

CALTAX YEAR IN REVIEW: 2013 – THE GATHERING STORM

While federal officials spent much of 2013 arguing about a “fiscal cliff,” California leaders seemed to be expecting the year to bring a mountain of money rather than a sheer drop. Elected officials waited to see if California’s economy would rebound significantly and pump money into government coffers, while many interest groups appeared to be playing political chess, making small moves while planning to strike with a major tax change once all their pieces are in place.

Democrats entered the year with a two-thirds majority in both the Senate and the Assembly, thanks to victories in the 2012 elections, but a series of resignations kept both houses in flux. Nor did the Democrats always act in harmony, as evidenced by the Assembly and Senate leaders being at odds over court-mandated prison reforms, and even scheduling summer breaks at different times – what appeared to be an unprecedented break with tradition.

However, the Democrats worked well enough together to craft a budget deal, and to enact the budget on time. Lawmakers also worked on nearly 2,300 bills, proposed constitutional amendments and other measures that were introduced for the 2013-14 session. During the eight months that the Legislature was in session, lawmakers proposed more than \$11 billion in taxes and fees, even with California’s operating budget in a surplus, and after the passage of \$7 billion in tax increases in Proposition 30 and Proposition 39.

While some expected the Democrats to push through a split-roll property tax or other major changes to Proposition 13 – such as lowering the public vote requirement for approval of local taxes – taxpayers were able to ward off such threats this year. Faced with strong opposition, Senate President Pro Tem Darrell Steinberg told reporters in April that 2013 would not be the year for such changes.

Significant legislation enacted in 2013 included Governor Jerry Brown’s plan to repeal enterprise zones and create a statewide partial sales tax exemption for manufacturing and research-and-development equipment, and a tax credit for investment and employment.

There also were several major initiatives filed, setting the stage for pitched battles leading up to the November 2014 election.

As 2014 begins, signs indicate that the past year represented a gathering storm.

The State Budget

In January, Governor Jerry Brown introduced a budget calling for general fund spending to increase 5 percent in 2013-14 (from \$93 billion to \$97.7 billion), while cautioning lawmakers to exercise fiscal restraint.

However, as revenue came in higher than projected through the first quarter – at the end of April, the controller reported \$4.5 billion in unexpected general fund cash-flow revenue

– some lawmakers’ appetite for spending increased, and interest groups ramped up calls for expansion of state programs.

In May, Assembly Speaker John Pérez unveiled a budget plan that conflicted with the governor’s in several key areas. The speaker’s “Blueprint for a Responsible Budget,” described as a product of the entire Assembly Democratic Caucus, was at odds with Governor Brown’s plans for education finance, the spending of corporate tax revenue, court funding, and the size of the state’s “rainy day” fund. (At the close of 2013, Speaker Pérez would release a new “Blueprint for a Responsible Budget,” even before Governor Brown released his budget for 2014-15.)

When the governor issued his May budget revision, he caught some observers off guard by proposing 2013-14 general fund spending \$1.3 billion below the amount in his January budget. This figure still represented an increase of \$2.7 billion in general fund spending over the 2012-13 level.

The governor’s revised budget also proposed elimination of all economic development areas, including enterprise zones, coupled with a statewide partial sales and use tax exemption for manufacturing and research-and-development equipment, a new employment tax credit to be administered by the Franchise Tax Board, and a tax credit for investment and employment that would be administered by the Governor’s Office of Business and Economic Development (GO-Biz).

This proposal, also referred to as the governor’s economic development plan, ultimately would be considered separately from the budget. After passing the budget, the Legislature approved the economic development legislation, which had been subject to numerous last-minute amendments ([AB 93](#), Assembly Budget Committee). To address problems with the hastily drafted bill, the Legislature later approved “cleanup” bills ([SB 90](#), Galgiani; [SB 100](#), Senate Budget and Fiscal Review Committee; and [AB 106](#), Assembly Budget Committee).

As part of the budget, the Brown administration also proposed eliminating a taxpayer’s right to pursue attorney fees under the “private attorney general” doctrine, which would have eliminated an important method for taxpayers to seek justice, and was not an appropriate use of the budget trailer bill process. CalTax and others opposed the proposal, and it was not included in the final budget.

