



Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

State of California Tax Rankings

January 18, 2013

California is a great state to live and work. The state's climate, weather and quality of life are the envy of the country. California leads the nation with its cutting edge high-tech and biotech industries and has a rich and vibrant agriculture industry. It also has large markets, its ports are the gateway to and from Asia and it has a large pool of skilled labor.

For all of California's benefits, it has some significant drawbacks. For the privilege of living, working or operating a business in the state, Californians are required to pay some of the highest personal and corporate income taxes in the nation, and are subjected to unnecessarily burdensome and overly complex laws and regulations.

Over the last decade, California has consistently placed at or near the bottom of many national business climate and tax rankings, which compare the business climates of the nation's 50 states.

CEO magazine, in its 2012 annual survey of 650 CEOs, ranked California as the worst state to do business for eight years in a row. Keep in mind that they have conducted the survey for only eight years.¹

Forbes Magazine rated California as being the 41st worst state for business. This report was based on six factors: business costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life.²

According to the Tax Foundation's 2013 *State Business Tax Climate Index*,³ California has the third worst business tax climate in the nation, behind only New York and New Jersey (see following table). **The Index rates a state's tax systems** based on individual income tax, corporate tax, sales tax, and property tax. It is important to note that California achieved this low ranking even before voters approved Propositions 30 and 39 in November 2012.

¹ Chief Executive Magazine, Another Triumph for Texas: Best/Worst States for Business 2012 - <http://chiefexecutive.net/best-worst-states-for-business-2012>

² Forbes Magazine, "Worst States for Business," published December 12, 2012. <http://www.forbes.com/sites/kurtbadenhausen/2012/12/12/maine-leads-list-of-the-worst-states-for-business/>

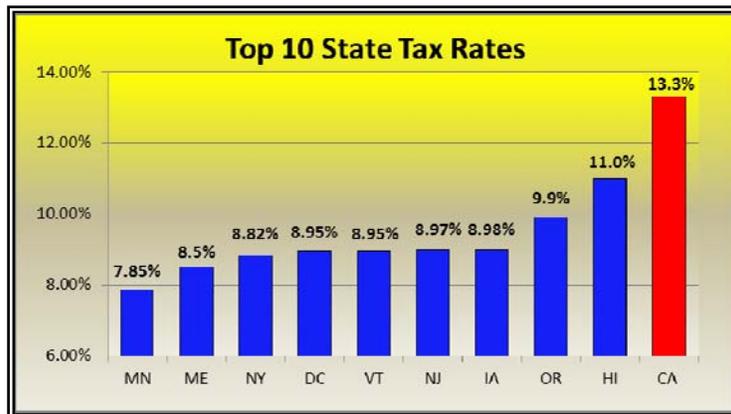
³ Tax Foundation, "2013 State Business Tax Climate Index," published October 9, 2012. <http://taxfoundation.org/article/2013-state-business-tax-climate-index>

State	Overall Rank	Corporate Tax Rank	Personal Income Tax Rank	Sales Tax Rank	Property Tax Rank
California	48	45	49	40	17
New Jersey	49	40	48	46	49
New York	50	23	50	38	45

The next couple of pages will dissect a portion of the state's overall tax structure, and provide a comparison of how California compares to other states in terms of the state's major tax rates.

Personal Income Tax: Highest in the Nation

California has the highest, and one of the most progressive, personal income tax systems in the nation. Before the passage of Proposition 30 in November 2012, California had the second highest personal income tax rate in the nation. Proposition 30 pushed personal income tax rates even higher, increasing taxes on those making \$250,000 or more. The state's top rate is now 13.3 percent for all personal income taxpayers with taxable income over \$1 million (this includes the 1 percent surcharge for mental health programs under Proposition 63 of 2004). Hawaii ranks second with a top tax rate 11 percent which kicks in at \$200,000. Seven states do not impose a personal income tax.



