Sept. 1970	10	56	77	5	-1	137	127
Oct. 1970	180	95	3	5	-1	102	-78
Nov. 1970	120	64	-	5	-1	68	-52
Dec. 1970	30	65	3	10	-1	77	47
Jan. 1971	30	110	91	10	-1	210	180
Feb. 1971	30	58	4	15	-5	72	42
Mar. 1971	70	59	4	20	-29	54	-16
Apr. 1971	540	103	85	105	-47	246	-294
May 1971	140	59	9	25	-76	17	-123
June 1971	30	62	85	15	-18	144	114
1970-71 total (See Exhibit C)	$1,200	$880	$368	$230	-$189	$1,289	$89

1/ Col. 2 + 3 + 4 - 5 = col. 6.

2/ Col. 6 - col. 1 = col. 7.

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN

Forgiveness

Consideration of enacting a withholding program is incomplete without a discussion of whether or not a portion of the prior year's taxes should be forgiven during the year of implementation. Consideration of whether to provide no forgiveness, full forgiveness, or partial forgiveness is a policy matter. One time revenue to be realized during the year of implementation will be determined by this decision.

The computation of the amount subject to forgiveness is as follows:

	1968-69 (millions)
Estimated collections, present law....................	$990
Estimated receipts not subject to forgiveness	
Collections based on prior year assessments.......	-40
Returns of estates and trusts*...................	-10
Taxes on net capital gains at marginal tax rates*.	-120
Estimated amount subject to forgiveness	$820
25 percent forgiveness...........................	$205
50 percent forgiveness...........................	$410

Exhibit A indicates a $422 million revenue increase. If 25 percent of 1968 income year taxes are forgiven, the revenue increase would be $217 million. If 50 percent is forgiven, then the revenue increase would be $12 million. Forgiveness of 1968 income year taxes would also reduce revenues in 1969-70 and 1970-71 because of reduced assessments that were based on the 1968 income year.

* Taxes from estates and trusts and taxes based on sales of capital assets are excluded from forgiveness because they are controllable sources of income. If they were not excluded, a major loophole would be introduced into the tax structure.

Personal Income Tax

1967 PREPAYMENT PLAN

Revenue Generated - By Class

Prepayment class	Bills Number	Bills %	Revenue Amount	Revenue %
Under $200	197,809	57.2	$27,094,000	20.8
$200 - 399	76,232	22.1	21,661,000	16.6
400 - 599	25,331	7.3	12,695,000	9.7
600 - 799	13,308	3.9	9,296,000	7.1
800 - 999	8,529	2.4	7,745,000	5.9
1,000 - 1,999	16,444	4.8	22,755,000	17.5
2,000 - 2,999	4,087	1.2	9,708,000	7.4
3,000 - 3,999	1,578	.5	5,203,000	4.0
4,000 - 4,999	761	.2	3,043,000	2.3
5,000 - 9,999	1,054	.3	5,895,000	4.5
10,000 and over	444	.1	5,445,000	4.2
Totals	345,577	100.0	$130,540,000	100.0

Personal Income Tax

1967 PREPAYMENT PLAN

Nonresponse Cases - As a Percentage of Items Billed

Prepayment class	Billed		Nonresponse cases	
	Number	Amount	Number	%
Under $200	217,311	$28,785,000	11,726	5.4
$200 - 399	81,702	22,454,000	3,237	4.0
400 - 599	26,867	13,065,000	908	3.4
600 - 799	14,095	9,742,000	448	3.2
800 - 999	8,995	8,024,000	273	3.0
1,000 - 1,199	17,288	23,594,000	503	2.9
2,000 - 2,999	4,294	10,329,000	128	3.0
3,000 - 3,999	1,668	5,731,000	60	3.6
4,000 - 4,999	801	3,556,000	19	2.4
5,000 - 9,999	1,116	7,347,000	31	2.8
10,000 and over	478	9,991,000	17	3.6
Totals	374,615	$142,618,000	17,350	4.6

Personal Income Tax

1967 PREPAYMENT PLAN

Revenue From Those Paying Estimates Rather Than Billed Amount

Prepayment class	Number	Billed amount	Paid amount
Under $200	2,539	$359,000	$182,000
$200 - 399	2,414	692,000	326,000
400 - 599	1,317	641,000	268,000
600 - 799	784	543,000	208,000
800 - 999	550	492,000	187,000
1,000 - 1,999	1,380	1,908,000	674,000
2,000 - 2,999	472	1,131,000	388,000
3,000 - 3,999	231	803,000	251,000
4,000 - 4,999	158	701,000	193,000
5,000 - 9,999	281	1,877,000	495,000
10,000 and over	184	4,602,000	957,000
Totals	10,310 (1)	$13,749,000 (2)	$4,129,000

(1) 2.75% of number billed.

