

Measure V424

INSTRUCTIONS:

Please carefully read the following description of a ballot measure that was written by a disinterested expert. Feel free to take notes or outline passages as you read.

This should take you approximately 10 minutes.

BALLOT MEASURE V424

BACKGROUND

Personal Income Tax. California's second largest source of state revenue is the personal income tax. (The largest source is the sales tax.) Proceeds from the income tax are deposited in the state's General Fund. This fund supports state departments and institutions such as the university and state colleges and helps local governments finance a wide variety of programs in areas such as education, health and welfare, and property tax relief.

Under California's income tax law, the tax rates range from 1 percent to 11 percent. As a result of recent legislation, the tax brackets are adjusted ("indexed") each year to compensate for the effect of inflation on income. Specifically, in both calendar years 1980 and 1981, the income levels at which the various tax rates apply will be raised by the percentage increase in the California Consumer Price Index. Thus, a taxpayer whose income increases at the same rate as the California Consumer Price Index would generally pay a constant proportion of his income in taxes. After 1981, the income levels at which higher tax rates apply will be raised by the percentage increase in the index which exceeds 3 percent per year.

California's income tax law provides for a number of tax credits, including the personal, dependent, renters, and solar energy credits. The personal and dependent credits are fully "indexed" under current law.

The income tax is collected throughout the year. Employers are required to withhold for payment to the state a portion of wage and salary income earned by their employees, and certain individuals are required to make quarterly payments to the state based on their estimated taxes. Final income tax payments are due in April following each tax year. The state counts revenue collections when they are received, rather than at the time the taxes are finally due.

The Governor's Budget for fiscal year 1980-81 (July 1, 1980-June 30, 1981) estimates revenues from the income tax under existing law to be \$6.8 billion. Business Inventories. Under existing law, cities, counties, special districts and school districts derive revenue from property taxes on both real property (land and buildings) and personal property. Legislation enacted in 1979 fully exempted business inventories from local property taxes. In order to replace the revenues that

local governments can no longer collect through property taxes on inventories, the legislation requires the state to make reimbursement payments to local governments. In 1980--81, these reimbursements are estimated to total \$459 million.

PROPOSAL

This proposed constitutional amendment would (1) limit personal income tax rates to 50 percent of those in effect during 1978, (2) require that the income tax brackets be fully "indexed" for inflation, and (3) prohibit property taxation of business inventories.

Reduction of the Income Tax Rates. The measure would amend the State Constitution to require that the rate of "taxes on or measured by income" not exceed 50 percent of the rates in effect for 1978. Under this limitation, the new basic rate structure could not exceed a range of _ percent to 5_ percent. The tax brackets (that is, the income levels at which the rates apply) would not be affected by the measure initially. Thus, where income is now taxed at a maximum of 11 percent, it would be taxed at no more than 5.5 percent under the measure. The proposed amendment would not change income tax deductions, exemptions or credits, nor would it prohibit the Legislature from changing them. Because the proposal would not reduce the various tax credits by 50 percent, most taxpayers would have their final (after credit) tax liability reduced by more than 50 percent.

"Indexing" of Tax Brackets. The measure would amend the Constitution to require the Legislature to provide a system for fully "indexing" the income tax brackets. Because current law provides for full "indexing" during 1980 and 1981, the effect of this proposal would be to ensure that full "indexing" is continued in 1982 and thereafter.

Business Inventory Exemption. The proposal would place an exemption for business inventories in the State

Constitution. The Legislative Counsel advises that the constitutional exemption would, as of March 1, 1981, completely replace the existing statutory exemption, and the state would not be required to continue reimbursing local governments for the resulting revenue losses. However, this measure would not discontinue these reimbursements. Therefore, adoption of this measure would have no direct effect on these payments.



STOP!

Please go to the online survey, enter the 4-character code for this ballot measure (printed at the top and bottom of this page) and answer the survey questions.