



Budget Solutions and Alternatives to an All-Cuts-Budget

May 2010



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AFSCME California Budget Solutions and Alternatives an All-Cuts-Budget

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Introduction

May 14, 2010

To the Members of the California State Legislators:

The Governor has released a revision to the January 10th Budget proposal. As we anticipated, the Governor has once again called for an *all-cuts* approach to solving the General Fund budget shortfall in California. However, such a draconian and inhumane approach is unwarranted, necessary, or prudent.

Over the past three years, California's working families, children, and the most vulnerable have endured relentless budget cuts. Within that time, more than \$60 billion in funding has been eliminated from education, health care, in-home supportive services (IHSS) and other vital programs. The May Revision would continue this trend with the elimination of thousands of public sector employee jobs, less support and access to educational opportunities for school-age children, and it would force dependent adults into nursing home facilities against their will - essentially watering down communities throughout our state, debilitating indispensable public services, and hurting Californians across the board.

Enough is Enough!

Hard working California families have carried the entire burden of the state's fiscal crisis for far too long. Policy-makers are too quick to conclude that practical budget alternatives are not "politically possible," and that there is nothing they can do to generate new revenue. It is time for the Legislature to spread the hardship for the current General Fund shortfall to those sectors that have yet to participate in the recovery of our great state.

The AFSCME California Budget Solutions and Alternatives to an All-Cuts-Budget provides over \$21 billion in revenue for the fiscal year 2010-11, and \$27.3 billion in recurring revenue in 2011-12. These strong and timely measures *must* be enacted to save vital programs and services in our state, and to save jobs for our public sector employees. It is imperative that we put aside the politics that have seized our state's budget process; we must ignore policy decisions based strictly on partisanship and ideology, and we *must* be open-minded in our uncompromising pledge to working families and enact sound, long-term, responsible solutions that are practical, fair, and that make sense for our Golden State.

Everyone is watching, it's time that we all work together to do what is right for California.



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MAJORITY VOTE REVENUE

FY 2010-11 Revenue & Savings: \$3.85 billion

Recurring Revenue & Savings: \$5.9 billion

One-Time Savings: \$3.45 billion

<u>FY 2010-11 REVENUE</u>	<u>FY2011-12 REVENUE</u>	<u>PROPOSAL & DESCRIPTION</u>
\$1.3 Billion	\$1.4 billion	<p>SINGLE FLIP</p> <ul style="list-style-type: none"> - Restores current 1/4% sales tax to General Fund, ending the temporary reduction of the local “Bradley Burns” sales tax
\$1.4 billion	\$1.4 billion	<p>Alcohol fee of 10¢ per drink</p> <ul style="list-style-type: none"> - \$500 million for the general Fund; \$1.4 billion overall
\$150 million	\$400 million	<p>Various collections (e.g. Amazon, bank collections, others)</p> <ul style="list-style-type: none"> - Revenue will increase to \$400 million annually when fully implemented - \$150 from Amazon collections similar to NY. - \$30 million, growing to \$100 million, from utilizing financial institution data matches to locate assets of tax avoiders. - \$80 million from requiring report on book vs. tax income for corporations - \$100 from other collection measures proposed last year (conform to federal back-up withholdings, suspend professional licenses for tax debtors, deny sales tax refunds to lenders on worthless accounts, require use tax collection on income tax forms.)

** All FY 2011-12 Revenue listed throughout this document is recurring revenue unless otherwise noted.*





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MAJORITY VOTE REVENUE (continued)

<u>FY 2010-2011 REVENUE</u>	<u>FY 2011-12 REVENUE</u>	<u>PROPOSAL & DESCRIPTION</u>
\$0	\$1.4 billion	<p>Withholding on independent contractors</p> <ul style="list-style-type: none"> - Establishes 3% withholding requirement for independent contractors on payments in excess of \$600 per year made by businesses to all independent contractors. - Achieves \$250 million in recurring revenue from increased tax compliance (<i>included in "Close Wasteful Tax Breaks and Loopholes" section</i>)
\$1 billion	\$1.3 billion	<p>Increase in Tobacco Fee</p> <ul style="list-style-type: none"> - Raises fee on cigarettes (currently 87¢ a pack by an additional \$1.50) and proposes and equivalent fee on other tobacco products.