Source: 2013 State Business Tax Climate Index

In terms of tax system progressivity, where a small number of higher-income taxpayers pay a larger share of their incomes in taxes, California has one of the most progressive tax systems in the nation. The Pacific Research Institute rated California 48 out of 50 on the progressivity of its tax structure, behind only Hawaii and New Jersey.⁴ In the 2010 tax year, 14.8 million returns were filed with the California Franchise Tax Board (including all classifications). California taxpayers with an adjusted gross income (AGI) greater than \$200,000 accounted for only 4.1 percent of the total tax returns filed, but paid 59.3 percent of the taxes collected. Taxpayers with an AGI greater than \$400,000 (top 1.1 percent) account for 42.4 percent of the taxes collected.

⁴ Pacific Research Institute – Taxifornia: California's tax system, comparisons to other states, and the path to reform in the Golden State. By Robert P. Murphy, PH.D., and Jason Clemens. March 2010

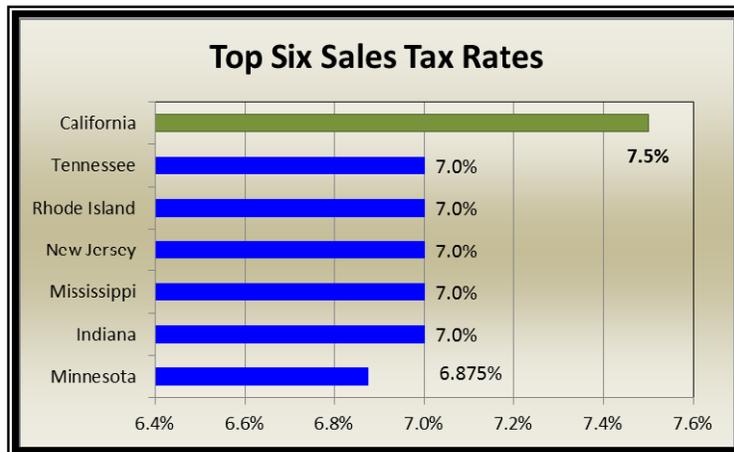
Adjusted Gross Income	Returns	Tax Liability
No Taxes Paid	36.0%	0.0%
Less and \$50,000	28.7%	4.0%
\$50,000 to \$100,000	20.2%	13.8%
\$100,000 to \$200,000	11.0%	22.9%
\$200,000 to \$400,000	3.0%	16.9%
More than \$400,000	1.1%	42.4%

Source: FTB 2011 Annual Report

Also note that 36 percent of returns filed (approximately 5.3 million) either did not have a California tax liability or received a full refund of wage withholding. These numbers do not include (a) employees who did not file a return because they did not meet the minimum requirements to do so, and (b) the “scofflaws” who are required to file a return but did not.

State Sales Tax: Highest in the Nation

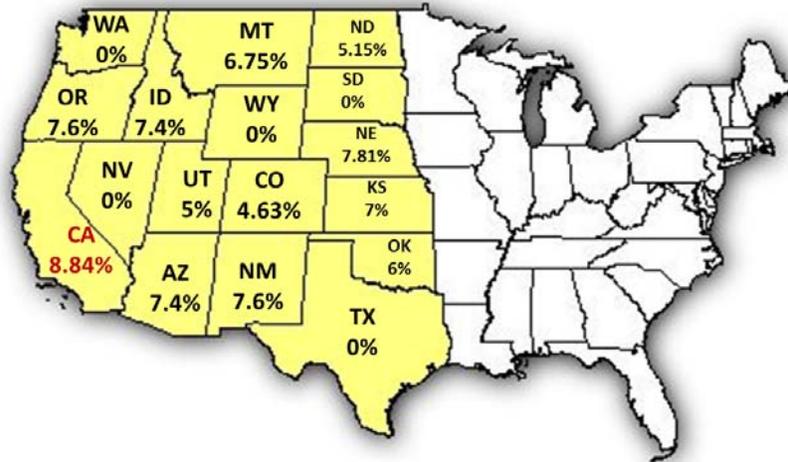
California imposes a 7.5 percent statewide sales and use tax on the purchase or use of tangible personal property, which is the highest statewide rate in the nation. This rate includes the passage of Proposition 30’s quarter cent sales tax increase, which is effective January 1, 2013 through December 31, 2016. In California, cities and counties may also vote to increase the sales tax rate by up to two percent (2 percent) to fund activities within their localities. Three counties have a rate of nine percent (Alameda, Los Angeles, and Santa Barbara), while the statewide average (including local add-ons) is closer to eight percent. The following table shows how California compares to the next six highest statewide sales tax rates.



