

Measure U417

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 5 minutes.

BALLOT MEASURE U417

BACKGROUND

Under the California Personal Income Tax Law, the amount of tax owed by a taxpayer depends on the person's "taxable income." Different portions of a taxpayer's taxable income are taxed at different rates. For example, in 1981 the first \$5,700 of a married couple's taxable income was subject to a 1-percent tax rate, while income between \$5,700 and \$9,980 was subject to a 2-percent tax rate. The income intervals which are subject to different tax rates are called taxable income "brackets." There are 11 such brackets, each of which corresponds to a specific tax rate. These rates range from 1 to 11 percent.

Each year the levels of income at which higher tax rates apply are increased ("indexed") to compensate for inflation. In 1982, for example, the 1-percent tax rate for married couples will apply to the first \$6,260 of income (rather than the first \$5,700), and the 2-percent tax rate will apply to taxable income between \$6,260 and \$10,960 (rather than to income between \$5,700 and \$9,800). Thus, in this example, as a result of "indexing," taxable income between \$5,700 and \$6,260 in 1982 will be taxed at a 1-percent rate, rather than at a 2-percent rate. Corresponding reductions in the rate of taxation will apply to higher income levels.

California's income tax law also provides for a number of tax credits including the personal, dependent and low-income credits. (A tax credit reduces a taxpayer's tax liability on a dollar-for-dollar basis.) These credits also are "indexed" to compensate for the effect of inflation. For example, in 1981 the personal credit for a married couple was \$70, and in 1982 it will be \$78. Under existing law, the California Consumer Price Index (California CPI) is used to "index" both the income tax brackets and certain tax credits. In 1980 and 1981, the tax brackets were fully "indexed" that is, the levels at which higher tax rates apply were raised by the full amount of the percentage increase in the California CPI. Beginning in 1982 and indefinitely thereafter, the income tax brackets will be partially "indexed." Specifically, the income levels at which various tax rates apply will be raised each year by the percentage increase in the California CPI which exceeds 3 percent per year. Since 1979, the personal, dependent and low-income credits have been fully "indexed" for inflation. Under current law, full "indexing" of those credits is to continue indefinitely.

PROPOSAL

This measure would amend the income tax law to require permanent full "indexing" of the income tax brackets starting with the 1982 income year. For example, the increase in the California CPI which is used for "indexing" is expected to be 12.8 percent in 1982. Under existing law, the income tax brackets will be increased by 9.8 percent, which is the CPI increase in California minus three percentage points. This measure would increase the tax brackets by the full rate of increase in CPI, namely 12.8 percent, in 1982. For example, the first \$6,420 (rather than the first \$6,260) of a married couple's taxable income would be subject to a 1-percent tax rate, while income between \$6,420 and \$11,260 (rather than income between \$6,260 and \$10,960) would be subject to the 2-percent tax rate in 1982 under "full indexing." The increases in these tax brackets in future years will depend upon the rate of inflation, as measured by the California CPI.

The impact of this bracket change on a married couple with two children and average household income (about \$27,500) would be to reduce its state income taxes from \$415.05 to \$400.65 (computed by using average itemized deductions) for 1982. The annual tax savings would increase in future years.

This measure would not change the value of tax credits, because the personal, dependent and low income credits already are fully indexed under existing law.



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.