



Commission on the 21ST Century Economy

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TO: Commissioner Richard Pomp

FROM: Staff, Commission on the 21st Century Economy

DATE: July 3, 2009

SUBJECT: Data and Information Requests

This memorandum is in response to your e-mail request of June 27, 2009. This memorandum represents a partial response to your request. Additional materials will be provided as they are completed.

- (1) **Revenue estimates on Selected Services.** This is being prepared.
- (2) **Detailed Assumptions of Ernst & Young.** This is being prepared.
- (3) **Consumer Price Index (CPI) and Income Growth.** For the estimates prepared for the Commission June 16th meeting, we assumed an increase in the CPI of 3% per annum during the estimation period. The income tax estimates aged the personal income tax data from 2007 forward using assumptions from the Department of Finance's (DOF's) economic forecast. For the 2012 through 2016 period, we began with the estimates underlying the DOF's 2012 revenue forecast, and each income type was grown through 2016 at different rates based on what was anticipated for this economic recovery period. Growth rates for the major income sources are shown in the table below. Because the composition of income varies across the income distribution, the income growth is not uniform.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Wages	5.1%	6.0%	7.0%	7.5%	7.5%
Net business income	6.3%	7.5%	8.5%	9.5%	11.0%
Net partnership and Sub-S income	8.1%	7.5%	8.5%	9.5%	11.0%
Net capital gains	10.0%	30.0%	30.0%	30.0%	30.0%

- (4) **Growth in Capital Gains.** See (3) above.
- (5) **Incidence Assumptions.** Staff based the preliminary cut at incidence of selected business taxes on the 2009 Minnesota Tax Incidence Study conducted by that state's Department of Revenue. The study was used only for the incidence of the Corporation Tax and the portion of the Sales Tax representing purchases by businesses (approximately 1/3 of the total). No adjustment was made to the Corporation Tax. Adjustment to the Sales Tax was based on differences in rates and the relative proportions of the tax representing household and business purchases. Note, as a part of Ernst & Young's contract with the Commission, it will provide an incidence analysis for current and proposed business taxes specific to California.

- (6) **California Tax Filers.** We have not yet completed our analysis of the packages; however, preliminary data indicates that approximately 5.5 million returns non-taxable under current law would be would become taxable under Package 1. Under Package 2, the comparable figure is approximately 4.9 million. Staff notes the request regarding the presentation of actual dollar changes in tax liability and will inform the Chairman.
- (7) **Greater Savings and Lower Consumption.** This was implicitly incorporated in the estimates of proposed taxable consumption. The lower amount of consumption was incorporated by “stepping-down” the starting point for our estimates, while leaving the year to year changes predicted by our regression equation the same over the estimation period.
- (8) **Ernst & Young Contract.** The Commission engaged the firm of Ernst & Young to conduct certain analytical work at a cost of \$175,000, plus estimated expenses of \$10,400. Robert Cline appeared before the Commission at its hearing on June 16 as a representative of the firm of Ernst & Young. Robert Cline was misidentified for a period of time on the Commission’s website as a representative of Council on State Taxation (COST). This noted affiliation was made in error and was corrected. Robert McIntyre was not asked to provide this analysis; however, upon direction from the Commission, staff could contact him regarding the availability of resources.