AMENDED IN SENATE APRIL 2, 2009

SENATE BILL No. 328

Introduced by Senator ~~Walters~~ *Dutton*
(Coauthor: Senator Harman)

February 25, 2009

~~An act to amend Section 201 of the Revenue and Taxation Code,~~ *An act* relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

SB 328, as amended, ~~Walters~~ *Dutton*. ~~Property taxation.~~ *Flat tax.*

Existing law imposes specified taxes.

This bill would make legislative findings and declarations relating to this state's taxes, and declare the Legislature's intent to eliminate specified taxes and adopt a flat tax, as declared.

~~Existing property tax law provides that all property in this state, not exempt under the laws of the United States or of this state, is subject to taxation.~~

~~This bill would make technical, nonsubstantive changes to this provision.~~

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. (a) The Legislature finds and declares all of the following:

(1) California has the highest personal income and capital gains tax rates in the nation.

(2) California has the 9th highest corporate income tax rate and the 8th highest corporate capital gains tax rate in the nation.

(3) California has the highest gas and diesel taxes in the nation.

(4) Forbes ranks California as the worst state in the nation in terms of business costs.

(5) High taxes negatively impact income and employment growth.

(6) Progressive taxes, economic volatility, high growth rates in government expenditures, and state and local budget volatility are all interrelated.

(7) California's current economic and fiscal crisis is a direct result of the state's tax structure.

(8) These problems could be addressed by completely revamping California's tax code, replacing it with a single flat tax on personal income and business value added.

(9) A flat tax eliminates much of the inefficiency and distortion in the current convoluted tax system by broadening the tax base and sharply reducing marginal tax rates.

(10) A flat tax will lead to a surge in economic growth and an increase in work, savings, and investments. By increasing incentives to engage in productive economic behavior, it will also boost the economy's long-term growth rate and eliminate the need to increase taxes or reduce state services.

(11) A flat tax will reduce the volatility in California's tax revenue stream. The result will be a more stable economy, more stable budget revenues and, subsequently, more stable and predictable state expenditures. Stable budget revenues will eliminate the boom-and-bust cycles that have plagued California's state budget and lead to more effective and efficient government.

(12) A stable tax system that is revenue-neutral would maintain funding for Proposition 98 and allow it to grow over time, in accordance with current law.

(b) It is the intent of the Legislature to do all of the following:

(1) Eliminate the existing state personal, corporate, and sales taxes.

(2) Establish a flat personal income tax and business value added tax at a revenue-neutral rate.

(3) Establish a flat tax that would not impact any other existing revenues, such as local taxes, including sales and property taxes, and state fees, to be calculated as follows:

(A) Income would include income from all sources, including wages, salaries, interest income, dividends, net capital gains (short term and long term), royalties, fees, etc.

(B) Deductions would be allowed for charitable donations, mortgage interest payments, and rental payments for renters.

(C) Receipts of social security, unemployment benefits, and other transfer payments would be specifically designated as tax exempt.

(D) The resultant figure would be the taxable income base.

(4) The business value added tax would be calculated as follows:

(A) For all entities possessing a business taxpaying identifying number, including independent contractors, the tax base would be the total dollar value of all sales during the period less:

(i) All purchases from entities that possess a taxpaying identifying number (including independent contractors).

(ii) All purchases of imported goods with the requisite import taxpaying identifying number.

(iii) Depreciation of pre- flat-rate tax depreciable assets at their regular depreciation schedules.

(iv) Bad debts incurred.

(v) Charitable contributions.

(B) No other deductions would be permitted.

(C) The resultant figure would be the business value added tax base.

~~SECTION 1. Section 201 of the Revenue and Taxation Code is amended to read:~~

~~201. All property in thisstate that is not exempt under the laws of the United States or of thisstate is subject to taxation under this code.~~

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