CALIFORNIA BUDGET PROJECT

policy points

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WHO PAYS TAXES IN CALIFORNIA?

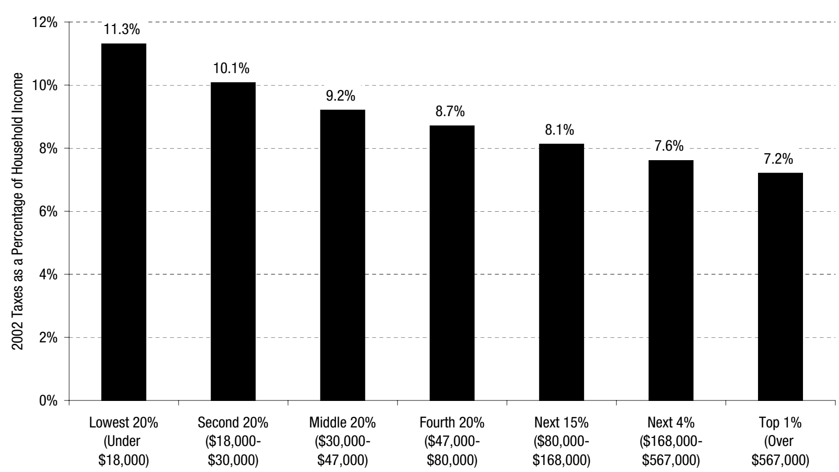
- **How Much Do Californians Pay in State and Local Taxes?**

Measured as a share of family income, California's poorest families pay the most in taxes. The poorest fifth of the state's non-elderly families, with an average income of $11,100, spent 11.3 percent of their income on state taxes in 2002. In comparison, the wealthiest 1 percent, with an average income of $1.6 million, spent 7.2 percent of their income on state taxes.[1]

The total tax burden on California's families is a function of the state's highly progressive personal income tax and regressive sales and excise taxes. Higher income households pay more in income taxes. Lower income households pay more in property taxes. Households also bear a share of the burden of taxes imposed on business through higher prices and reduced corporate earnings. Higher income households pay a relatively greater share of the corporate income tax, while lower income households pay a greater share of businesses' sales and excise tax burden.

A single mother with one child will have no 2005 state income tax liability unless she earns over $36,658. A family of four with two children will have no 2005 income tax liability unless their income exceeds $45,658.[2] California's high income tax threshold is attributable to the increases in the dependent credit enacted in 1997 and 1998. The state's high tax threshold also means that low- to moderate-income families receive minimal or no benefits from the state's various credits, deductions, and other tax benefits, since they have little or no tax liability to offset.

Lowest-Income Households Pay the Largest Share of Their Income in State and Local Taxes



Note: Calculated for non-elderly, married couples. Includes offset for federal deductibility of state taxes.
Source: Institute on Taxation and Economic Policy

How Much Does the "Average" California Family Earn?

California's 2004 median household income, the income where half of all households earned more and half earned less, was $49,894.[3] The median income for all California personal income taxpayers was $32,242 in 2003, the most recent year for which data are available.[4] The 2003 median income of married taxpayers filing joint returns was $58,653.

Who Pays the Corporate Income Tax in California?

Small businesses pay a very small share of the corporate income tax. While 589,310 corporations filed tax returns in 2003, the 1.7 percent with taxable incomes of $1 million or more paid 82.2 percent of the tax.[5] The most costly corporate tax credit is the Research and Development (R&D) Credit. In 2003, 1,349 corporations claimed $552.2 million in R&D credits, averaging $409,327 per firm.[6] Overall, relatively few corporations claim the various state tax credits. In 2003, fewer than 3 percent of the state's corporations claimed any of the state's tax credits.

Is California a High Tax State?

California is a moderate tax state. In 2004-05, California ranked 12th among the 50 states with respect to state taxes as a percentage of personal income. The state ranked 18th with respect to total "own source" revenues – the broadest measure of state and local revenues – raised by state and local governments in 2001-02, the most recent year for which data are available. California ranks relatively high with respect to personal and corporate income tax collections, although the available data fail to take into account the relatively modest growth in revenues in recent years. The state ranks relatively low with respect to property, vehicle fuel, and alcoholic beverage taxes.

How Does California Compare?
Revenues as a Percentage of Personal Income

	California Rank	California	US
Total State and Local Own Source (2001-02)	18	15.69%	15.11%
Total State and Local Taxes (2001-02)	14	10.59%	10.32%
State Taxes (2004-05)	12	7.57%	6.50%
State and Local General Sales Taxes (2001-02)	19	2.75%	2.54%
State and Local Property Tax (2001-02)	35	2.66%	3.18%
State General Sales Tax (2004-05)	19	2.30%	2.13%
State Motor Fuels Taxes (2004-05)	45	0.26%	0.35%
State Tobacco Tax (2004-05)	39	0.08%	0.13%
State Alcoholic Beverage Sales Taxes (2004-05)	41	0.02%	0.05%
State Individual Income Tax (2004-05)	5	3.31%	2.22%
State Corporate Income Tax (2004-05)	5	0.67%	0.39%

Source: US Census Bureau and US Bureau of Economic Analysis

How Have California's Tax Policies Changed Over Time?

Over the past two decades, the burden of funding state services has shifted from corporate to personal income taxpayers. The personal income tax is expected to provide 53.2 percent of General Fund revenues in 2006-07, up from 35.4 percent in 1980-81. Corporate tax receipts are expected to provide 10.9 percent of General Fund revenues in 2006-07, down from 14.6 percent in 1980-81. New, increased, and expanded corporate tax breaks and the 1996 corporate rate reduction are responsible for the decline in the share of state revenues provided by the corporate income tax. Tax cuts enacted between 1993 and 2005 alone will reduce 2005-06 state General Fund revenues by $9.9 billion.

Who Doesn't Pay Taxes in California?

In 2003, the most recent year for which data are available, 380,075 taxpayers reported incomes of $200,000 or more. However, 1,659 of these households paid no California personal income tax.[7] How did they do it? The largest tax breaks claimed by "no tax" households include enterprise zone tax breaks, the Manufacturers' Investment Credit, and miscellaneous deductions. The number of high-income, "no tax" returns more than tripled between 1996 and 2003, rising from 510 to 1,659.

Jean Ross prepared this Policy Points. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

[1] Institute on Taxation and Economic Policy Microsimulation Tax Model (January 2003). Reflects offset for federal deductibility.

[2] California Franchise Tax Board. Assumes taxpayers claim the renters' tax credit and do not itemize their deductions.

[3] US Census Bureau. Income reported for income taxpayers excludes that of low-income households who are not required to file tax returns, and includes income from capital gains, which are not included in household income by the Census Bureau.

[4] California Franchise Tax Board, *Annual Report 2004*, p. 109.

[5] California Franchise Tax Board, *Annual Report 2004*, p. 162.

[6] California Franchise Tax Board, *Annual Report 2004*, p. 161. Reflects credits claimed by C corporations.

[7] California Franchise Tax Board, *Annual Report 2004*, pp. 18-19.