



December 16, 2002
Los Angeles, CA

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Article Last Updated: Saturday, December 14, 2002 - 10:40:03 PM MST

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Lawmakers divided on tax hikes

\$30 billion deficit predicted

By **Alexa H. Bluth**

Associated Press

SACRAMENTO – California's growing budget woes have translated into certain and far-reaching budget cuts, but the proposed cuts haven't stilled debate over raising taxes to help fill what could be a \$30 billion, two-year budget deficit.

Over the past four years, California's residents and businesses have enjoyed some \$4 billion in tax breaks. But now proposals have surfaced to tack an extra nickel onto the price of beer and to raise taxes for the state's wealthiest residents, on cigarettes and for car registration tags – and more are sure to come.

Republican leaders have vowed to extinguish any such proposals – and though they are the minority party in a Democrat-dominated state, the GOP has just enough pull in the Legislature to block the needed two-thirds vote to enact tax hikes.

Despite a laundry list of tax cuts during the economic good times, California taxpayers shouldered the nation's sixth-highest tax burden in 2001, according to a U.S. Census report issued in May. The state's taxpayers paid the government the equivalent of \$2,621 per person in taxes and fees last year.

Republican lawmakers say Gov. Gray Davis and the Democratic Legislature caused the deficit with out-of-control spending. Democrats say it's simply impossible to fill the state's gaping deficit without raising taxes to avoid cuts in health care, education and other programs.

"If we raise more taxes, regardless of who it's on, or what it's on, the money will just get spent and there will be no end to it," said Assembly budget Vice Chairman John Campbell, R-Orange.

And some taxpayers agree.

"It's disappointing that (Davis) is using his budget problem as an excuse to raise our taxes," said Kevin Copley, manager of an automotive shop in Davis, Calif.

But Sen. Dean Florez, D-Shafter, a proponent of some tax increases and restructuring of the state's tax code, said the state can't cut its way to a balanced budget.

"We would decimate California so much that we would not be able to catch up and we would actually be costing ourselves more," Florez said.

A potential impasse has led some lawmakers and lobbyists to consider putting forth tax-increase proposals to voters in ballot measures.

Democrats point to the early 1990s, when Republican then-Gov. Pete Wilson signed a budget calling for more than \$7 billion in tax increases and the same amount in cuts and

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other measures to patch a \$14 billion deficit. That deficit was about one-third of the then-\$41 billion general fund budget. If it reaches \$30 billion, the new deficit would equal more than one-third of the current general fund.

Democrats also highlight other states led by Republicans.



In Connecticut, Republican Gov. John G. Rowland, who built his career on tax cuts, changed course last week and joined Democrats in pushing a tax on millionaires to help close a \$500 million state budget deficit.

Last year, 20 states raised sales taxes on cigarettes and passed various other targeted tax increases, and many are likely to mull more sweeping tax hikes as they head into a second year of deep budget shortfalls.

"The more difficult decisions on how to balance their continued budget problems will face them in 2003 and they will have far more limited choices available to them," said Arturo Perez, a senior fiscal analyst at the National Conference of State Legislatures.

"Most states and their leaders understand that you need to have a balanced approach," said Jean Ross, executive director of the California Budget Project, a group that endorses tax increases to reduce spending cuts for the poor.

On Dec. 6, Davis proposed cutting \$10.2 billion over the next 18 months – including \$3.1 billion from public school spending and \$2 billion from welfare and health-care programs. Davis has asked lawmakers to act by the end of January on those cuts – which include about \$3.4 billion from the current \$98.9 billion budget and savings and cuts of almost \$7 billion in the coming budget year that begins July 1.

Davis will submit his 2003-04 budget on Jan. 10 and hinted that it would include tax increases – and possibly a vehicle license fee increase.

"We may well have a balanced approach to this problem, but we're in the middle of the budget process," Davis said during a recent television interview.

A variety of advocacy groups have endorsed or called for higher taxes to spare their sources of government money.

A coalition of local governments proposed increasing the state's vehicle license fee to its 1998 level, which would raise nearly \$4 billion for the next fiscal year. The average cost is now \$64 a year but that could jump to more than \$148 per car.

Last year, proposals to increase taxes on cigarettes, soda and vehicle licenses failed. This year, Democratic lawmakers and lobbyists already have started trying again.

Sen. Gloria Romero and Assemblyman Fabian Nunez, both Los Angeles Democrats, proposed a 5-cent fee per drink on alcoholic beverages – including wine, beer and spirits – with the estimated \$500 million from the tax going to emergency rooms and trauma centers.

Along with budget cuts, Florez has proposed increasing university student fees by 15 percent, raising the tax rate on high-income earners and extending the state sales tax, which is now limited to goods, to services that could raise billions of dollars.

The new debate comes after four years of economic good times – buttressed by income and capital gains taxes from flush high-tech earners – and billions of dollars in targeted tax credits and cuts.

Less than two years ago, Davis was proposing raising, expanding and extending the manufacturers' investment credit and exemption. Now, there is an increasingly heated debate over allowing the business tax break to expire in 2004.

But supporters of the credit say ending it and raising taxes would just drive businesses and high-income earners from California instead of helping its economy.

If Davis and Legislature raise taxes, "they are going to further destabilize and slow recovery," said Larry McCarthy, president of the California Taxpayers' Association.

McCarthy also said California should not raise income taxes for the highest income earners because the state relies on them to pay its bills.

"Ten percent of California taxpayers pay 75 percent of the income tax and for everyone that we lose, we damage the state's general fund," McCarthy said, adding that "The Legislature would paint a target on their back as if they are the villains."

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