Another “budget trailer bill” would have overturned a 2011 appellate court ruling in *Nortel Networks Inc. v. State Board of Equalization* that held that amounts charged for intangible personal property transferred with tangible personal property pursuant to technology transfer agreements are not subject to sales tax. CalTax led a coalition opposed to the proposal, and it was left out of the final budget.

Additionally, the budget proposed modifying the state’s hazardous waste “fee” in a way that would result in some industries paying more and others paying less, but the proposal did not make it into the final budget.

During budget negotiations, the legislative analyst reported that the revenue projection in the governor's revised budget was \$3.2 billion too low, leading some lawmakers to call for increased spending.

"Everybody wants to see more spending – that's what this place is, a big spending machine," the governor said during a press conference in the Capitol. "They can push, I can push back. At end of the day, they need the governor's signature."

The Conference Committee held hearings on many issues, but the real negotiations took place between legislative leaders and the governor. Governor Brown made no bones about the behind-closed-doors aspect of the budget, telling *The Sacramento Bee* in May that negotiations would occur "a lot in private, and a little bit in public."

A few days before the Legislature's deadline to approve a budget, Governor Brown and Democratic leaders emerged with a budget agreement that increased spending on some programs, largely followed the governor's proposal, and did not include major tax increases. The budget was based on the governor's revenue estimate, rather than the legislative analyst's much higher number.

The budget bill ([AB 110](#), Blumenfield) and numerous budget trailer bills were approved by the Legislature on June 14 and June 15, with Democrats providing all the "yes" votes for the main budget bill in both houses.

While Senate President Pro Tem Darrell Steinberg described the budget as "balanced," political columnist Dan Walters of *The Sacramento Bee* noted that the budget "ignores some very real obligations that, if recognized, would put the state many billions of dollars in the red." As CalTax noted in a September report, "[Beyond the Wall of Debt: Detailing California's Debt and Unfunded Liabilities](#)," California state and local governments face more than \$443 billion in outstanding liabilities from borrowing, deferrals and other unfunded financial obligations.

The budget, signed by the governor June 27, included \$96.3 billion in general fund spending, \$145.3 billion in total spending from all funds, and a \$1.1 billion reserve. Under the budget, state general fund and special fund spending for 2013-14 will be \$18 billion higher than two years earlier, according to the Legislative Analyst's Office.

The governor's line-item vetoes included one deleting \$270,000 from the Franchise Tax Board's budget, to reflect California's withdrawal from the Multistate Tax Commission. (Despite California's withdrawal, the commission held its annual conference in San Diego in 2013.)

"Gut-and-Amend" Maneuvers

The Legislature made frequent use of the "gut-and-amend" maneuver to introduce new legislation without adhering to deadlines or public-notice requirements, and to avoid committee votes. Using this maneuver to rush legislation through the process increased the likelihood of errors. Indeed, just two months after the budget was signed, the

Legislature began working on numerous proposals to clean up technical drafting errors and make policy changes to the spending plan.

Other Legislation

Despite the better-than-projected growth in state revenue, lawmakers continued introducing taxes and fees. Some of the proposals were targeted at specific groups, and couched as the solution for everything from underperforming schools to deteriorating parks, and even obesity.

CalTax and other groups successfully fended off many proposals that would have made California a more expensive place to live and to conduct business, including an effort to repeal the net operating loss carryback ([AB 769](#), Skinner); a proposal to repeal the tax deduction for punitive damages paid or incurred in connection with a judgment or settlement ([AB 458](#), Wieckowski); an effort to require that new income or franchise tax credits have a sunset date ([SB 365](#), Wolk); targeted taxes on oil production ([SB 241](#), Evans), tobacco ([SB 768](#), de León), and sweetened beverages ([SB 622](#), Monning); and a targeted mandate on pharmaceutical companies ([SB 727](#), Jackson).

