



TAX AND FEE INCREASE PROPOSALS IN THE GOVERNOR'S 2003-04 BUDGET

In his 2003-04 budget, Governor Davis has proposed significant tax and fee increases. These increases are listed and summarized below.

SUMMARY OF SIGNIFICANT TAX AND FEE INCREASES

Proposal	2003-04 Fiscal Effect (in billions of dollars)
Sales Tax: 1% Increase	\$4.584
PIT: 10% and 11% Brackets	2.580
Tobacco Tax (\$1.10 per pack increase)	1.170
Banks: RIC Use Disallowed	.045
Political Reform Audit Fees	.001
Corps: Subpart F income in water's-edge report	0 to .050
Corps: MIC (overturn <i>SaveMart</i> decision)	.050
Telephone Tax: new 0.25% tax on intrastate calls	.030
Polluter Pays Fees (CARB, Water, Waste)	.034
Court Filing Fees	.037
Real Estate Withholding Fix	Minus .030
Physician Fee Increases	.005
Care Facilities Fee Increases	.007
Vehicle Registration Fee Increase	.041
CHP Surcharges on Vehicle Registrations	.054
DMV ID Card Fee	.009
Non-commercial Driver's License Fee Increase	.030
Park Fees Increase	.020
Motor Vehicle Weight Fee Increase	.165
Veterans' Home Fees	.001
"911" Telephone User Tax Increase	.051
Standardizing DMV Fees	.016
Added DMV Penalty for Failure to Transfer Title	.011
DMV Business Patron Automation Fee	.002
Community College Fee Increase	.149
Fish and Game License Fee Increases	.004
New State Library User Fee	.003

Workers' Compensation Cost Shift	.074
Unclaimed Property Refund Fee	.003
Earthquake Premiums Fee	.001
Direct tax and fee increases total \$9.207 billion to \$9.257 billion	
POTENTIAL INDIRECT TAX AND FEE INCREASES	
Possible VLF Hike to 2%	\$2.929
California State University (25%) Fee Increase	.259
University of California (35%) Fee Increase	.179
Local Library Fee Increases	.012
Total	\$3.379 billion
Total Direct and Potential Indirect Tax and Fee Increases: \$12.586 billion to \$12.636 billion.	

Sales Tax. Increase the sales tax rate by 1 percent, to raise \$4.584 billion.

Personal Income Tax. Add 10 percent and 11 percent brackets to raise \$2.58 billion. They would affect those with adjusted gross incomes of at least \$136,115 for single filers and \$272,230 for joint filers. The current top rate is 9.3 percent. Governor Davis said the tax increase will be retroactive, applying the higher rates to income earned in 2003 prior to the passage of legislation increasing the rates.

Tobacco Tax. Increase the state excise tax on tobacco products, including an additional \$1.10 per pack of cigarettes, which would bring the tax to \$1.97 per pack, raising \$1.17 billion. The cigarette tax increases will trigger commensurate increases in the excise tax on other tobacco products, such as cigars, pipe tobacco and smokeless tobacco.

Regulated Investment Companies (RIC). Prohibit banks from using RICs "to avoid California tax," according to the governor's budget summary. Implemented prospectively, the proposal would increase revenues by \$45 million in 2003-04 and by \$55 million in 2004-05. This proposal was pushed by Franchise Tax Board staff at the board meeting last November.

Subpart F Income. Change existing law to disallow certain corporations from excluding Subpart F income from a water's-edge combined report. The budget also would conform to federal law in the coordination of Subpart F income and U.S.-source income. "Because these proposals would clarify existing law, they will have no effect on revenues," the governor's budget summary stated. Taxpayers believe this could increase revenue up to \$50 million. This proposal is similar to [AB 1469](#) (Ortiz) of 1998, which was vetoed by Governor Pete Wilson.

Manufacturers' Investment (Tax) Credit. Extend the MIC, which the governor's budget summary said would expire on January 1, 2004, with a revised manufacturing employment threshold provision. The governor proposes to limit MIC application to manufacturing activities as specified in the Standard Industrial Code, which would increase revenues by about \$50 million a year. This

is an attempt to undo the precedent established by the State Board of Equalization's recent *SaveMart* decision. The BOE qualified a bakery (manufactured food) operation of a grocery store chain for the MIC.