(2) 9.64% of amount billed.

Personal Income Tax

1967 PREPAYMENT PLAN

Revenue From Those Paying More Than Billed Amount

Prepayment class	Number	Billed amount	Paid amount
Under $200	5,612	$751,000	$1,720,000
$200 - 399	2,668	740,000	1,798,000
400 - 599	988	480,000	1,224,000
600 - 799	508	354,000	787,000
800 - 999	398	356,000	798,000
1,000 - 1,999	878	1,194,000	2,724,000
2,000 - 2,999	229	553,000	1,171,000
3,000 - 3,999	89	308,000	640,000
4,000 - 4,999	42	190,000	365,000
5,000 - 9,999	56	363,000	709,000
10,000 and over	14	202,000	303,000
Totals	11,482 (1)	$5,491,000 (2)	$12,239,000

(1) 3.1% of number billed.

(2) 3.9% of amount billed.

EXHIBIT J

RECD NOV - 1 1967 SAC

MEMBERS
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VICE CHAIRMAN
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California Legislature

Assembly Committee on Revenue and Taxation

STATE CAPITOL, ROOM 5128
445-8570

JOHN G. VENEMAN
CHAIRMAN

SHIRLEY BICKEL
COMMITTEE SECRETARY

DAVID R. DOERR
COMMITTEE CONSULTANT

RAYMOND R. SULLIVAN
ASSISTANT CONSULTANT

October 31, 1967

Martin Huff, Executive Officer
Franchise Tax Board
1025 'P' Street
Sacramento, California 95814

Dear Martin:

This is to request your participation in a discussion of several points relating to the personal income tax with the Assembly Committee on Revenue and Taxation at a hearing on November 30, 1967 in San Francisco.

Specifically, we are seeking the following information:

I. Semiannual Prepayment

In your opinion, is the prepayment deductible from federal income tax? Does the federal government allow the quarterly estimate made in other states as a deduction in the year of the estimate?

What was the total amount of revenue generated to date with the total amount received where the payment was less than than $100? Between $100 and $200? Between $200 and $300? Between $300 and $500? Between $500 and $1,000? Between $1,000 and $10,000 and over $10,000? Was there any difference in compliance based on the amount owed?

What has been the administrative cost of this program? What procedures were used in receipting these income tax payments?

What was the magnitude, both in number and dollar amounts, of those who made estimates rather than paying one-half of last year's tax bill? Did any one estimate and pay more than one-half of last year's taxes? From these returns was there any evidence that people had difficulty understanding the estimate provisions? How do you plan to verify these estimates in April if they are predicated neither on last year's tax structure or next year's tax structure? What will be the cost of this verification program?

Is it theoretically possible for someone to prepay more than their entire 1967 tax liability? In such cases, what program has been established for refunding the over payment? Is it theoretically possible then for the State to derive some revenue from unclaimed refunds? What is the projected October revenue from prepayment in 1968?

II. Withholding

Will withholding produce additional revenue? If any, how much on an annual basis? (Please distinguish between one-time revenue and on-going revenue.)

Can you give us an estimate of cash flow which will result from the adoption of withholding? Can withholding and the prepayment system be integrated? What is the magnitude of the Department's present withholding program? What other states have adopted withholding? What would be the administrative cost of withholding?

When would the money be remitted to the State by the employers? What would be the average length of time employers would have interest-free use of this money? Is there any way this value can be determined? Would this tend to compensate the employer for the cost of collection?

III. Income Averaging

Would you briefly explain the income averaging provision in California's tax law? How do these provisions relate to the changes in the structure made by SB 556? What are the revenue implications and the relation of SB 556 to income averaging? What is the number of taxpayers who have utilized income averaging on their 1966 returns? Revenue loss to state?

IV. Progress Report on the Willis Bill

Would you briefly review the Willis Bill for members of the Committee? What is the status of the measure?

V. Conformity

What personal income tax legislation and bank and corporation tax legislation has been passed by the 90th Congress? What are the advantages and disadvantages of State income tax conformity to these new laws under the revenue implications?

Please feel free to add to or to elaborate on any of the five topics in the outline.

I very much appreciate your assistance.

Sincerely,

JOHN G. VENEMAN

JGV:Ds

withholding

FRANCHISE TAX BOARD

Bill Analysis

Fiscal

AB 20 - 68 R. S. (Veneman)
Personal Income Tax Withholding

Assembly Bill 20 would require employers to start withholding State income taxes on October 1, 1968. Monthly remittances would be required if more than $50 is withheld monthly. All other employers would file quarterly. Quarterly reports of tax withheld would be required of all employers.

