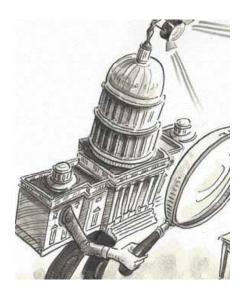
# **CapitolBeat**

by Bruce C. Allen & Jeannie Tindel



Legislation SB 1405 (De León), which will bring California into conformity with the interstate practice laws of 48 other states, was signed by Gov. Brown Sept. 20.

This long-term goal of CalCPA was accomplished through collaborative efforts of the large accounting firms, the Center for Public Interest Law, the California Board of Accountancy and CalCPA members who spent time in Sacramento meeting with their Legislators.

This consensus legislation represents years of negotiation with all stakeholders and we are pleased with this outcome. With this law, CPAs will have now have an easier time providing many services to their clients living or doing business in California.

#### Tax Initiatives on the November Ballot

You will have a lot of important decisions to make this election. In addition to voting for the president and your representatives in Congress and the state Legislature, you will be voting on 11 initiatives. These initiatives will have immense political and policy implications that range from considerable tax policy changes to significant government structural reforms to sharp policy changes.

Two of those initiatives, propositions 30 and 38, each make substantial changes to the tax code to raise revenues for the state.

Proposition 30: Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. This initiative is sponsored by Gov. Brown as a way to add revenue to the state's general fund and offset some of the recent budget cuts. If the proposition passes, it will increase the state sales tax by one-quarter cent for four

# Finally: Mobility

### Governor's Signing of SB 1405 Brings Conformity to California

years: Jan. 1, 2013–Dec. 31, 2016.

Additionally it would increase the personal income tax (PIT) on high-income earners for seven years, starting Jan. 1, 2012, and ending at the conclusion of the 2018 tax year. Since the PIT increase begins Jan 1, 2012, those affected would face larger payments in the coming months to account for the full 2012 PIT increase.

Figure 1 shows the proposed additional marginal tax rate for the affected tax brackets should Prop. 30 pass.

The Legislative Analyst's Office expects the tax increases to add roughly \$6 billion in revenue each year—from fiscal year 2012-13 through fiscal year 2016-17—and smaller revenues in the phase-in period (fiscal year 2011-12) and the phase-out period (fiscal years 2017-18 and 2018-19). In the shortterm, the bulk of the new

Proposition 38: Tax for Education and Early Childhood Programs. This proposition is sponsored by billionaire activist Molly Munger as a method to increase state revenues for education and state programs for children. The new revenue would be generated from an increase in the PIT on most tax brackets for 12 years: 2013-2024.

While much of the revenue would be reserved for schools and early care education programs, about one-third of the revenue in the first four years would go to pay state debts. The Legislative Analyst's Office estimates Prop. 38 will raise roughly \$10 billion a year.

Since these propositions conflict by both making changes to the PIT, only one can take effect. This means that if they both pass, the initiative with the most "yes" votes will prevail and the other initiative would not go into

Figure 1

## **Proposed** Personal Income Tax Increase Under Prop. 30

Single Filer's Taxable Income Less than \$250,000 \$250,000-\$300,000 \$300,000-\$500,000 More than \$500,000 Joint Filers' Taxable Income Less than \$500,000 \$500,000-\$600,000 \$600,000-\$1,000,000

Head-of-Household Filer's Taxable Income Less than \$340,000 \$340,000-\$408,000 \$408,000-\$680,000 More than \$1,000,000 More than \$680,000

**Proposed Additional Marginal Tax Rate** No Change 1% 2%

revenue will be directed toward funding K-12 and community college obligations, while the long-term revenue will be made available for helping balancing the state budget through the 2018-19 fiscal year.

Prop. 30 is also tied to the recently passed state budget for the 2012-13 fiscal year. As part of this budget deal, the governor counted the \$6 billion in new revenue provided by the passage of Prop. 30. Therefore, if Prop. 30 fails, there will be an additional \$6 billion in budget trigger cuts—coming mostly from K-12 education and community colleges.

Prop. 30 would also guarantee that local governments continue to receive an annual share of state tax revenues that were transferred in 2011 as part of a shift of state programs responsibilities to local governments.

effect. Additionally, if Prop. 38 prevails over Prop. 30, the budget trigger cuts associated with Prop. 30 will take effect, despite the additional revenue generated from Prop. 38.

3%

#### Additional Resources

CalCPA has put together a brief analysis of the 11 initiatives that you will be voting on in November at www.calcpa.org/legissues. You can also find a full analysis of each initiative by the non-partisan Legislative Analyst's Office, as well as arguments for and against the initiatives at the Secretary of State's voter guide, www.voterguide.sos.ca.gov.

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