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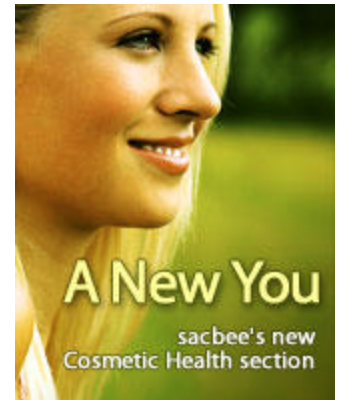
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## Opinion

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## Daniel Weintraub: Income-tax collections still rely on the super-rich

By **Daniel Weintraub** -- Bee Columnist  
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April was income tax month, and the cash registers at the Franchise Tax Board were working overtime. By the time the month ended, Californians had mailed in more than \$8 billion in personal income taxes, a number not seen in these parts since the heady days of the dot-com boom.

A detailed analysis of where all that money came from will have to wait for months, perhaps years, because it takes that long to process all of the returns and tabulate their characteristics.

But it will surprise no one if this year's surge - payments were up 30 percent over April 2004 levels - has come mainly from the upper-income taxpayers on whose fate the annual budget always seems to rest.

Much of California's income, and thus most of its income taxes, are concentrated at the upper end of the economic spectrum, so income swings for a relative handful of taxpayers can mean the difference between a budget deficit and a surplus.

The number of tax returns reflecting million-dollar incomes surged in the late 1990s and peaked at 44,000 in the 2000 tax year, then declined to 25,000 by 2002. The tax paid by that group, meanwhile, rose from about \$6 billion to \$15 billion almost overnight, then quickly fell back to Earth again. That revenue roller coaster, and the state government's reaction to it, helps explain most of the deficit California wrestles with today.



I've recently seen the breakdown on income tax paid in the 2003 tax year, the most recent data available, and the same trend was largely evident yet again.

The overall state income tax liability in California grew by about \$1.4 billion that year to \$30 billion, the first sign of recovery after the numbers began crashing two years before. And \$900 million of that growth came from higher taxes paid by a relative handful of million-dollar earners.

There were 28,000 returns filed by taxpayers reporting incomes of \$1 million or more in 2003. Those returns represented just one-fifth of 1 percent of California's 13.5 million taxpayers, yet their income was about 11 percent of the total. And their taxes represented 24 percent of all the income tax paid in the state.

The degree to which California's government finances are dependent on that tiny group is old news by now, or should be. But the figures for 2003 also contained some nuggets about other parts of the income distribution that were more surprising.

The number of taxpayers reporting incomes at the very bottom end of the economic spectrum is dropping, while more returns have been filed by folks with incomes in the middle or toward the top. That was true between 2002 and 2003, and the trend was even more pronounced over the long term, going back to 1998.

During that time, for example, the number of returns filed by taxpayers reporting less than \$20,000 in adjusted income declined by about 400,000, or 8 percent.

It's not clear where these people went. The total number of tax returns filed in California grew by nearly 800,000 during that same period. And it's unlikely that the lower-income folks dropped off the rolls because they earned nothing, since more people were employed and fewer were on welfare at the end of the period than at the beginning.

But we do know that, over time, people tend to move up the economic ladder. And if you look at the higher income brackets, you see evidence that this might have been the case between 1998 and 2003.

The number of returns filed by people earning between \$20,000 and \$50,000 grew by 6 percent. The number of returns with income between \$50,000 and \$100,000 grew by 17 percent. And the number between \$100,000 and \$200,000 grew by an astounding 46 percent, from 806,000 in 1998 to nearly 1.2 million five years later.

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In fact, one could argue that this last group - think of them as the upper middle class in this expensive state - has become the new powerhouse of the economy and in the income tax game. Collectively, the folks in the low six -figure category paid 24 percent of the tax in 2003, up from 21 percent in 1998.

Ironically, though, even with that phenomenal growth, this dynamic group of more than 1 million taxpayers still accounted for the same share of the total tax collected as did the 28,000 souls at the very tip of the pyramid.

That's why anybody looking to start a new program (universal preschool), expand an old one (mental health) or balance the budget with higher taxes looks first to the super-rich. It's where the money is. And their small numbers make them a good political target.

But their small numbers also should be a red flag for anybody who has them in their sights. Despite a healthy bit of flattening of the income distribution in recent years, and a modest broadening of the tax base, the treasury still depends dearly on its take from the income of a few. If those few move their residence or their incomes outside the reach of the tax collectors, California's deficit will grow from large to massive in the blink of an eye.

#### **ABOUT THE WRITER:**

The Bee's Daniel Weintraub can be reached at (916) 321-1914 or at [dweintraub@sacbee.com](mailto:dweintraub@sacbee.com). Readers can see his daily Weblog at [www.sacbee.com/insider](http://www.sacbee.com/insider)

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