CALIFORNIA VOTERS APPROVED MAJOR TAX INCREASES
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On November 6, 2012, California voters approved two ballot measures that will raise over $7 billion in taxes annually affecting corporations and individuals, while defeating another measure aimed at raising personal income tax rates for education. This article explains the new tax law changes adopted by the statewide electorate.

Governor Jerry Brown was successful in championing the passage of Prop. 30, and hedge fund manager Tom Steyer was persuasive in getting the voters to pass his Prop. 39. Voters did reject the third competing tax measure, Proposition 38.

Prop. 30 - Governor's tax increase measure – PASSED

This measure is intended to provide temporary taxes to fund education and local public safety. Prop. 30 raises the sales / use tax rate by ¼ cent for four years from January 1, 2013 through December 31, 2016.

It also includes higher personal income tax (PIT) rates that will be raised for seven years effective January 1, 2012. The rates for high-income individuals will be:

- 10.3% for singles making $250 – 300,000
- 11.3% for singles making $300 – 500,000
- 12.3% for singles making over $500,000

The additional marginal tax rates increase as taxable income increases. For joint filers, an additional 1 percent marginal tax rate is imposed on income between $500,000 and $600,000 per year, making the total rate 10.3 percent. Similarly, an additional 2 percent marginal tax rate is imposed on income between $600,000 and $1 million, and an additional 3 percent marginal tax rate is imposed on income above $1 million, increasing the total rates on these income brackets to 11.3 percent and 12.3 percent, respectively.

These new tax rates affect about 1 percent of California PIT filers. These taxpayers currently pay about 40 percent of state personal income taxes. The tax rates will be in effect for seven years from January 1, 2012 through December 31, 2018.

The California Legislative Analyst (LAO) estimates $6 billion in average annual revenues through 2016-17 fiscal year under Prop. 30, but those revenues “could change significantly from year to year”. This measure allocates these temporary tax revenues 89% to K – 12 schools and 11% to community colleges. It also contains provisions that:

- Bar use of funds for administrative costs, but provides local school governing boards discretion to decide, in open meetings and subject to annual audit, how these funds are to be spent;
- Guarantee funding for public safety services realigned from state to local governments.

As most know, sales tax rates in California differ by locality. Currently, the average sales tax rate is just over 8 percent. California is believed to have the highest base sales / use tax rate in the nation. A portion of sales tax revenues goes to the state, while the rest is allocated to local governments. The state's General Fund received $27 billion of sales tax revenues during the 2010–11 fiscal year.

The personal income tax is imposed on wages, businesses, investments, and other sources of income of individuals. State PIT rates range from 1 percent to 9.3 percent on the portions of a taxpayer's income in each of several income brackets – referred to as marginal tax rates. Higher marginal tax rates are charged as income increases. The tax revenues generated from this tax—totaling $49.4 billion during the 2010–11 fiscal year—is deposited into the state's General Fund.

In addition, an extra 1 percent tax applies to annual incomes over $1 million (with the associated revenue dedicated to mental health services). Because the rate increases apply retroactively as of January 1, 2012, affected taxpayers likely will have to make larger payments in the final months of the calendar year to account for the full-year effect of the rate increase.

Prop. 39 – Steyer's tax increase measure – PASSED

This measure imposes a mandatory single sales factor apportionment formula with monies dedicated to clean energy and efficiency projects. It requires multistate businesses to calculate their California income tax liability based upon the percentage of their sales in California by repealing existing law giving multistate businesses an option to choose a tax liability formula that provides favorable tax treatment for those businesses with property and payroll outside California. This change in law takes effect for tax years beginning on or after January 1, 2013.

The LAO estimates $1 billion in annual revenue from this measure that will likely grow over time. Under this measure, $500 million is dedicated annually for five years from anticipated increases in revenue for the purpose of funding projects that create energy efficiency and clean energy jobs in California. LAO projects that the remaining funds would likely be spent on public schools and community colleges.

In addition, Prop. 39 establishes a new state fund, the Clean Energy Job Creation Fund, to support projects intended to improve energy efficiency and expand the use of alternative energy. The measure states that the Fund could be used to support: (1) energy efficiency retrofits and alternative energy projects in public schools, colleges, universities, and other public facilities; (2) financial and technical assistance for energy retrofits; and (3) job training and workforce development programs related to energy efficiency and alternative energy. The Legislature will determine spending from the Fund and be required to use the monies for cost-effective projects run by agencies with expertise in managing energy projects.

Prop. 38 – Munger's tax increase measure – FAILED

This measure would have raised all personal income tax rates for the next twelve years with particularly higher tax rates for high income earners. The revenues raised by this measure would have been used to fund education and early childhood programs. The LAO estimated $10 billion in annual revenue from these tax increases under Prop. 38. This measure was defeated by a margin of 28% - 72%.

The measure would have increased personal income tax rates on annual earnings over $7,316 using a sliding scale from .4% for the lowest individual earners to an additional 2.2% for individuals earning over $2.5 million, for the next twelve years. It would have allocated most of the funds to K–12 schools, a portion for repaying the state debt, and a small amount to early childhood programs.