* Indicates a one-time savings in revenue acceleration, and not recurring revenue.





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REVENUE REQUIRING 2/3 VOTE

FY 2010-11 Revenue & Savings: \$15.4 billion

Recurring Revenue & Savings: \$16.9 billion

<u>FY 2010-2011 REVENUE</u>	<u>FY 2011-12 REVENUE</u>	<u>PROPOSAL & DESCRIPTION</u>
\$4 billion	\$4 billion	<p>Restore the top-rate income tax brackets</p> <ul style="list-style-type: none"> - Restore to the same levels under Governors Wilson and Regan: 10 percent above \$250,000 and 11 percent above \$500,000. - The bulk of economic growth over the past three decades has gone to those in the highest income groups, with 23% of income now going to the top 1% (as opposed to the top 8% of income going to this group in 1980.) - As we work to solve our state's structural budget deficit, it makes sense to ask more from those who have benefited the most. - The cost of this proposal to those high-income households is significantly offset by increased deductions on their federal taxes. - Previously, this proposal was estimated to raise \$4 billion to \$6 billion annually. That figure would be lower today, both because of the economic downturn and the current top rate of 9.55 percent.
\$3 billion	\$4 billion	<p>Broaden Sales Tax Base</p> <ul style="list-style-type: none"> - The California sales tax base is narrow. It expands the sales tax to include entertainment, admissions, parking, golf and skiing, hotels and digital products, as well as telecommunications, cable and satellite services.
\$2.5 Billion	\$3 billion	<p>Lower Current Sales Tax by 1/2 Cent</p> <ul style="list-style-type: none"> - The temporary 1 cent sales tax increase will expire July 2011. Extending— but lowering—the sales tax to 1/2 cent would grow revenues to \$3 billion, particularly with a broader base.





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REVENUE REQUIRING 2/3 VOTE (continued)

<u>FY 2010-2011</u> <u>REVENUE</u>	<u>FY2011-2012</u> <u>REVENUE</u>	<u>PROPOSAL & DESCRIPTION</u>
\$1 billion	\$1 billion	Impose oil severance tax of 9.9% - California is the only state which does not levy a tax on oil extraction, and only place in the world which receives neither tax nor royalty revenue. Gov. Sarah Palin in Alaska instituted a 25% oil severance tax by comparison.
\$1.3 billion	\$1.3 billion	Restore Vehicle License Fee to 1% - This was the rate when Governor Schwarzenegger took office in 2003. The fee is progressive in that owners of more expensive autos pay more.
\$1 billion	\$1 billion	Increase corporate tax rate by 1% to 9.84%
\$600 million	\$600 million	Restore Subchapter S entity tax rate to 2.5% - Currently Sub S corporations pay only a 1.5% entity level tax (compared to 8.84% for regular corporations), despite many being large, closely-held corporations. The original rate was 2.5% when California adopted the Sub S form.
\$2 billion	\$2 billion	Change ownership for commercial Property - Change of ownership statutes are extremely loose and contain numerous loopholes. Tightening these rules is a necessary step towards needed structural commercial property tax reform.



AFSCME California Budget Solutions & Alternatives to an All-Cuts-Budget

CLOSE WASTEFUL TAX BREAKS & LOOPHOLES

FY 2010-11 Revenue & Savings: \$2.517 billion
Recurring Revenue & Savings: \$4.517 billion

California has failed to mind its fiscal store, instead allowing unnecessary loopholes and tax expenditures to flourish. At a time when lawmakers are considering deep cuts in core services, it is lawmakers responsibility to give these tax breaks the closest scrutiny.