However, one new law with a large cost to California businesses was jammed through the legislative process with almost no public vetting. The legislation ([AB 10](#), Alejo) increases the state minimum wage from the current \$8 an hour to \$9 an hour on July 1, 2014, and to \$10 an hour in 2016. The bill, which CalTax opposed, was approved by both houses just one day after being heavily amended, and was signed by Governor Brown.

In another disappointment for taxpayers, the Legislature ended another year without passing legislation to conform California's tax laws to federal laws, despite the urging of taxpayers and the Franchise Tax Board's taxpayer advocate. As in past years, conformity was obstructed primarily because of the threat that provisions for an erroneous-refund penalty would be forced into any omnibus conformity legislation.

Proposition 13 Under Attack

At the beginning of 2013, advocates of a split-roll property tax system hoped that with a two-thirds majority in each house of the Legislature, Democrats would take swift action to dismantle Proposition 13. When this did not happen, split-roll activists directed their energy elsewhere, spreading misinformation in hopes of turning voters against the initiative that has protected them, for more than three decades, from being taxed out of their homes and businesses.

Activists lobbied local school boards to pass resolutions blasting Proposition 13, and several complied. In April, even the California Democratic Party endorsed an anti-Proposition 13 approach. During the party's convention, delegates approved a resolution – on a voice vote, without debating the measure or analyzing its impact – specifying that the party will work to promote a split roll.

Additionally, groups that oppose Proposition 13 released reports criticizing businesses that are complying with existing property tax laws, implying that the businesses were

somehow robbing schools of money because their taxes were not calculated under the *ad valorem* assessment system that California scrapped more than 30 years ago due to its major flaws and inequities.

CalTax countered anti-Proposition 13 activists' misinformation with a report, released June 5, comparing the assessment growth of homeowner property vs. other property subject to Proposition 13's assessment provisions, and finding that Proposition 13 has not shifted the property tax burden from businesses to homeowners. The report, "[Proposition 13 Revisited: A look at California's property tax 35 years after passage of Proposition 13](#)," uses data from the State Board of Equalization.

In the Legislature, Assemblyman Tom Ammiano kept up the attacks on Proposition 13. In 2010, Assemblyman Ammiano said he would like to "nuke" Proposition 13, and in 2013 he continued working toward that goal by introducing legislation ([AB 188](#)) that would impose a split-roll property tax system by triggering more frequent reassessment of property owned by legal entities. CalTax led the opposition to the bill, which was held in the Assembly Revenue and Taxation Committee.

Other unsuccessful attacks included [AB 59](#) (Bonta), which would have allowed non-uniform application of parcel taxes by school districts, and [AB 561](#) (Ting), which sought to allow local governments to impose massive tax increases on non-homeowner property by expanding local "transfer taxes" to apply when there is no transfer of property.

Other lawmakers took aim at another provision of Proposition 13 by introducing measures that would lower the public vote threshold for approval of local taxes ([ACA 3](#), Campos, relating to taxes that fund public safety services; [ACA 8](#), Blumenfield, on general obligation bonds; [SCA 3](#), Leno, relating to school parcel taxes; [SCA 4](#), Liu, on taxes that fund transportation projects; [SCA 7](#), Wolk, on special taxes for libraries; [SCA 8](#), Corbett, relating to taxes for transportation; [SCA 9](#), Corbett, on special taxes for economic development projects; and [SCA 11](#), Hancock, relating to special taxes for any purpose).

Undercover Officers in the Capitol

In June, FBI agents searched the legislative offices of Senator Ron Calderon, but sealed the search warrants and did not disclose what prompted their action. Information came to light later in the year, however, as Al Jazeera America aired a leaked copy of an affidavit documenting an elaborate FBI sting that appeared to target Senator Calderon. In the affidavit, an undercover FBI agent alleged that the senator accepted bribes for taking specific actions on legislation. The Senate Rules Committee removed Senator Calderon from his committee assignments shortly after the affidavit was revealed, and the senator said he disputes the charges and has no plans to resign.

