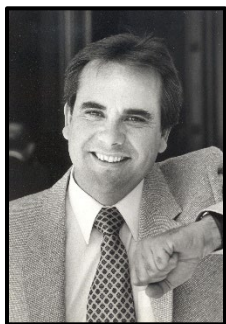


CALIFORNIA'S TAX CODE: STATE TREASURER WARNS AGAINST 'TAX THE RICH' PROPOSALS

State Treasurer Bill Lockyer warned July 13 that California is coming "very near to the tax ceiling" for purposes of the personal income tax levied on high-income earners, and that proposals to further increase the top PIT rates may not be warranted.

The treasurer was asked about "tax the rich" proposals during a question-and-answer session with the Sacramento Press Club, where he also discussed the

budget, California's debt, Proposition 13 and his political future.



Mr. Lockyer said his office will try to sell an estimated \$5 billion in revenue-anticipation notes before August 2 – the deadline for raising the federal debt ceiling, in case congressional talks fail and the bond market is sent into flux.

Moody's Investors Service said July 13 that it would consider downgrading the U.S. credit rating. If the federal government were to default on its payments, Mr. Lockyer said California may experience a "ripple effect."

Volatility of the state budget has been a problem, Mr. Lockyer said. He explained that increasing the personal income tax on top earners may not make sense. While the top-earners in the state have seen their wealth increase in recent years, Mr. Lockyer said he doesn't think additional increases in the personal income tax would be sound tax policy. He also noted that he wouldn't "be a fan of getting rid of capital gains taxes."

Asked if he would support a "tax the rich proposal," or another alternative of higher taxes, Mr. Lockyer said he would not support such a tax increase. Instead, he suggested he may favor a broadening of the sales tax to services, coupled with a rate reduction. He added that it would be possible to raise the rate later.

Mr. Lockyer also suggested that a split roll tax proposal would not go anywhere, noting that Proposition 13 is "settled law." He said he doesn't expect to see any changes to the 33-year-old initiative.