



CALIFORNIA

• BUDGET PROJECT •

July 17, 1997

WHAT WOULD THE GOVERNOR'S TAX PROPOSAL MEAN FOR THE BUDGET?

On July 16, sixteen days after the start of the new fiscal year, the Governor introduced a new proposal to substantially reduce personal income tax revenues beginning in 1999. In addition, the Governor reiterated his support for a corporate income tax rate reduction. The Governor proposes to:

- Adjust the brackets used to calculate personal income tax liability. Under this proposal, the threshold at which taxpayers move from one bracket into the next highest bracket would be increased by 10 percent beginning in 1999. A married couple with two children, earning the state median income of approximately \$40,000, would save just \$5 per month under the Governor's proposal.
- Reduce the corporate income tax rate by a 5 percent tax cut beginning in 1998. This is scaled back from the Governor's previous proposal for a 10 percent corporate tax cut.

How Much Does The Governor's Proposal Cost?

The Governor's proposal will reduce General Fund revenues by \$1.3 billion when fully implemented in 1999-00. Due to the interaction between state revenues and Proposition 98, the school spending guarantee would be reduced by as much as 57 cents for each dollar of revenues lost to the state.

How Much Will The Governor's Tax Proposal Cost?				
	1997-98	1998-99	1999-00	2000-01
Revenue Loss (\$ in millions)	\$130	\$620	\$1,300	\$1,365
Prop 98 Loss (\$ in millions)	\$5	\$313	\$741	\$779
Loss Per Classroom (in dollars, assumes 27/class)	\$23	\$1,409	\$3,335	\$3,505

Revenue loss includes the Governor's May Revision proposals.

Policy Issues Raised By The Governor's Proposal

- Approximately a quarter of the revenue loss to the state would go to the federal government in the form of higher federal income and corporate tax payments, reducing the value of the tax cut for California's businesses and families.
- Most of the budgetary impact is delayed until 1999 -- after the Governor and many members of the current legislature will have left office.
- Still on the table in this year's budget debate are a number of spending reductions disproportionately affecting low income families, the elderly, and disabled; food assistance for legal immigrant children losing Food Stamps; and job training for parents leaving welfare for work. Half of the cost of the personal income tax cut is funded by elimination of the renters' tax credit.
- The Governor's proposal leaves the state with less than a one percent reserve in 2000-01, providing little protection against an economic downturn or federal budget cuts.