The budget estimates that the creation of 100,000 new manufacturing jobs to maintain the 6 percent tax credit on purchases of qualified manufacturing equipment will not be met this year. That threshold was more than achieved soon after the 1994 enactment of the MIC, and the governor's budget noted that through January 2001, manufacturing employment in California outpaced the nation. However, on January 1, 2002, the number of manufacturing jobs was 1.69 million, slightly above the 1994 threshold of 1.54 million. (**Editor's note:** We are not scoring the continuation of the MIC as a tax reduction. It does not affect the 2003-04 budget. Allowing it to expire would increase taxes in 2004-05.)

Phone Tax. Impose a surcharge on intrastate telephone calls of one-quarter of 1 percent, raising \$30 million a year for public safety programs.

Pollution Fees. Increase "polluter pays" fees by \$34 million. In the Department of Pesticide Regulation, the mill assessment would be increased by \$7.5 million by shifting all support for the department away from the state general fund. Increased Air Pollution Control Fund fees would enable the state to shift \$10 million in support for the Air Resources Board to "polluters" to fund the stationary source pollution control program. Increased fees in the Waste Discharge Permit Fund would replace \$13.6 million in general fund dollars used to support the State Water Resources Control Board. An additional \$1 million will come from a hike in pesticide licensing and exam fees and \$2 million from greater collection efficiencies.

Motor Vehicle Fees. Increase annual vehicle registration fees by \$7. This includes a \$3 increase in the basic registration fee and \$2 increases in each of two California Highway Patrol vehicle registration surcharges. The impact of the budget on the vehicle license fee (car tax) is discussed below.

Court Fees. Increase court filing fees to provide \$35 million a year to offset general fund support. A security fee of \$20 per court filing would be imposed, and trial motion fees are proposed to be increased by \$10 (from \$23 to \$33). An increase in the appellate filing fee from \$265 to \$630 will generate \$2.1 million more.

Driver's License Fee. Increase the non-commercial driver's license fee up to \$24 for a five-year license, to raise \$30 million.

DMV Fees. Increase specified Department of Motor Vehicles fees and penalties. Standardizing DMV fees is expected to raise \$16 million. Increasing the identification card fee to \$20 (it will still be free to seniors) raises \$9 million. Activating the Business Partner Automation Fee at \$3 will generate \$2 million. Establishing additional penalties for failure to file transfer-of-title documents brings in an additional \$11 million.

Motor Vehicle Weight Fee. Increase the motor vehicle weight fee to generate revenues anticipated when [SB 2084](#) (Polanco) of 2000 was passed. The fee increase is expected to produce \$165 million in 2003-04.

Emergency Telephone (911) User Tax. Increase the Emergency Telephone Number User Tax by enlarging the fund by \$51 million, which triggers a commensurate increase in the tax. The tax is set annually by the State Board of Equalization to fund the cost of the "911" program.

Park Fees. Increase fees for various state park services, beginning January 1, 2003. This is estimated to generate \$20 million.

Hunting and Fishing License Fees. Increase hunting and fishing licenses by \$4 million. Resident sport fishing licenses would increase by \$2 (to \$31.25) and resident hunting licenses would increase by \$1.75 (to \$31.25). Fees for non-residential and commercial sport fishing and hunting also would increase.

Revise Real Estate Withholding Provisions. Revise last year's real estate withholding program ([AB 2065](#), Oropeza) to allow an option of withholding 3.33 percent of the sales price on specified real estate transactions (current law) or 9.3 percent of the gain on the sale (proposed to be added). This is the only tax reduction provision proposed, reducing revenue by \$30 million.

Community College Fees. Increase community college fees in 2003-04 by \$13 a unit (from \$11 to \$24). This increases revenue by \$149 million. The governor argues that even with the fee increase, community college students will pay only 40 percent of the national average.

Care Facilities Fees. Double the fee on licensed child care facilities, assess a \$45 fee on foster family agencies for each home that an agency oversees, and increase by 25 percent all other fees for licensed child residential, adult care and senior care facilities. These increases are expected to generate \$6.8 million.

State Library Fee. Authorize the state library to impose a user fee (through a state library card, for example) to raise \$3 million.