Declarations of estimated tax would be due April 15, 1969. Quarterly installments would be due on June 15, 1969; September 15, 1969; and June 15, 1970. The details of declarations of estimated tax would generally conform with the Internal Revenue Code.

The present prepayment plan would continue through October 31, 1968, and then be repealed.

The original fiscal analysis of Assembly Bill 20 was based upon personal income tax estimates and assumptions developed for Assembly Bill 484 (1967 regular session). Since that time, more current estimates of personal income tax revenues have been released by the Department of Finance. Also, the most recent experience of other States who have withholding has been used to modify the basic assumptions used to estimate the cash flow.

The revised estimates for Assembly Bill 20 are summarized as follows with details set forth in the indicated Exhibits:

Exhibit A - Fiscal 1968-69 . . . . . $445,000,000

Exhibit B - Fiscal 1969-70 . . . . . $177,000,000

Exhibit C - Fiscal 1970-71 . . . . . $107,000,000

Exhibit D - Estimated Cash Flow - By Source of Revenue

Revised 3/11/68

Year 1

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN - AB 20 (1968 RS)*

Revenue Sources - 1968-69 Fiscal Year **

Fiscal Effect

1. ONE TIME REVENUE

A. Accelerated Collections: Remittances received during fiscal 1968-69 that would not normally be collected until October 1969 (pre-pay billings) or April 1970 (returns).

(1) Taxes withheld by employers during January-May, 1969 that would be remitted to the state during fiscal 1968-69 . . . . $310,000,000

(2) Declarations of estimated tax for 1969 that would be due April 15, 1969 and the first installment that would be due June 15, 1969 . . . . 125,000,000 — $435,000,000

B. Accounts Receivable: Some taxpayers would not completely understand the new withholding system and others would resist it. This would result in the filing of returns partially paid thru withholding, but with no remittance for the balance due. Collection would be deferred until fiscal 1969-70 . . . . -10,000,000

Subtotal - One time revenue 425,000,000

2. ONGOING EFFECTS OF PROGRAM

A. Improved Compliance: Primarily from mobile taxpayers who do not file returns, or if they do file, they file "no remittance" returns. The amounts escaping are frequently too small to be collected under the present system. Also included are returns with small computational errors that are below the billing limits 5,000,000

B. Accelerated Collection: Primarily attributable to earlier collection of revenues otherwise receivable thru the department's filing enforcement programs, as well as, a reduction in the number of "no remittance" and "partial remittance" returns on which payment is received during the billing cycle, but before collection effort is instituted 10,000,000

C. Other: This is the difference between the amounts withheld by employers and the amounts reported on returns by taxpayers. These people don't file returns and are unidentifiable. They probably don't file Federal returns either. In most cases, there is a tax liability and the taxpayer feels that withholding satisfies his obligation. This also includes emigrants who leave the State and fail to file returns, people who fail to file for a refund, deaths, and bankruptcies 5,000,000

Subtotal - Ongoing Revenue 20,000,000

TOTAL - 1968-69 FISCAL YEAR $445,000,000

FTB 3/11/68 *Effective October 1, 1968 without forgiveness and including quarterly estimates. ** Cash basis

A WITHHOLDING AND ESTIMATES PLAN - AB 20 (1968 RS)*

Revenue Sources - 1969-70 Fiscal Year **

Fiscal Effect

1. ONE TIME REVENUE

A. Accounts Receivable: This is the converse of the $10,000,000 of delayed receipts in 1968-69 indicated in 1.B. for 1968-69 (Exhibit A) . . . . $ 10,000,000

B. Declaration of estimated tax - improved compliance: Many taxpayers will under-estimate their declaration on April 15, 1969. This will be made up by increased collection on returns due April 15, 1970. If taxpayers had correctly estimated their 1969 liability on April 15, 1969, this would have been collected during 1968-69 20,000,000

C. Delayed refunds: All refunds on 1969 income year taxes would not be paid during 1969-70 because of a delay in receiving the refund claims and some backlog in the processing of claims (primarily because of the necessity for selected prerefund audits) 20,000,000

D. Other: This is the acceleration of delayed receipts resulting from the anticipated increase in "no remittance" and "partial remittance" returns arising from the passage of SB 556 (1967 RS) 34,000,000