Source: 2013 State Business Tax Climate Index

Corporate Income Tax

California has the eighth highest tax rate in the nation at 8.84 percent levied on all corporate income. Only eight states have higher rates (Alaska, Delaware, Illinois, Iowa, Maine, Minnesota, New Jersey, Pennsylvania and District of Columbia). Iowa levies the highest tax rate at 12 percent, but that rate only applies to incomes over \$250,000. Comparing states that levy flat rates (every dollar earned is taxed the same), California has the 6th highest of the 50 states. And, California still has the highest rate in the western United States.



Data Source: 2013 State Business Tax Climate Index

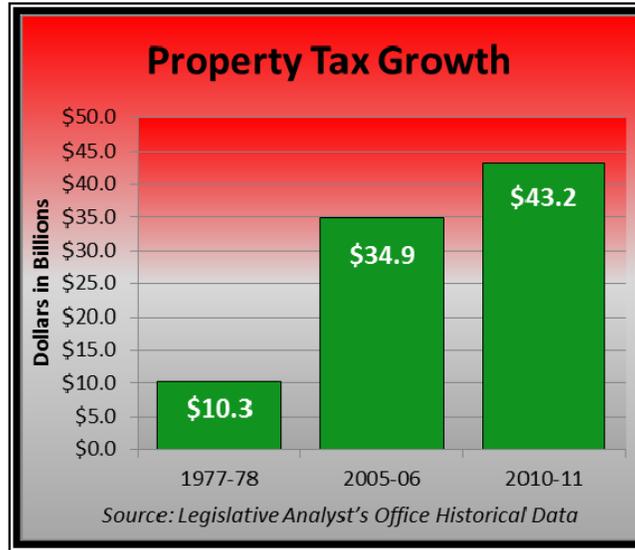
Property Tax: High, Even Under Proposition 13

While not the highest in the nation, California's property tax rates are in the top 30 percent. Notwithstanding the protections commercial and residential property owners receive under Proposition 13, which capped ad valorem taxes at 1 percent of assessed value, as of July 1, 2012, property taxes in California were \$1,458 per capita, ranking California as 15th highest in the nation.⁵

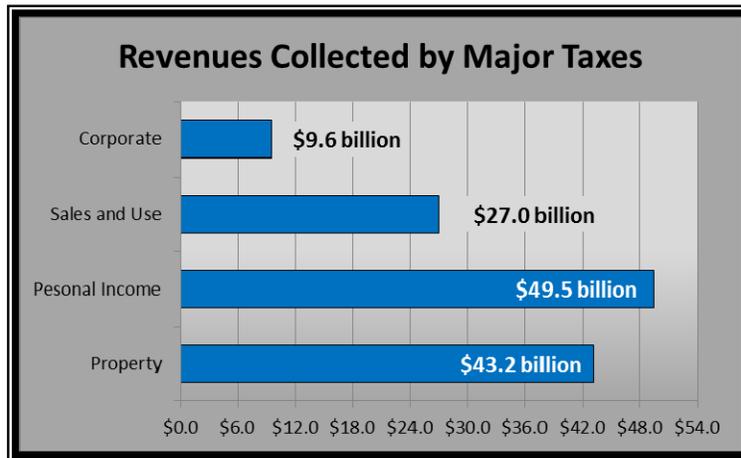
⁵ Tax Foundation, "2013 State Business Tax Climate Index," published October 9, 2012.