<u>FY 2010-2011</u> <u>REVENUE</u>	<u>FY 2011-2012</u> <u>REVENUE</u>	<u>PROPOSAL & DESCRIPTION</u>
\$410 million	\$410 million	<p>Limit Net Operating Loss carry forwards to 50% of tax liability</p>
\$350 million	\$350 million	<p>Eliminate tax loophole on like-kind exchange of commercial property</p> <p>- Commercial property owners reap enormous gains on sales but never pay tax on them when they roll these gains into additional commercial properties– even out of-state properties. This results in major revenue loss with no corresponding increase in economic activity.</p>
\$150 million	\$150 million	<p>End multinational tax sheltering by Including tax havens in water’s edge filings</p> <p>- Corporations can park income in Caribbean tax havens to avoid paying taxes on income. Tax havens should become part of the “water’s edge” for purposes of California taxation.</p>
\$500 million	\$500 million	<p>Phase out Enterprise Zone tax breaks.</p> <p>- This program was intended to help poor communities. It is overly broad, full of obsolete and outdated policies, and has proven ineffective in achieving its goals. (Alternatively, tightening major abuses in the system will generate roughly \$100 million annually.)</p>



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CLOSE WASTEFUL TAX BREAKS & LOOPHOLES (continued)

<u>FY 2010-2011</u> <u>REVENUE</u>	<u>FY 2011-2012</u> <u>REVENUE</u>	<u>PROPOSAL & DESCRIPTION</u>
\$300 million	\$300 million	End accelerated research and exploration deduction
\$290 million to	\$290 million	Limit research and development credit two-thirds of tax liability
\$146 million	\$146 million	Eliminate exemptions for industry-specific equipment
\$75 million	\$75 million	Eliminate certain diesel fuel exemptions
\$70 million	\$70 million	Eliminate exemptions for leasing of films and tapes
\$65 million	\$65 million	Eliminate “nowhere income” tax loop hole
		- Multi-state corporations are permitted to treat the accounting of stock purchases and asset sales differently for federal and state law, allowing them to be taxed on less than their full income, or “nowhere income”.



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CLOSE WASTEFUL TAX BREAKS & LOOPHOLES (continued)

<u>FY 2010-2011</u> <u>REVENUE</u>	<u>FY 2011-2012</u> <u>REVENUE</u>	<u>PROPOSAL & DESCRIPTION</u>
\$55 million	\$55 million	<p>Eliminate small business stock capital gain tax break</p> <p>- This program has no evidence supporting its effectiveness.</p>
\$0	\$2 billion	<p>Eliminate tax loopholes created in February FY 09-10 budget deal</p> <p>- This includes single sales, loss carry-back and credit-sharing.</p>
\$21 million	\$21 million	<p>Eliminate remaining oil company loop holes</p>
\$85 million	\$85 million	<p>Limit mortgage interest deductions to principal residence</p> <p>- Tax breaks for vacation homes do not warrant state support while cutting vital public services</p>





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AFSCME Budget Strategy: Preserving the Safety Net and Ensuring Opportunities
\$4.7 billion

Majority Vote Revenue

Single Flip (Pg 4) - 1.3 billion

\$1.50 increase in Tobacco Fee (Pg 5) - \$1 billion

10¢ Alcohol Fee (Pg 4) - \$1.4 billion

Wasteful Tax Breaks & Loopholes

Phase out Enterprise Zone tax breaks (Pg 8) - \$500 million

End multinational tax sheltering (Pg 8) - \$150 million

Eliminate tax loophole on like-kind exchange of commercial property (pg 8) - \$350 million

Governor's Budget Strategy: Eliminate California's Social Safety Net
\$4.1 billion

Majority Vote Reductions

Eliminating CalWORKS - \$1.1 billion

Eliminating funding for Child Care - \$1.2 billion

Eliminating Food Stamps and Child Welfare Programs - \$602 million

Reduction in County Mental Health Services - \$602 million

Reduction in In-Home Support Services - \$750 million

WHICH STRATEGY WORKS BEST FOR CALIFORNIA?

*The above is a partial list of solutions. Please refer to the prior pages for a complete list of options.