Subtotal - One time revenue . . . . $ 84,000,000

2. ONGOING EFFECTS OF PROGRAM

A. Improved Compliance: Primarily from mobile taxpayers who do not file returns, or if they do file, they file "no remittance" returns. The amounts escaping are frequently too small to be collected under the present system. Also included are returns with small computational errors that are below the billing limits . . . . $ 22,000,000

B. Accelerated Collection: Primarily attributable to earlier collection of revenues other-wise receivable thru the department's filing enforcement programs, as well as, a re-duction in the number of "no remittance" and "partial remittance" returns on which pay-ment is received during the billing cycle, but before collection effort is instituted . . 10,000,000

C. Growth: This is the result of an expanding economy. The benefit of economic growth is realized during the income year rather than the subsequent year. This amount is from the following sources:

(1) Withholding $35,000,000

(2) Declarations of estimated tax 15,000,000   50,000,000

(Continued next Page)

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN - AB 20 (1968 RS)*

Revenue Sources - 1969-70 Fiscal Year **

	Fiscal Effect
D. Other: This is the difference between the amounts withheld by employers and the amounts reported on returns by taxpayers. These people don't file returns and are unidentifiable. They probably don't file Federal returns either. In most cases, there is a tax liability and the taxpayer feels that withholding satisfies his obligation. This also includes emigrants who leave the State and fail to file returns, people who fail to file for a refund, deaths, and bankruptcies	11,000,000
Subtotal - Ongoing effects of program	93,000,000
TOTAL - 1969-70 FISCAL YEAR	$177,000,000

FTB 3/11/68

*Effective October 1, 1968 without forgiveness and including quarterly estimates. ** Cash basis.

Personal Income Tax

A WITHHOLDING AND ESTIMATES PLAN - AB 20 (1968 RS)*

Revenue Sources 1970-71 Fiscal Year **

Fiscal Effect

1. ONE TIME REVENUE
None

2. ONGOING EFFECTS OF PROGRAM

A. Improved Compliance: Primarily from mobile taxpayers who do not file returns, or if they do file, they file "no remittance" returns. The amounts escaping are frequently too small to be collected under the present system. Also included are returns with small computational errors that are below the billing limits . . . .$ 25,000,000

B. Accelerated Collection: Primarily attributable to earlier collection of revenues otherwise receivable thru the department's filing enforcement programs, as well as, a reduction in the number of "no remittance" and "partial remittance" returns on which payment is received during the billing cycle, but before collection effort is instituted . 10,000,000

C. Growth: This is the result of an expanding economy. The benefit of economic growth is realized during the income year rather than the subsequent year. This amount is from the following sources:

(1)	Withholding	$41,000,000	
(2)	Declarations of estimated tax	17,000,000	
(3)	Delayed refunds	2,000,000	60,000,000

D. Other: This is the difference between the amounts withheld by employers and the amounts reported on returns by taxpayers. These people don't file returns and are unidentifiable. They probably don't file Federal returns either. In most cases, there is a tax liability and the taxpayer feels that withholding satisfies his obligation. This also includes emigrants who leave the State and fail to file returns, people who fail to file for a refund, deaths, and bankruptcies 12,000,000

TOTAL - 1970-71 FISCAL YEAR $107,000,000

FTB 3/11/68 * Effective October 1, 1968 without forgiveness and including quarterly estimates. ** Cash basis

A WITHHOLDING AND ESTIMATES PLAN - AB 20 (1968 RS) *

Estimated Cash Flow to State Controller - By Source of Revenue
(in millions of dollars)