Political Reform Audit Fee. Shift \$1.359 million of the cost of political reform audits by the Franchise Tax Board from the general fund to a fee-based allocation. The budget is silent on the amount of the fee necessary.

Medical Licenses Surcharge. Impose a surcharge on various medical licenses required under the family physician training program, to generate \$4.5 million.

Veterans' Home Fee. Increase the member fees in residential care units of veterans' homes, to raise \$1.15 million.

Workers' Compensation Administrative Costs. Shift funding for support of the Department of Industrial Relations' workers' compensation programs to 100 percent user funding. This is estimated to shift \$73.7 million in costs to employers.

Unclaimed Property Fee. Charge a processing fee for unclaimed property refunds, to generate \$3 million.

Earthquake Premiums Fee. Impose an earthquake premiums fee to address Seismic Safety Commission revenue needs, to generate \$1.3 million.

POTENTIAL INDIRECT TAX AND FEE INCREASES

While not directly proposing certain tax and fee increases, expenditure cuts proposed could result in tax and fee increases, as follows:

Vehicle License Fee. The budget proposes to eliminate the subvention to local government for the revenue loss by imposing the VLF at .65 percent (current rate) rather than 2 percent (pre-1998 rate). This action has provoked howls of protest from cities and counties and is likely to result in the tax being increased back to 2 percent. Such action would increase the taxes on vehicle owners by \$2.929 billion, assuming a July 1 effective date.

Democratic leaders in the Legislature have agreed to reject the governor's proposal and will seek to increase the VLF back to 2 percent, the *Stockton Record* reported on January 15. A counties' lobbyist said Senate President Pro Tem John Burton has agreed to carry a bill. Senator Don Perata said, "We made a commitment to the cities and counties and we're going to live up to it." Assembly Speaker Herb Wesson said the VLF increase would be part of a "balanced" plan. Democrats think they can trigger the increase by a majority-vote bill. Republicans are opposed to a VLF increase. Assembly Minority Leader Dave Cox said a majority-vote proposal represents an "extreme level of arrogance" because the Constitution requires a two-thirds vote for tax increases.

Senator Tom McClintock said, "If the Democrats want an all-out tax revolt, tripling the car tax is the quickest way to do it."

The governor, speaking to the Sacramento Press Club on January 16, said he didn't want to throw down the gauntlet but a VLF increase would be unnecessary because his budget plan contains the "appropriate mix" of taxes and cuts. "I see no reason to depart from my plan. I'll fight for my plan. It is balanced and responsible. It gets the job done ..." He said he abandoned the VLF as a revenue source because he found that counties would get \$1.5 billion out of it with no strings attached. He said he wants counties to "share in the bad times" by having to tighten belts after doing well in recent good years. "I want them to be part of the solution," he said.

CSU Student Fees. The governor's budget contemplates that the California State University Board of Trustees will increase student fees by \$258.5 million to offset state general fund reductions. If approved, this will increase undergraduate fees by 25 percent (by \$394 to a total \$1,968). This fee increase is on top of the \$144 to \$288 fee increase in December (see [Caltaxletter](#) of December 20).

University of California Student Fees. The University of California Board of Regents will consider increasing student fees by 35 percent later this spring in response to proposed state general fund reductions. According to UC President Richard Atkinson, the university will lose \$300 million in state funding.

The fee increases will cover \$179 million of the shortfall, according to a UC press release. According to the university, the additional fee increases in 2003-04 will be \$795 for resident undergraduates (to \$4,629) and \$855 for resident graduate students (to \$4,869). These increased fees are in addition to the \$405 annual fee voted one month ago.

Students reacted negatively to the news. "There's one group that wants to storm the regents' meeting and cause holy hell," said Alex Arteaga, director of legislative affairs for the UC Students Association.

Local Library Fee. Local libraries would be authorized to impose fees to cover costs relating to obtaining certain books, to raise \$12 million. Libraries could charge \$1 for a book a reader obtained outside their home county and \$5 for a book that has to be sent from another county to the reader's home county. Some observers said it may be cheaper to buy a used book from Amazon.com rather than pay a \$5 borrowing fee.

"The idea of these fees violates the fundamental philosophy of public libraries. I think the public would be outraged," said Alameda County Librarian Linda Wood.