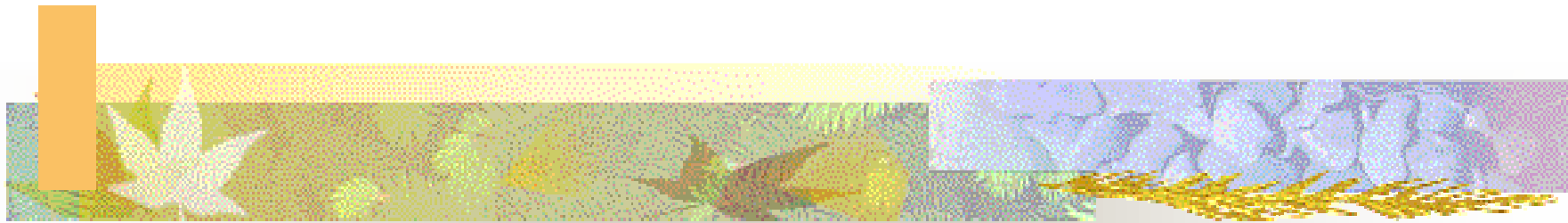


California Commission on Tax Policy in the New Economy

Chairman Bill Rosendahl



Final Report
Summary

December 17, 2003



Commission's Charter

- Established by SB1933 (Vasconcellos)
- Nine Commissioners, Nine Ex-Officio Members
- Address tax policy issues including, but not limited to:
 1. Sales and use tax
 2. Telecommunications taxes
 3. Income taxes
 4. Property taxes.
- Governor Gray Davis request on February 3, 2003:

Evaluate structural reforms for the California budget process

“Be an honest broker and a safe haven”



Commission History

- Seventeen hearings throughout the state
- *Interim Report*,
November 25, 2002
- *Options for Revising the California Tax System*,
June 15, 2003
- Last hearing on November 17, 2003
Discussion and voting on proposals in the *Options* Report
- Final Report due December 31, 2003



Options for Revising the California Tax System
June 15, 2003

Analyze twelve tax policy proposals using the following principles:

FAIRNESS and PERCEPTION: equity, transparency and visibility,
minimum tax gap, neutrality

SIMPLICITY: certainty, convenience of payment, economy of
collection, simplicity

EFFICIENCY/BALANCE: economic growth and efficiency,
appropriate government revenues



*Commissioners' Discussions and Recommendations on
November 17, 2003*

1. Participate as a voting member in the Streamlined Sales Tax Project.

SB157 (Bowen) authorized California to participate as a voting member.

No Vote : Issue decided.

2. Improve collection of the use tax on remote sales

Efforts should be made by the Board of Equalization to improve collection of the use tax that is currently California law.

SB1009 (Alpert) adds a line for the use tax on personal income tax forms.

Vote : Yes 9, No 0, Further Study 0



*Commissioners' Discussions and Recommendations on
November 17, 2003*

3. Broaden the sales tax base to include selected services, while lowering the state rate to retain revenue neutrality.

PRO: Tax policy should reflect the change in California's economy as it shifts from sales of tangible goods to providing services.

CON: To avoid a sales tax on particular services, large firms could possibly bring outsourced services in-house, placing more of the tax burden on small businesses.

COMMENT: The importance of revenue neutrality was emphasized. This should not be considered as part of a two-part process to increase the state sales tax rate at a later date.

Vote : Yes 8, No 0, Further Study 1



*Commissioners' Discussions and Recommendations on
November 17, 2003*

4. Eliminate selected sales and use tax exemptions or exclusions.

COMMENT: There are nearly 150 exemptions and exclusions in effect, complicating collection and administration efforts. Further study is necessary to determine which exemptions and exclusions should be eliminated.

Vote : Yes 0, No 0, Further Study 9

5. Simplify communications taxes.

No Vote. By consensus opinion, the Commissioners deferred this proposal for further study on October 23, 2003.

6. Impose a tax on DBS (Direct Broadcast Satellite) services.

No Vote. By consensus opinion, the Commissioners deferred this proposal for further study on October 23, 2003.



*Commissioners' Discussions and Recommendations on
November 17, 2003*

7. Property and sales tax swap.

Change the mix of local general-purpose revenue by decreasing the amount of sales tax revenue and replacing it with property tax revenue. The objective of this proposal is to decrease local reliance on the sales tax and increase reliance on the property tax.

A swap would encourage smart growth and investment in housing.

COMMENT: The Commissioners had concerns about the impact of the swap on financing education, police and fire. Whatever implementation plan is agreed upon by the Legislature, provisions for adequately financing education, police and fire must be included.