Fiscal month	Present law	Withholding law					
		With-holding	Declar-ations	Returns & misc. coll.	Refunds	Net 1/ flow	Estimated change 2/
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Jul 1968	$ 14	$ -0-	$-0-	$ 14	$-0-	$ 14	$-0-
Aug 1968	13	-0-	-0-	13	-0-	13	-0-
Sep 1968	11	-0-	-0-	11	-0-	11	-0-
Oct 1968	99	-0-	-0-	99	-0-	99	-0-
Nov 1968	161	53	-0-	161	-0-	214	53
Dec 1968	8	54	-0-	8	-0-	62	54
Jan 1969	33	96	-0-	26	-0-	122	89
Feb 1969	15	52	-0-	14	-0-	66	51
Mar 1969	48	52	6	43	-2	99	51
Apr 1969	388	95	39	316	-3	447	59
May 1969	197	56	18	100	-4	170	-27
Jun 1969	22	56	62	20	-1	137	115
1968-69 total	$1,009	$514	$125	$825	-$10	$1,454	$445 3/
Jul 1969	$ 15	$104	$ 3	$ 17	$-0-	$ 124	$109
Aug 1969	14	60	1	9	-0-	70	56
Sep 1969	12	61	62	9	-0-	132	120
Oct 1969	115	99	3	6	-0-	108	- 7
Nov 1969	179	60	3	6	-0-	69	-110
Dec 1969	10	60	22	11	-0-	93	83
Jan 1970	37	108	74	11	-1	192	155
Feb 1970	17	58	4	24	-6	80	63
Mar 1970	52	58	7	29	-34	60	8
Apr 1970	512	105	44	74	-42	181	-331
May 1970	150	62	19	54	-39	96	- 54
Jun 1970	26	63	70	11	-33	111	85
1969-70 total	$1,139	$898	$312	$261	-155	$1,316	$177 4/
Jul 1970	$ 17	$ 115	$ 3	$ 6	-$ 11	$ 113	$ 96
Aug 1970	16	67	2	4	- 5	68	52
Sep 1970	13	67	70	3	- 1	139	126
Oct 1970	129	111	3	2	- 1	115	- 14
Nov 1970	201	67	3	2	- 1	71	-130
Dec 1970	12	67	23	4	- 1	93	81
Jan 1971	41	120	83	11	- 1	213	172
Feb 1971	19	65	5	26	- 7	89	70
Mar 1971	59	65	8	30	- 38	65	6
Apr 1971	566	117	49	68	- 47	187	-379
May 1971	170	70	22	56	- 43	105	- 65
Jun 1971	30	70	78	11	- 37	122	92
1970-71 total	$1,273	$1001	$349	$223	-$193	$1,380	$107 5/

1/ Col. 2 + 3 + 4 - 5 = col 6.

2/ Col. 6 - col. 1 = col. 7.

3/ See Exhibit A

4/ See Exhibit B

5/ See Exhibit C

* Effective October 1, 1968 without forgiveness and including quarterly estimates.

FTB 3/11/68

State of California Franchise Tax Board

Memorandum

To : Mr. Caspar Weinberger
Director of Finance
State Capitol
Room 1145
Sacramento, California 95814

Date : March 11, 1968

File No.: MH:jgs

From : Martin Huff

Subject: Income Tax Withholding - Revised Fiscal Effect (Cash Basis)
AB 20 (Veneman)

In our testimony on the subject of Income Tax Withholding before the Assembly Revenue and Taxation Committee on January 5, 1968 (copy attached), we indicated that the data on fiscal effect would be revised after the Department of Finance released their new revenue estimates for the 1968-69 Budget. Our revisions are attached. They have been reviewed by your staff and that of the Legislative Analyst. They are in agreement with our updated figures. Both agencies feel that our cash flow projections are conservative.

It is our understanding that Assemblyman Veneman will release this new data immeidately.

Executive Officer

cc: Charles E. Dixon

Attachments: 1/05/68 Testimony
3/11/68 Revised Fiscal Analysis (AB 20)

State of California

Memorandum

To : Governor Reagan

file

Date : June 11, 1969

Subject: Private ~~Sector Sentiment~~ Regarding Withholding

From : Jim Crumpacker and Jerry Martin
Program Development

We have made a quick survey of business, labor and media sentiment on withholding, both compulsory and voluntary, and present the following wrap-up for your information.

BUSINESS

National Federation of Independent Business (small businessmen), which represents 35,000 California businesses of under 500 employees has been solidly opposed to any form of withholding. The NFIB takes weekly polls of its membership on issues submitted by the Governor's Office. On the specific subject of withholding, from January through May, small businessmen in this state voted 1,529 to 538 (about 3-1) with 147 no opinion votes against Federal-type compulsory withholding.

California State Chamber of Commerce. The last referendum of the entire membership on compulsory withholding came out 38 per cent in favor; 58 per cent opposed; four per cent undecided. The statewide tax committee, however, is looking over the subject again. We have discussed the state chamber situation with William French Smith, and will continue to discuss developments with him as they occur.

Local Chambers (representative sampling). Los Angeles, no position but John Vaughn indicates this group could go for voluntary withholding (with the state reimbursing employers for bookkeeping costs as proposed by the Governor); Fresno, officially opposed to compulsory withholding; Long Beach, on May 22, 1967, and March 24, 1969, the Long Beach Chamber of Commerce issued policy statements firmly opposed to withholding of state income taxes; Sacramento, no recent poll taken, but the last time the membership was queried--about four years ago--they voted to oppose withholding; San Francisco, no official position taken; San Diego, no official position; San Jose, no official position.

It is interesting to note that the Marin County Chamber of Commerce and Visitors Bureau in a letter of April 22, 1969 to Assemblyman Bagley, announced its opposition to withholding.

