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## **CAL-TAX: HIGHER TAXES, EVEN ON WEALTHY, HOLD DANGER OF DESTABILIZING CALIFORNIA'S CHIEF REVENUE SOURCE**

Larry McCarthy, president of the California Taxpayers' Association, issued the following statement in reaction to a massive tax increase proposed to fund a universal preschool initiative:

“Preschool opportunities have obvious merit, but this initiative is a bad idea. Raising taxes on high-income Californians makes an already volatile tax structure even more volatile – and it comes at a time when policy-makers and opinion leaders are calling for greater stability in our tax system. This income tax increase will also have a negative impact on virtually every program depending on the state general fund, including health care, education and public safety.

“The fact is that 10 percent of California taxpayers pay 75% of the income tax. We are heavily reliant on a relatively small number of taxpayers.

“Targeting high-wage earners will damage the state's revenue base long term as more and more of these taxpayers vote with their feet. They are a highly mobile class and can move residency and businesses – and tax dollars -- out of the state. Nevada, Florida, Texas and other states have no state income tax or substantially lower income tax. These states welcome former California taxpayers with open arms.

“In the last election cycle, millionaires were told they have greater financial responsibility for funding mental health programs.

“On the June 2006 ballot, we could have this initiative telling high-income Californians that they will be responsible for preschool programs.

“Stability of the California personal income tax is an issue that affects all of us. Windfall revenue from high-income Californians five years ago is the primary reason California faces a multibillion-dollar budget problem today. The revenue surged into the state treasury, and the Legislature made long-term obligations. The revenue diminished when the economy declined and a massive budget deficit was left. More than 10 years ago, income tax rates were increased on a temporary basis. The move netted less revenue than projected by state tax officials.

“There is obvious benefit to expanding access to preschool experiences, especially for families in need. But why raise taxes to provide free preschool to families that are wealthy enough to pay for it? And it is questionable practice to raise taxes and earmark the revenue for this program, giving it in essence a free ride while other worthy programs face budget scrutiny in the Legislature.

“There are billions of education dollars now being spent on so-called categorical education programs that could be repealed or revamped, with the savings plowed into preschools. According to *The Sacramento Bee’s* 2003 prize-winning reporting on education finance, \$12 billion in categorical programs were a “monumental mess,” such as an 18-year-old dropout program still in its pilot stage, or a counseling program for high-school sophomores that wasn’t reaching the students.

“This proposed ballot initiative is a big mistake that will have damaging long-range impact on California. By targeting high-income Californians for more taxes, we create more volatility and instability – and shortfalls in funding California priority needs, including education.”

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