<http://taxfoundation.org/article/2013-state-business-tax-climate-index>

In 2010-11, county assessors/collectors collected \$43.2 billion in property taxes from taxable real property (not including property tax revenues raised from voter approved debt rates),⁶ which is up from \$10.3 billion in 1977-78 (after voters *cut* property taxes via Proposition 13) and \$34.9 billion in 2005-06.⁷



As a source of tax revenue, property taxes are the second largest source of tax revenue behind personal income taxes which accounted for \$49.5 billion in 2010-11 and accounts for more tax revenue than the state's sales and use tax and corporate income tax combined.

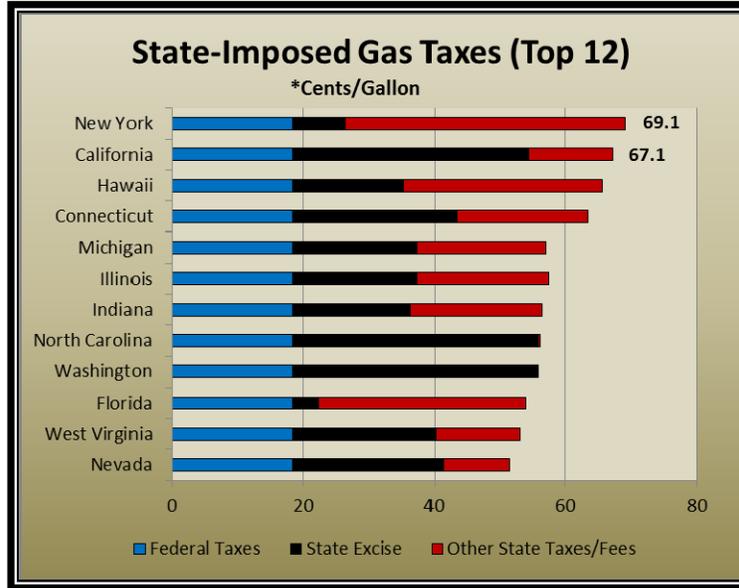


⁶ Legislative Analyst's Office, "Understanding California's Property Taxes," published November 29, 2012. <http://www.lao.ca.gov/reports/2012/tax/property-tax-primer-112912.pdf>

⁷ Legislative Analyst's Office, "California's Tax System: A Primer," published April 2007. http://192.234.213.2/2007/tax_primer/tax_primer_040907.aspx

Gasoline Tax: Second Highest in the Nation

Federal government collects 18.4 cents on every gallon sold in the United States. In addition, states levy their own sales, use and excise taxes, as well as other taxes and fees. According to the American Petroleum Institute, California imposes the second highest state gasoline taxes on consumers in the nation at 48.7 cents per gallon. Combined with the federal gas taxes, California taxpayers pay 67.1 cents for every gallon to the government, only two pennies behind New York taxpayers.⁸



Source: American Petroleum Institute

Conclusion:

If past and present policies are any indication of future actions, California will remain a high-tax state for the foreseeable future. With the addition of weak economic factors and burdensome government laws and regulations, it has become increasingly difficult for businesses to make products in this state at a lower cost than businesses in other states. Unless and until California's policymakers take actions to change, California will continue to be perceived as having a hostile business climate.

For additional information regarding this tax structure comparison update, call Joe Shinstock or Scott Chavez in the Senate Republican Caucus at (916) 651-1501, or refer to our website at <http://cssrc.us/publications.aspx>.

⁸ American Petroleum Institute, "January 2013 Summary Reports," updated January 1, 2013. http://www.api.org/oil-and-natural-gas-overview/industry-economics/~media/Files/Statistics/State_Motor_Fuel_Excise_Tax_Update.ashx