Unemployment Insurance Tax Increase on Employers

The California Employment Development Department projected a \$9.7 billion deficit in the state's crippled unemployment insurance (UI) fund by the end of 2013, and a deficit of \$8.8 billion at the end of 2014 if changes are not made to the fund's financing structure.

To make UI payments to out-of-work Californians in recent years, California had to borrow more than \$10 billion from the federal government. Because California defaulted on the loan, taxes on employers have increased dramatically, in the form of a federal employment taxes (FUTA) credit reduction. Employers' taxes increased \$603 million in 2013, and the reduced FUTA credit is projected to cost employers another \$932 million in 2014.

A Busy Year in the Courts

Much of the tax-related action in 2013 came not as a result of the men and women in the Capitol, but from those wearing black robes in courthouses throughout the state (and in Washington, D.C.).

Key cases included:

- **Taxation of Emission Reduction Credits** – In a unanimous decision in *Elk Hills Power v. Board of Equalization*, the California Supreme Court ruled that the BOE improperly valued the power company's emission reduction credits when assessing property under the replacement cost method.

Technology Transfer Agreements – A Los Angeles Superior Court judge granted summary judgment in favor of taxpayers in *Lucent Technologies Inc., et al. v. State Board of Equalization*, involving the taxation of technology transfer agreements, noting that this case is almost identical to the 2011 appellate court decision in *Nortel Networks v. State Board of Equalization*, in which the taxpayer prevailed.

Appraisal Units – In *Western States Petroleum Association v. Board of Equalization*, the state Supreme Court invalidated BOE Rule 474 (which established a presumption that petroleum refinery property – land, improvements and fixtures – is sold as a unit, and therefore must be assessed as a unit) because the BOE failed to conduct an economic impact study of the regulatory change. However, on the issue of fixtures being a part of an appraisal unit with land and improvements, the court sided with the BOE, and opined that Rule 474 “is consistent with applicable constitutional and statutory provisions.”

- **Fire Tax** – The Howard Jarvis Taxpayers Association filed a class-action suit challenging the state's fire tax (officially dubbed a “fire prevention fee”) as being invalid because the legislation that authorized it ([AB 29X](#) of 2011) was not approved by at least two-thirds of the Legislature. The litigation was in its early phases as the year came to a close.
- **High-Speed Rail** – Governor Jerry Brown cited “The Little Engine That Could” when discussing high-speed rail during his State of the State Address in January, but judges took a different view. In an August 16 decision, a judge ruled that the agency overseeing California's high-speed rail project “abused its discretion” and did not comply with the financial and environmental promises made to voters when they approved initial funding for the project five years ago. Although the California High-Speed Rail Authority in early 2013 agreed to the first construction contract of the project – a \$985 million

contract for construction of a 30-mile segment from northeast Madera to the sound end of Fresno – a Sacramento County Superior Court judge ruled in November that the authority may not proceed with its planned sale of \$8 billion in bonds to fund the project.

- **State Budget Process** – The Third District Court of Appeal ruled in *Howard Jarvis Taxpayers Association v. Debra Bowen* that the Legislature’s use of “budget trailer bills” that are devoid of content when the main state budget bill is approved is unconstitutional, and “sets up a shell game” that can be abused by the Legislature. Unfortunately for taxpayers, the case was ordered depublished by the state Supreme Court later in the year, so it cannot be cited as precedent.
- **Redevelopment** – Redevelopment agencies continued their string of courtroom losses when the Third District Court of Appeal held that the Legislature acted within its authority when it directed the agencies to deposit portions of their property tax funding into supplemental educational revenue augmentation funds (*California Redevelopment Association v. Ana Matosantos*).
- **Location of Business** – After a 12-year legal battle, Daniel V Inc. prevailed in Los Angeles Superior Court in a dispute with the Franchise Tax Board over whether the company was commercially domiciled in California or Nevada. In *Daniel V Inc. v. Franchise Tax Board*, the court found that the FTB’s case consisted entirely of circumstantial evidence. The judge also ordered the FTB to pay Daniel V \$1.2 million in attorney fees, and said, “I was rather disappointed at the conduct of the Franchise Tax Board throughout the history of this case.”
- **Proposition 26: Definition of a Tax** – The Second District Court of Appeal ruled that Los Angeles County’s ordinance requiring retailers to charge customers 10 cents each for carryout paper bag is not a tax, and did not require voter approval before taking effect July 1, 2011. The state Supreme Court declined the taxpayer’s request to review the Court of Appeal’s decision in *Lee Schmeer v. County of Los Angeles*.
- **Uniform School Parcel Taxes** – The First District Court of Appeal ruled that a parcel tax levied by the Alameda Unified School District is illegal because its rates did not apply uniformly to all real property within the district. In June, the state Supreme Court denied review of the case, letting the taxpayer’s victory stand in *George J. Borikas v. Alameda Unified School District*. Similar lawsuits were filed against West Contra Costa Unified, Davis Joint Unified and a consortium of five districts in Los Angeles County.
- **School Bond Spending** – The Fourth District Court of Appeal ruled, in a published decision in *Taxpayers for Accountable School Bond Spending v. San Diego Unified School District*, that the school district is barred from using proceeds of a 2008 school bond for field lighting at high school stadiums, because the bond measure approved by voters did not specifically list field lighting as a project to be funded.