1. Merchants & Manufacturers Association. Executive Committee split evenly for and against withholding.

2. Western Oil and Gas Association. No position; studying the matter.

....continued

LABOR

International Longshoremen's and Warehousemen's Union. On April 10, 1969, the ILWU unanimously changed its long-time support of withholding to one of vigorous opposition. Their reasoning boiled down to the contention that they would rather have their money to invest or gather interest than give it to the government without ever having the chance to get their hands on it.

AFL-CIO. Favors compulsory withholding. Teamsters. Favors compulsory withholding, but rather midly. (Their main concern seems to be the floaters who drift in and out of the state on construction jobs and the like.)

NEWS MEDIA

Among daily newspapers that have consistently opposed compulsory withholding are the following: Los Angeles Herald-Examiner, Sacramento Union, Oakland Tribune, Santa Monica Evening Outlook, San Diego Union, San Diego Tribune and San Jose Mercury. It is important to note that these papers represent the backbone of the Republican press in California.

PUBLIC OPINION

The Muchmore Poll, has taken no polls solely on the withholding issue. The Field Poll, has taken three polls on the subject. All favored a "pay-as-you-go" system (polling 1,011 persons - 549 Democrats, 368 Republicans and 94 others.) Because of the sampling and the description of "pay-as-you-go" tax payments, the poll's results as applied to withholding are questionable.

In discussing the issue of withholding with private sector groups and individuals, it was obvious that many otherwise knowledgeable businessmen and chamber of commerce officials are not fully aware that the issue has become one of voluntary vs. compulsory withholding. Also, many people are unaware that the Governor's program for voluntary withholding includes provisions for both a discount to the taxpayer for paying in advance and compensation for employers for accounting expenses involved in setting up withholding.

Those respondents who tended to favor withholding, and who knew about the voluntary aspects of the Governor's program, said they would go for any one of the voluntary packages. We should continue to fight compulsory withholding, while at the same time, building a solid foundation of support for the voluntary plans. Some businessmen indicated that they would be glad to provide a forum for the Governor to personally discuss the situation. There was an indication that only the Governor, personally, can sell this package. Seminars featuring the Governor were suggested in Rus Walton's April 14 confidential memo outlining a program for gaining statewide support for the tax program. The cooperation of all units is needed if this program is to be effectively carried out.

There is considerable amount of "backing and filling" going on statewide on the subject of withholding. This is apparent from the number of groups suddenly switching to "no position" or are "studying" the proposal. There were indications that the voluntary aspects of withholding would become acceptable to some influential groups if they were more fully explained throughout the state.

Attachments

cc: Meese, Walton, Deaver, Beck, Sturgeon, Steffes.

State of California
GOVERNOR'S OFFICE
SACRAMENTO 95814

RONALD REAGAN
GOVERNOR

Sent to Gov. 49
" " Doerr 60
Total 109

May 6, 1968

Mr. Richard E. Thomas
Western Field Director
National Federation of
Independent Business
150 West 20th Avenue
San Mateo, California 94402

Dear Mr. Thomas:

Governor Reagan has asked me to express his apprecia-
tion for your taking the time to visit with him early
last month. He was very interested in what you had
to say and always looks forward to getting the results
of your survey of small businessmen throughout
California.

I am sorry it has taken so long to get these questions
to you, but I have been completely bogged down in so
many things that it has been very difficult to move
with the speed I would hope. I know these may be
longer and greater in number than you may be able to
use, but they represent some of the major issues that
are before us. If you can use any or all of them,
the Governor would certainly be grateful. If you have
any questions, please let me know.

Meanwhile, thanks again for your assistance. We all
appreciate it.

Sincerely,

Paul Beck
Press Secretary

TABULATIONS FROM MAY 23 THRU MAY 29, 1969 = 109 Respon[ses]

TO CALIFORNIA N.F.I.B. MEMBERS

On April 1, Richard E. Thomas, Western Field Director N.F.I.B., accompanied by Niel Heard, Assistant to the President, N.F.I.B., conferred with Governor Reagan on abolition of the inventory tax in line with the desires of the independent businessmen. Governor Reagan expressed strong favor of such elimination and has asked for further advice from you "on some of the major issues that are before us." Thus, your cooperation in answering these questions prepared by the Office of the Governor will enable us to take further action and work on your behalf . . .

