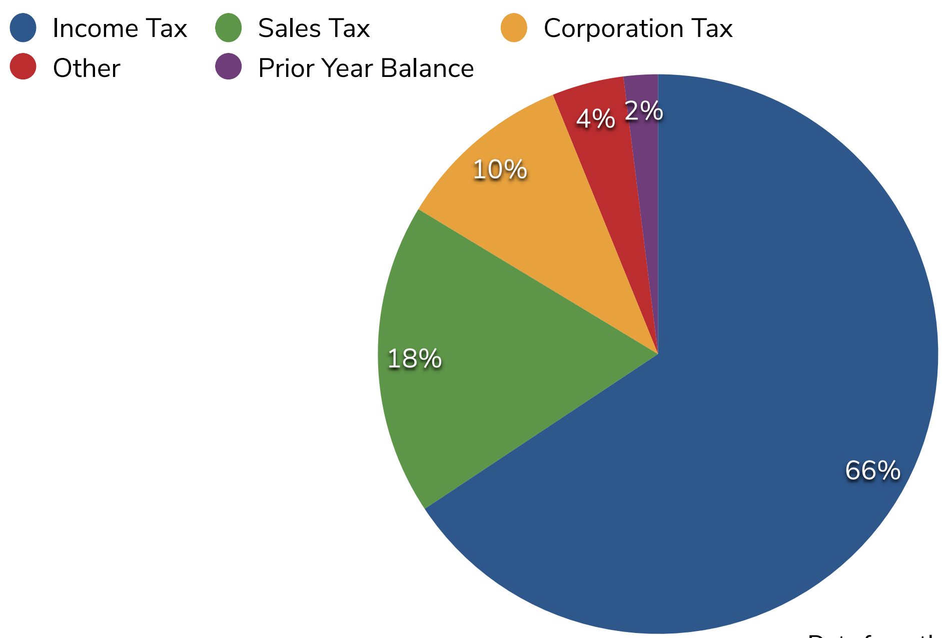
California in Context

GENERAL FUND REVENUE

The California State General Fund has three primary sources of revenue: 1) **personal income taxes (PIT)**; 2) **sales and use taxes (SUT)**; and 3) **corporation taxes**. The largest source by far are personal income taxes (which include capital gains revenue in addition to wages), which are expected to account for two-thirds ($102.9 billion) of General Fund revenue in 2020-21. The second-largest source in 2020-21 are sales taxes, which are estimated to account for 18% ($28.2 billion), followed by corporation taxes (10%, or $16 billion).

The relative share of each source has changed dramatically since 1950-51. Back then, PIT revenue accounted for only 11.3% of General Fund revenue compared to 59% from SUT revenue. Today, the relative shares of those have essentially flipped. Two primary reasons for this shift are: 1) the sales tax in California only applies to goods and not services, and the state's economy has become much more service-based; and 2) the passage of Proposition 30 in 2012, which increased income taxes and created new tax brackets for high-earners, which led to larger tax receipts from the wealthiest individuals. For the 2017 tax year, the top 1% of California earners paid over 47% of the PIT revenue, while households earning $50,000 or less make up nearly 60% of tax filings but paid only 2% of PIT revenue. The state's reliance on PIT revenue in general, and wealthy individuals in particular, makes California's General Fund revenue more volatile than other states.

2020-21 General Fund Revenue = $154.7 billion



Data from the California Department of Finance

The share of General Fund revenue coming from the corporation tax has declined some—from 14.6% in 1980-81—though the overall amount of corporate income paid in taxes has declined greatly due to rate cuts. The rate was 9.6% in 1980, lowered to 9.3% in 1987, before finally being lowered to the current flat rate of 8.84% in 1997, where it has remained. In the early 1980s, corporations paid more than 9.5% of their California-earned income in state corporation taxes compared to just 4.4% in 2016 (latest year for which data are available).

REVENUE KEY FACTS

- ✓ **Income Tax:** California PIT rates range from 1% on the first $8,544 of taxable income to 12.3% on taxable income of $572,981 and above
  - Those with incomes greater than $1 million per year pay an additional 1% surcharge, called the Mental Health Services Tax, which funds mental health services for counties—making the top marginal rate actually 13.3%
- ✓ **Sales Tax:** The current statewide sales tax rate is the highest in the nation
  - Some local jurisdictions also levy their own taxes, which raises it as high as 10.25% and 10.5% in some cities in LA County
  - Four states tie for 2nd-highest statewide rate at 7%: Indiana, Mississippi, Rhode Island, and Tennessee
  - Motor vehicles and parts dealers were the largest sales tax contributor in 2018 (12.7% of all taxable sales in the state)
- ✓ **Corporation Tax:** California's flat rate of 8.84% is the 8th-highest in the nation
  - 44 states levy a corporation tax, with rates ranging from 2.5% in North Carolina to 12% in Iowa on net income greater than $250,000 (IA has a progressive, rather than flat, corporation tax rate)
  - Despite the relatively high rate, California has 53 Fortune 500 companies and is one of only three states with more than 50 (joining New York and Texas)

13.3%
highest PIT rate for >$1m+ earners

7.25%
statewide sales tax rate

NEW IN 2020-21

A measure has qualified for the November 2020 ballot that would require annual reassessment of commercial property (known colloquially as "split roll").

California property taxes are set based on **Proposition 13**, passed in 1978, which sets the property tax rate at 1% of the assessed value when the property was sold. It applies to both residential and commercial properties, but residential property makes up about 70% of property tax revenue.

While the property tax is a local revenue source as opposed to the state General Fund, the amount of property tax generated each year has a substantial impact on the state budget since local property tax revenues allocated to K-14 schools generally offset General Fund expenditures required under Prop 98. Approximately 42% ($33 billion) of 2020-21 property tax revenue will go to K-14 schools in 2020-21.

The LAO estimates the measure would generate between $6.5 billion and $10.5 billion in increased property tax revenues, with the majority being allocated to cities, counties, special districts, and schools.

- Non-residential properties tend to be reassessed less frequently than homes because they are sold less often
- Some corporations use certain types of ownership transactions in order to avoid triggering an ownership change and reassessment

**Data from the Governor's proposed budget, LAO, CalMatters, Tax Foundation—State and Local Sales Tax, and Tax Foundation—State Corporate Income Tax unless otherwise specified.*