

Calif.'s budget fix falls heavily on taxpayers

By JUDY LIN – 2 days ago

SACRAMENTO, Calif. (AP) — When they plugged California's \$42 billion budget hole last month, Gov. Arnold Schwarzenegger and legislative leaders said everyone had to give up something to repair the state's finances.

That sentiment did not extend to California businesses and corporations with significant operations in the state.

All the tax hikes in the two-year budget plan — a boost in the sales tax that took effect Wednesday and increases in the personal income tax and vehicle license fee — fall squarely on the shoulders of working Californians.

That's a solution unique among states struggling with budget deficits and runs counter to the approach of the Obama administration, which is pushing tax cuts for low- and middle-income Americans.

The decision also is beginning to feed the backlash over five budget-related measures California lawmakers are asking voters to approve during a special election in May.

Anti-tax groups have begun a campaign to defeat the ballot measures, saying the budget package places too much of a burden on taxpayers in a state that already has a reputation for high taxes.

A recent poll shows the propositions in trouble, including the one Schwarzenegger wants most: a measure that would implement a state spending cap in exchange for extending the taxes an additional one to two years. Just 39 percent of likely voters support that measure, Proposition 1A, with 46 percent opposed, according to the Public Policy Institute of California survey.

If voters reject that and the other budget-related measures on May 19, California would face a \$6 billion shortfall.

Taxpayer groups are undeterred by that prospect, saying lawmakers should have solved the budget deficit without putting so much of the cost on average Californians. The Howard Jarvis Taxpayers Association estimates the budget package will cost a family of four an additional \$1,100 a year, largely canceling any benefit Californians will receive from federal tax cuts.

By comparison, no tax increases were seriously considered for businesses. Instead, the budget deal contains a long list of corporate tax breaks and credits, including ones for the film industry and a change in the tax formula that will save businesses hundreds of millions of dollars.

Those breaks will cost California's treasury at least \$2.5 billion over a five-year period, potentially putting further pressure on future budgets, according to the California Budget Project, a Sacramento-based research group that advocates for working families.

The only tax break given to average Californians is a \$10,000 credit for those who buy a new house over the next year, a provision sought by home builders.

"As services are cut and every ordinary taxpayer will have to pay more, it is appalling that major multinational corporations get new tax breaks," said Lenny Goldberg, executive director of the labor-backed nonprofit California Tax Reform Association. "Everybody is being asked to sacrifice, except for large corporations, who instead get huge tax cuts."

Christopher Thornberg, an economist at San Rafael-based Beacon Economics, said special interests profited from Sacramento's drawn-out budget fight. Striking business-friendly compromises was the only way to get enough Republican votes to pass the budget package, he said.

California requires a two-thirds majority vote to pass budgets and tax increases, allowing minority Republicans to make demands they deem important. In most cases, that means helping business.

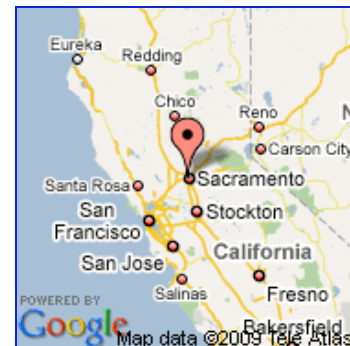
"Some of this is just gross payout," Thornberg said.

The higher income tax rates, sales tax and vehicle license fee are hitting as home prices tumble and unemployment in the state has hit double digits. The two-year budget fix also cuts \$15 billion in programs and borrows about \$6 billion.

"I don't think that it's good," said middle school counselor Pamela Hunt, 52, of Sacramento, who earns \$53,000 a year. "They're going to put (taxes) up and they're going to keep rising."

Many other states face the kind of difficult financial decisions California lawmakers were forced

Map



to make in February. At least a half dozen are looking to sin taxes — including levies on cigarettes and alcohol — to help fill budget holes.

Lawmakers in Oregon and Wisconsin are targeting high-income earners. In Louisiana, among the tax breaks being pushed by Republican Gov. Bobby Jindal is one for seniors and another to cut property taxes.

In New York, the governor and Democratic leaders are seeking to close a \$16 billion budget gap by raising income taxes on the wealthy, boosting fees for driver's, hunting and fishing licenses, and imposing higher sin taxes on booze and cigars.

The criticism of the California taxes is that they are considered regressive — hitting middle- and lower-income families harder than wealthier ones.

On Wednesday, the state sales tax rises by 1 cent on the dollar to 6 percent, although local taxes will bring the average rate statewide to 8.95 percent.

The fee to license all vehicles will nearly double in May. And by the end of the year, the government will be taking more from people's paychecks than ever before, boosting the personal income tax rate by 0.25 percent. Tax filers also will be able to claim less on a dependent care credit — to the federal level of \$99 instead of \$300.

Some of the new taxes would last until 2013 if voters approve the spending cap measure in May.

The California Budget Project estimates the tax hikes will disproportionately hurt working-class earners. A couple with \$40,000 in taxable income will see a 12.9 percent increase in taxes, while a couple making \$750,000 would get a 2.9 percent increase.

"It has a larger impact at the bottom," said the group's executive director, Jean Ross.

The Schwarzenegger administration said it would not have agreed to the budget deal without measures it said were needed to stimulate California's economy, which included the corporate tax breaks and credit for buyers of new homes.

Schwarzenegger said it would have been irresponsible to raise taxes without also cutting spending and taking steps to boost the economy and create jobs. He and other Republicans argued that corporate tax credits encourage business, a point critics say is hard to prove.

The single largest permanent tax break changes the way California calculates corporate taxes, and will cost as much as \$750 million a year in revenue.

The formula determines companies' tax liability based on where they make their sales instead of where they operate or employ workers.

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