GENERAL

	Yes	No	No Opinion
1. California's unemployment remains above the national average. Do you feel it is primarily the state's responsibility to solve the problems of the unemployed?	21	75	13
IF NO, how can this problem be solved?			
(a) Federal Government	4	14	
(b) Private industry	12	11	
(c) Combination of government and private industry	68	4	
2. Spending for welfare and higher education are major expenses. In order to avoid increased taxes, it may be necessary to decrease one in favor of the other. Which do you prefer?			
(a) Decrease welfare and increase higher education expenses	86	4	
(b) Decrease higher education and increase welfare	5	29	
(c) Raise taxes so no cuts will be necessary	6	34	
3. Do you feel there is a need to overhaul the Medi-Cal program?	85	3	21
4. Do you support Governor Reagan's policies in the mental health programs aimed at greater local treatment and reduced state hospital costs?	82	8	19

TAXES

538 1539 147 3-1

	Yes	No	No Opinion
5. It has been proposed that the state deduct income tax from paychecks in the same manner as employed for Federal Income Tax. Do you favor this?	26	77	6
6. Do you favor partial or "under-withholding" of state income tax?	13	77	19
7. Do you support the present system,	61	29	19

3-1

	Yes	No	No Opinion
8. Do you favor tax reform which will shift the burden from property tax?	97	9	3
	1998	128	89
9. If your answer to question 8 is yes, which tax, if necessary, would you favor increasing?			
(a) Increase sales tax	49	10	
(b) Increase personal income tax	7	25	
(c) Increase corporate income tax	25	15	
(d) Increase cigarette and liquor tax	56	11	
(e) Broaden sales tax to increase other categories, including food and others . .	39	15	

18-1.

EDUCATION

	Yes	No	No Opinion
10. Would you favor tuition, or fee increases at the University of California and State Colleges, if the money were used exclusively for grants to needy students and teacher enrichment?	69	28	12
11. Do you support the principle of tuition to help defray the cost of higher education in general?	103	3	3
12. It has been proposed in several School Districts to bus public school children in order to integrate the schools. Do you favor this?	6	97	6
13. Do you favor legislation for greater controls on demonstrations and control of riots on the college campuses?	101	6	2

LAW ENFORCEMENT

	Yes	No	No Opinion
14. Is the answer to reducing crime more police officers?	26	59	24
15. Which of the following do you think is the answer to riot prevention in the ghetto areas?			
(a) More minority police officers	39	19	
(b) Police participation in community projects	49	12	
(c) Educational emphasis on respect for law and order	86	1	
(d) On-the-job training and re-training	51	6	
(e) Better education and tutorial assistance	46	7	

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Address: 150 West 20th Avenue, San Mateo, Calif.

Withholding System Now Opposed

ILWU Tax Reform Fight

By Dick Meister
Labor Correspondent

Los Angeles

The International Longshoremen's and Warehousemen's Union vowed yesterday to lead a battle for "radical changes" in the country's tax laws.

The union's aim will be to shift an "ever-growing tax burden from workers and middleclass people," to large corporations and other "special interest groups" who, it charged, now avoid paying their fair share.

The ILWU's chief target will be the withholding tax system — "one of the greatest swindles the Government perpetrates on working people."

SUPPORT

The union had supported the system ever since it was started by the Federal government during World War II as a "temporary measure," and had endorsed current proposals to use it for the collection of State taxes.

But that position was abruptly, angrily and unanimously changed here yesterday at the union's biennial convention.

"Some $80 billion, almost half of the Federal budget, is taken directly from our paychecks without our ever having a chance to get our hands on the money," delegates complained in one of several resolutions urging broad tax reforms.

SYSTEM

The withholding system may soften the blow, they said, "but at the same time it serves to hide or obscure how much of our money actually goes for taxes."

Delegates said that businessmen and others who do not get their income from employer paychecks pay their taxes in one lump sum, once a year.

Thus, all they earn in the year between their single tax payments can be invested and, perhaps, bring them more money.

(Actually larger taxpayers, both individuals and corporations, pay Federal income taxes on a quarterly basis.)

But workers "aren't allowed to decide what to do to is that the Government is willing to trust the wealthy and well-to-do to manage their own finances and pay their own taxes when due.

Delegates also complained that the withholding system keeps people from refusing to pay their taxes as a way — the most effective way — to get action on their demands for tax reform.

"The union's for taxes . . . paying our fair share, like we pay union dues," declared ILWU president Harry Bridges. "But this is a damned disgrace . . . a damned disgrace."

In addition to action against withholding taxes, the ILWU's agenda for tax reform includes these aims:

- On the Federal level, abolishing the 10 per cent surtax, doubling the $600 income tax exemption, raising the standard deduction, closing legal "loopholes" that reduce the taxes of corporations and businessmen and tightening regulations on charitable deductions and on tax free foundations.
- Repealing sales taxes or allowing people to deduct them from their State income taxes, and shifting the burden of local property taxes from renters and home owners . . ."