Vote : Yes 7, No 0, Further Study 2



*Commissioners' Discussions and Recommendations on
November 17, 2003*

8. Periodic reassessment of non-residential property.

In the context of improving the business climate in California, periodically reassess non-residential property to market value without changing existing tax rates.

COMMENT: Distinguish between residential and non-residential property. Non-residential property is defined to include commercial and industrial property, but does not include multi-family residential.

COMMENT: Some Commissioners had concerns that while periodic reassessment could correct tax disparities and therefore improve the business climate, it would also increase the tax burden on business.

Vote: Yes 0, No 3, Further Study 6



*Commissioners' Discussions and Recommendations on
November 17, 2003*

9. Constitutionally protect local revenues.

Provide a constitutional minimum allocation of property taxes to local governments.

COMMENT: Concerns were raised about how education financing would fit with this proposal.

Vote: Yes 8, No 1, Further Study 0

10. Reduce the vote threshold for local tax measures.

Reduce the vote threshold now required for approval of local special tax measures from two-thirds to 55%.

COMMENT: Commissioners voting "No" thought that reducing the vote threshold would make it too easy to raise local taxes.

Vote: Yes 6, No 3, Further Study 0



*Commissioners' Discussions and Recommendations on
November 17, 2003*

11. Establish a state tax court.

California should establish a state administrative body to operate like the U.S. Tax Court. The administrative body would resolve all tax disputes, including personal income taxes, corporate income taxes, sales and use taxes, property taxes payroll taxes, and excise taxes in accordance with the principles set forth in Professor Simmons' September 23, 2003 letter to the Commission.

COMMENT: This proposes an administrative body, not a specialized tax court.

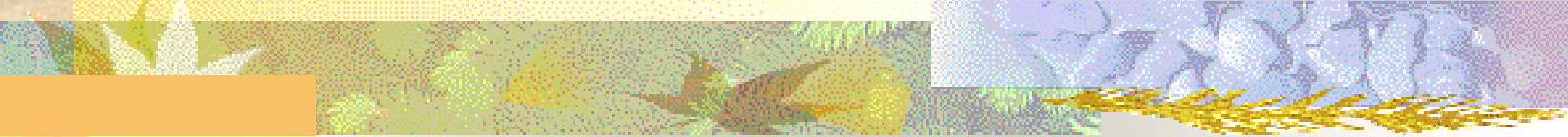
Vote : Yes 9, No 0, Further Study 0

12. Establish a flat rate tax system.

Eliminate all current taxes in California except for "sin taxes," such as cigarette and alcohol taxes, and establish two new taxes, a six-percent flat-rate personal income tax and a six-percent flat-rate value-added tax.

COMMENT: The Commissioners were concerned with the regressivity of flat taxes.

Vote : Yes 0, No 2, Further Study 7



*Commissioners' Discussions and Recommendations on
Budget Structural Reform Proposals
November 17, 2003*

Budget structural reform proposals were discussed and voted on as a group:

1. Revise the current spending limit.
In order to make the spending limit more transparent, revise it to limit spending adjusted for population and economic growth.
2. Reserve Requirement.
In order to reduce the fiscal shock of economic downturn, require the maintenance of a reserve.
3. Rebalancing an unbalanced budget.
Establish a system for rebalancing the state budget when it becomes unbalanced.
4. Multi-year budget planning requirement.
Initiate a fiscal planning requirement that will require the state budget process to plan longer than 12 months.
5. Budget Accountability.
Implement changes that would foster a culture of accountability in the budget process.

Vote : Yes 9, No 0, Further Study 0

Commissioner Voting Summary

Yes	No	Further Study	Proposal
SB 157 Approved			1. Participate as a voting member in the Streamlined Sales Tax Project.
9	0	0	2. Improve collection of the use tax on remote sales.
8	0	1	3. Broaden the sales tax base to include selected services, while lowering the state rate to retain revenue neutrality.
0	0	9	4. Eliminate selected sales and use tax exemptions or exclusions.
0	0	9	5. Simplify communications taxes. NOTE: Consensus opinion from October 23, 2003
0	0	9	6. Impose a tax on DBS (Direct Broadcast Satellite) services. NOTE: Consensus opinion from October 23, 2003
7	0	2	7. Property and sales tax swap.

Commissioner Voting Summary

Yes	No	Further Study	Proposal
0	3	6	8. Periodic reassessment of non-residential property.
8	0	1	9. Constitutionally protect local revenues.
6	3	0	10. Reduce the vote threshold for local tax measures.
9	0	0	11. Establish a state tax court.
0	2	7	12. Establish a flat-rate tax system.
9	0	0	13. Budget structural reform (5 proposals).



The Commission's Final
Report will be posted at

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