

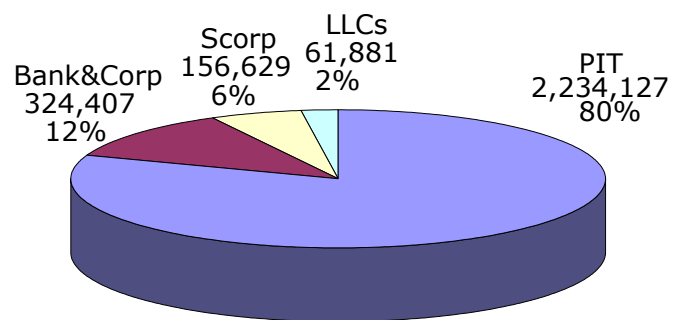


## Fact Sheet

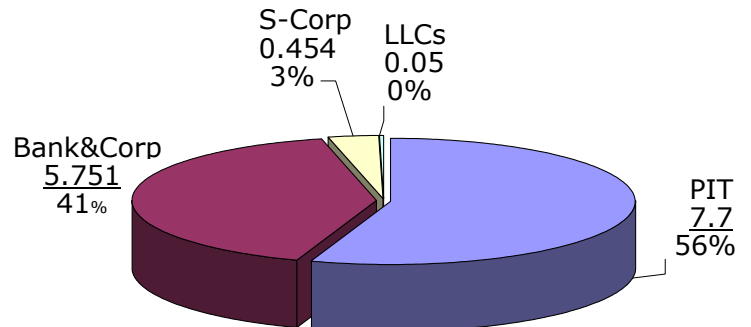
### Increasing The California Income Tax Is A Job-Killer

- 80% of California business taxpayers pay income taxes under the personal income tax law. In 1999, that was approximately 2.2 million returns, compared to 325,000 bank and corporation returns.
- Half of business income taxes are paid through the personal income tax. For 1999, that amounted to \$7.7 billion to the general fund.
- Small businesses are the backbone of the California economy. Yet increasing top income tax rates would increase the income taxes for some small, profitable un-incorporated business paying personal income taxes. Logic would suggest that California would foster and encourage small business to grow and create jobs here – not hammer these businesses with new taxes and push them to either not expand at all or expand in some other state.

**Number of Business Tax Filers**



**Total Income Taxes Paid by Business In billions**



### Makes California's Tax Structure More Volatile

- Policy-makers have repeatedly blamed California's current fiscal crisis on the state's heavy reliance on income tax revenues. The state's revenue stream follows the boom-and-bust business cycle because of dependence on income taxes. While the current budget deficit problem results from over spending and a lack of financial management and oversight, the revenue volatility issue is made greater by raising income taxes.

## Can't Pay Higher Income Taxes Than In California

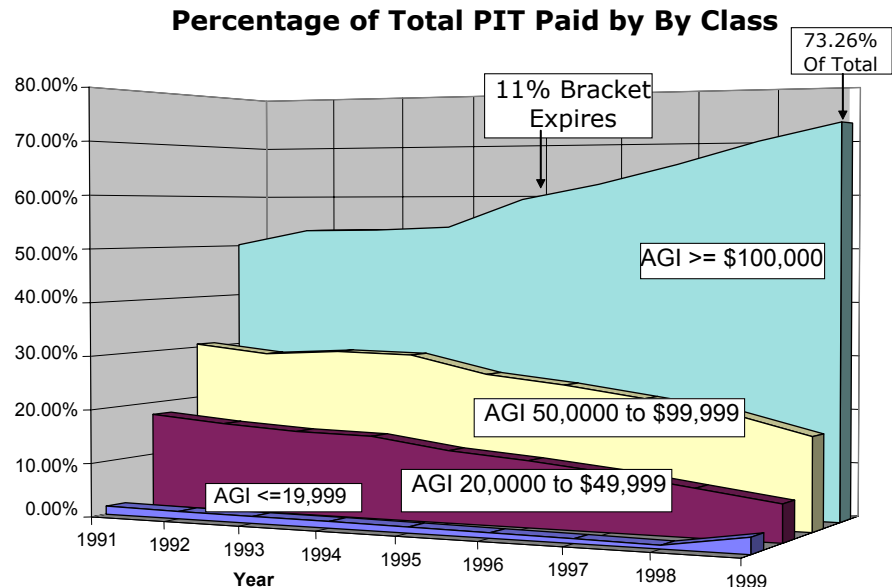
California currently has the most progressive income tax in the nation, even more progressive than the federal income tax. High-income taxpayers pay more taxes in California than in any other state in the nation. In fact, less than 10% of the nearly 13 million PIT returns filed account for nearly 75% of the PIT revenues.

### Chasing Away Some Higher-Income Residents

- At the current 9.3% top rate, California already has a reputation for confiscatory taxation of upper-income levels. California would have the highest effective tax rate in the nation (considering that some states allow federal income taxes to be deducted from state income taxes).
- Corporate leaders who make decisions on where to locate businesses must look at the personal income tax to see how managers will be taxed in California. The tax structure will affect companies' ability to move managers into the state.
- It is interesting to note that some highly paid athletes choose to live in states without income taxes and avoid California. Numerous golfers have chosen Florida residency, including Mark O'Meara and David Duval. Tiger Woods moved to Florida after attending Stanford University. Kristi Yamaguchi, who grew up in Fremont and has family in the Bay Area, is a resident of Reno, Nevada. Alex Rodriguez, the highest-paid player in baseball, moved from the Seattle Mariners, in a state with no income tax, and signed with the Texas Rangers, another state without a PIT. It has been reported that a factor in his selection of the Rangers over a California-based team was California's PIT structure.

### Anticipated Revenue Doesn't Materialize

- In 1991, when the 10% and 11% brackets were enacted on a temporary basis, they were expected to yield \$1.2 billion in revenue per year. A Franchise Tax Board analysis shows that actual collections were almost 50%



less than that over the next several years. This initiative may not produce the \$700 million a year expected in the static analysis.

- A study by the National Bureau of Economic Research, analyzing 1993 federal tax increases on upper-income taxpayers, found a similar result. Two new brackets for those with incomes over \$140,000 produced less than half the revenue anticipated in the static analysis.

### **Other Considerations**

- High state tax rates make it more difficult for small businesses to obtain capital, to expand operations, and employ more workers. Moreover, California businesses are already reeling from massive increases in costs of operations due to rising expenses for workers' compensation and unemployment insurance, energy, environmental regulations, a plaintiff-oriented civil tort system, and other costs.