- **Legal Defense of Initiatives** – The U.S. Supreme Court ruled in June that proponents of a California ballot initiative did not have standing to defend the measure in court after state officials declined to do so. This decision in *Perry v. Hollingsworth* raised concerns from groups that have sponsored initiatives, and from legal experts on both ends of the political spectrum.

Tax Initiatives Introduced

Several tax-increase initiatives were introduced in 2013, aimed for the November 2014 election.

In February, proponents filed targeted tax increase initiatives proposing a 9.5 percent oil severance tax ([13-0002](#)), and a 33 percent tax on profits from the sale of California timber ([13-0001](#)). Neither of the measures qualified for the ballot, but at the close of the year, former hedge fund manager Tom Steyer, who put \$30 million of his money into passage of Proposition 39 (the single sales factor initiative of 2012), said he plans to pump millions into an oil tax initiative in 2014. However, Mr. Steyer told the *San Francisco Chronicle* that he doesn't believe it will be possible to put an oil tax initiative before voters by November 2014.

Two versions of a tobacco tax increase initiative ([13-0023](#) and [13-0027](#)) were filed near the end of the year, both proposing a 230 percent increase in the state's existing cigarette tax, and an initiative proposing a \$3 billion vehicle tax to fund highway construction was filed late in the year by a group that appears to have the political and financial backing needed to pursue a statewide initiative.

Initiatives also were filed to put a tax on marijuana sales, and to create a hospital "fee."

The biggest initiative battles, however, are likely to be over non-tax measures. An initiative filed in July, supported by trial lawyers and opposed by doctors, seeks to quadruple the maximum dollar amount that a court can award for pain-and-suffering damages caused by medical malpractice. A pension reform measure filed in October by San Jose Mayor Chuck Reed and others has raised the hackles of public employee labor unions, which are expected to spend heavily to oppose the initiative if it qualifies for the ballot. And former gubernatorial candidate Ron Unz, a wealthy business owner considered to be politically conservative, surprised many observers by filing an initiative in late November (13-0050) to set the minimum wage even higher than it already will be under the legislation approved by the Legislature and governor.

More Local Taxes

Local tax measures were on the ballot throughout the year in 2013, many in Los Angeles and in the wealthy San Francisco Bay area. While most of the local tax elections occurred November 5, there were special elections held March through August in various jurisdictions, including many vote-by-mail elections with very low turnout.

All totaled, [voters approved 64 local tax and bond measures and rejected 20.](#)

In a notable March 5 election, Los Angeles voters rejected a sales tax increase supported by the mayor and others in the political establishment.

Another election was especially interesting because of the contrast between the voters and the people who will have to pay the taxes that were approved. In a vote-by-mail election that concluded April 9, voters in the city of Vernon overwhelmingly approved three tax measures that will cost taxpayers an estimated \$8 million per year. The small city in Los Angeles County is home to just 112 residents, and there were only 42 votes cast in the election. The taxes will be paid almost exclusively by the city's 1,800 businesses.