In other action delegates pledged to lead an alliance of unions, young people, minority groups, poor, clergymen, scientists and intellectuals in "a massive new popular anti-war protest . . ."

They also opposed President Nixon's proposal for the ABM nuclear defense system.

Jim

MARIN COUNTY
CHAMBER OF COMMERCE & VISITORS BUREAU
824 - 5TH AVENUE
SAN RAFAEL, CALIFORNIA 94901

April 22, 1969

Assemblyman William T. Bagley
State of California
Room 4130, State Capitol
Sacramento, California 95814

Dear Bill,

By direction of its Board of Directors, the Marin County Chamber of Commerce and Visitors Bureau wishes to register with you opposition to the proposal that withholding be added to the State income tax structure.

We thoroughly agree that taxation generally needs an objective overhaul on the bases of equitability, the mitigation of complexities and the filtering out of outmoded or inflated governmental service "needs." We heartily disapprove of devices, such as withholding, intended to ease the pain of payment and accelerate collection. Beyond that, withholding has a built-in inflationary effect since it reduces take-home pay and induces pressures for compensating greater remuneration.

It is frustrating that year after year in the abundance of tax measures proposed by all levels of government and taxing jurisdictions, most of them are directed toward a greater take, but rarely are there fruitful efforts directed toward either sensible re-structuring or meaningful reduction.

Sincerely yours,

(signed)

Richard P. Have
President

RPH:av

WITHHOLDING

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IMMEDIATE RELEASE

October 20, 1971

STATEMENT BY ACTING GOVERNOR ED REINECKE AT
NEWS CONFERENCE ON WEDNESDAY, October 20, 1971

The citizens of California are going to be the victims of burdensome tax payments in the spring if the Democratic-controlled State Legislature doesn't act quickly in passing a Tax Withholding Bill.

Because of mechanical and administrative problems, taxpayers may possibly be hit with three months' State withholding plus federal income taxes all due in the same month, April of 1972.

This burden need not be placed upon the taxpayers. It can be avoided by quick enactment of the State Withholding Tax legislation that has been in the hands of the State Legislature for months.

Unless the legislation is enacted quickly, there is a potential that the administrative lead time needed will prevent the actual withholding of State income taxes from going into effect until the beginning of the second quarter of 1972. If this happens, taxpayers will be paying 12 months' taxes in nine monthly installments instead of spreading the payments over 12 months.

As the end of this Legislative session draws near, I'm urgently concerned that swift enactment of personal income tax withholding after months of delay could create hardships by not allowing sufficient lead time for orderly employer and administrative preparation.

The adoption of withholding places major responsibilities on employers to revise their payroll accounting systems. The amount of lead time required to make these revisions varies considerably depending on the size of the employer and the type of accounting system used.

For example, one large California employer, who also represents 4,000 employer accounts, reported he would need at least four months' preparation time from receipt of tax instructions. Two other large California employers polled requested six months. The latter estimates may represent an excess of caution but we must not underestimate the massive changeover task.

Unless reasonable lead time is provided, the ability of employers to implement in time would be jeopardized. And, a considerable reaction particularly from large employers must be expected.

To offset the possibility of short notice from the Legislature, the Department of Human Resources Development and the Franchise Tax Board have spent considerable effort on pre-enactment planning, programming, printing of forms and some tax instructions. The central feature of this plan is to have all employer material ready to mail immediately after a withholding bill is signed. Nevertheless, each day's delay without enactment or certainty of the effective date increases the administrative problems and causes waste.

To illustrate, the initial mail to 375,000 employers has been ready for months but addresses and other pertinent information have become stale. This material must soon be reprinted, imprinted with current names and addresses, and prepared for mailing again. This rerun is costly and will defeat our plan to promptly inform employers.

Major changes in the tax structure at the last minute and/or extending the effective date well into 1972 will require preparation of new formulas and tables for the Employer's Tax Guide which is ready to print.

Here again the delay in enactment contributes to administrative problems and costs, and could encourage negative taxpayer response if, for example, twelve months of taxes are collected in nine monthly bites. This planned use of an accelerated tax rate schedule to recover taxes for elapsed months in 1972 will also create one-time employer programming changes due to the unique, shortened tax year.

The magnitude of the dilemma caused by continued delay in enactment is growing. When pressures due to lack of funds force fiscal legislation, we are hopeful that the tight time limits imposed will not cause unreasonable demands upon the employer population. This will insure timely and willing compliance by employers and enhance our ability to administer the program effectively.

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