

AMENDED IN SENATE MAY 18, 2009

AMENDED IN SENATE APRIL 2, 2009

**SENATE BILL**

**No. 328**

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

February 25, 2009

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An act relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

SB 328, as amended, Dutton. 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~~ *establish a flat personal income tax and corporate tax at a revenue-neutral rate.*

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

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

- 1 SECTION 1. (a) The Legislature finds and declares all of the  
2 following:  
3 (1) California has the highest personal income and capital gains  
4 tax rates in the nation.  
5 (2) California has the 9th highest corporate income tax rate and  
6 the 8th highest corporate capital gains tax rate in the nation.  
7 (3) California has the highest gas and diesel taxes in the nation.  
8 (4) Forbes ranks California as the worst state in the nation in  
9 terms of business costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 1 ~~(C) Receipts of social security, unemployment benefits, and~~  
2 ~~other transfer payments would be specifically designated as tax~~  
3 ~~exempt.~~  
4 ~~(D) The resultant figure would be the taxable income base.~~  
5 ~~(4) The business value added tax would be calculated as follows:~~  
6 ~~(A) For all entities possessing a business taxpaying identifying~~  
7 ~~number, including independent contractors, the tax base would be~~  
8 ~~the total dollar value of all sales during the period less:~~  
9 ~~(i) All purchases from entities that possess a taxpaying~~  
10 ~~identifying number (including independent contractors).~~  
11 ~~(ii) All purchases of imported goods with the requisite import~~  
12 ~~taxpaying identifying number.~~  
13 ~~(iii) Depreciation of pre-flat-rate tax depreciable assets at their~~  
14 ~~regular depreciation schedules.~~  
15 ~~(iv) Bad debts incurred.~~  
16 ~~(v) Charitable contributions.~~  
17 ~~(B) No other deductions would be permitted.~~  
18 ~~(C) The resultant figure would be the business value added tax~~  
19 ~~base.~~  
20 ~~(b) It is the intent of the Legislature to establish a flat personal~~  
21 ~~income tax and corporate tax at a revenue-neutral rate.~~