State Board of Equalization Implements Law on Published Decisions

In 2013, the State Board of Equalization implemented the new law requiring written opinions in decisions where the "amount in controversy" is \$500,000 or more ([AB 2323](#), Perea, Chapter 788 of 2012).

As is historically the case, the BOE's meetings garnered little attention from the media, with the notable exception of board's 3-2 vote in February to adopt a gasoline tax rate of 39.5 cents per gallon for the 2013-14 fiscal year, up from the previous rate of 36 cents per gallon. The board is required by state law to set a gas tax rate by March 1 that will produce an amount of revenue estimated to equal what a state sales tax on gasoline would produce during the same period, if the sales tax on gas had not been eliminated as part of the "gas tax swap" legislation enacted during the Schwarzenegger administration.

Franchise Tax Board Takes Heat

The Franchise Tax Board took heat from many legislators and taxpayers for its reaction to the Court of Appeal's 2012 ruling in *Frank Cutler v. Franchise Tax Board* (2012) 208 Cal.App.4th 1247, relating to qualified small business stock (QSBS) incentives. The court held that the current incentive allowing owners of QSBS to exclude or defer specified stock gains is unconstitutional, as it discriminates against out-of-state businesses. Reacting to that court ruling that partially invalidated the incentive statutes, the FTB decided to declare the incentives completely invalid, not just the provision the court held to be unconstitutional, and to deny the incentives retroactively to anyone who claimed them, as far back as the statute of limitations allows.

Senator Ted Lieu was one of the most vocal critics, stating that "the staff of the Franchise Tax Board elected to take the most aggressive, unreasonable, and unfair potential remedy."

The issue was addressed by legislation signed by Governor Brown in early October. The governor signed two "Cutler fix" bills – [AB 1412](#), Bocanegra, and [SB 209](#), Lieu – but only **AB 1412** became operative, because it was signed last. The legislation temporarily reinstates the QSBS gain deferral and 50 percent gain exclusion for the 2008 through 2012 taxable years.

In February, in his 2012 Taxpayers' Bill of Rights Annual Report to the Legislature, FTB Taxpayers' Rights Advocate Steve Sims raised concerns about California's lack of conformity to federal law, its use of penalties, problems with auditor retention, and other issues.

The membership of the FTB underwent a change, as Ana Matosantos abruptly resigned as director of the Department of Finance, and was replaced late in the year by her second-in-command, Michael Cohen. Also, Pedro Reyes, the chief deputy director of policy for the Department of Finance who often represented the finance director on the three-member tax board, left to take a position in the Assembly speaker's office. Mr. Reyes was replaced by Eraina Ortega, a former legislative representative for the California State Association of Counties.

In November, another big change was announced – the retirement of FTB Assistant Chief Counsel Patrick Kusiak, who has been with the tax agency for more than two decades.

New Assessors

Just before the big election year for county assessors, seven of California's 58 counties got new assessors in 2013. County supervisors appointed assessors to fill vacancies in Colusa, Merced, Mono, San Francisco, Sonoma and Stanislaus, and Assistant Assessor Sharon Moller was appointed as the new acting assessor in Los Angeles County.

Los Angeles Assessor John Noguez, who had been in jail on paid leave since October 2012 while awaiting trial on corruption charges, finally made bail in March 2013. Later in the year, several new felony corruption charges were filed against him.

Also in 2013, Assessor Jim Rooney of Amador County wrapped up his term as president of the California Assessors' Association, and Riverside County Assessor Larry Ward was chosen to be president of the association in 2014.

Mayoral Changes in Big Cities

In May, Los Angeles voters went to the polls and elected a new mayor, choosing Los Angeles City Councilman Eric Garcetti over City Controller Wendy Gruel – both are Democrats – by nearly 8 percentage points.

In San Diego, Mayor Bob Filner resigned in disgrace after a very short stint in office. Mr. Filner resigned in the face of multiple sexual harassment charges that shocked the city. In a November 19 special election to select a successor, San Diego voters chose Republican Kevin Faulconer and Democrat David Alvarez to advance to a runoff election, likely to be held February 11.

Former Assemblyman Nathan Fletcher, who was endorsed by Governor Brown, finished in third place in the mayoral election. The Republican-turned-independent-turned-Democrat later said he does not plan to run for public office again.

Fire Tax Goes Up

The California Department of Forestry and Fire Protection (CalFire) increased the per-parcel fire tax from \$150 to \$152.33, creating more ire for property owners who already are in court challenging the “fire prevention fee” as an illegal tax.

Also this year, CalFire announced that fire tax maps were changed so that approximately 7,500 structures no longer will be subject to the tax. However, property owners in the now-excluded areas will not receive refunds of the fire taxes they already paid. Adding insult to injury, the owners of these structures were billed for another round of taxes, for the 2012-13 fiscal year, after the maps were changed.

Cap-and-Trade Auctions Continue

With litigation over the legality of the state’s cap-and-trade program pending, the state continued to hold auctions for emissions allowances. The California Air Resources Board (CARB) held four auctions in 2013, raising approximately \$1.8 billion.

Opponents of the cap-and-trade system had hoped for a court ruling to stop the process, but a November 14 decision by Sacramento County Superior Court Judge Timothy Frawley went the other way, and said the cap-and-trade program does not constitute an illegal tax. Attorneys with the Pacific Legal Foundation said they will appeal the decision.

California’s Tax Burden in the News

At the beginning of the year, golf superstar Phil Mickelson indicated that he was considering moving out of California because of the state’s high personal income tax, prompting a spate of news stories about the Golden State’s tax burden and the ability of professional athletes to move to states without an income tax. Asked about Mr. Mickelson’s situation, golfer Tiger Woods told reporters that taxes prompted him to move from California to Florida in 1996.

Near the end of the year, the Tax Foundation reported that California has maintained its position of having the third-worst business tax climate in the nation.

New CalTax Publications

In January, CalTax published “California Tax Facts,” a 73-page reference guide that describes each tax imposed by California’s state and local governments, and includes color charts and tables with statistics on who pays the taxes, how much tax revenue is collected, and more. The publication was distributed to elected officials, and is available for [purchase online](#).

CalTax also released “[Proposition 13 Revisited: A look at California’s property tax 35 years after passage of Proposition 13](#),” and “[The Other Property Tax: An Overview of Parcel Taxes in California](#),” a policy brief that provides important information to policymakers and the public, and recommends ways to reform parcel taxes.

Other publications included the annual [CalTax voting record](#), which showed that 14 lawmakers were in 100 percent agreement with CalTax on key tax issues, and policy briefs on [split-roll property tax](#), the [governor's economic development plan](#) and the implications of extending sales tax to services.

CalTax also published a commentary by CalTax Vice President of State Tax Policy Gina Rodriquez on the need for California to pass legislation to conform to federal tax laws, and compiled data showing that California's three top tax agencies – the Franchise Tax Board, State Board of Equalization, and Employment Development Department – have more than \$15 billion in their accounts receivable, and wrote off close to \$1.6 billion in 2011-12.

Computer Problems

California may be home to the Silicon Valley, but the state government's history with major computer projects is less than stellar. And the woes continued in 2013.

In February, State Controller John Chiang fired SAP Public Services, the company responsible for a costly computer project that was supposed to improve the state's payroll system, because tests found the system to be riddled with errors. The controller indicated he will seek a refund of the approximately \$50 million that had been paid to the company, while SAP indicated that it intends to fight to keep the money, based on a claim that it has fulfilled its contract.

The BOE's new computer system, the Centralized Revenue Opportunity System, has not faced the same kind of problems, but an announcement was made late in the year that the project will be delayed one year and will cost \$40 million more than originally estimated.

In a bit of good news regarding state computers, the FTB reported that the agency's Enterprise Data to Revenue computer upgrade is on schedule and under budget. However, the FTB also experienced the most high-profile computer problem of the year when its website experienced "performance problems" on April 15, the deadline for filing personal income tax returns and paying the tax.