

# Rose Institute: California Initiatives Policy Brief

## Propositions 30 and 38: Competing Proposals to Increase State Taxes

### Overview of Propositions 30 and 38

California faces chronic budget shortfalls, with spending exceeding revenues year after year. Some argue that the state should address this problem by reducing spending, while others argue that the state must increase revenues. Governor Jerry Brown believes that new revenues are needed, but ran for office in 2010 pledging that he would allow the people to vote on tax increases. He is now sponsoring Proposition 30, a measure that would increase the state income tax on top earners and also raise the state sales tax. This measure would raise an estimated \$6 billion per year in new tax revenues. Some proponents of tax increases were dissatisfied with the Governor's plan. One activist, a Los Angeles attorney named Molly Munger, has sponsored and bankrolled a competing tax increase initiative, Proposition 38. This measure would raise income tax rates for most California taxpayers, rather than on top earners only, but would not raise sales taxes. The measure would raise an estimated \$10 billion per year in new revenues and most of these revenues would be directed to public schools. If both of the measures receive a majority of the vote, the one with the larger percentage vote will prevail; if neither win a majority, the Legislature and governor will be forced to find other ways to address the state's budget gap. Governor Brown has signed a budget that would trigger \$5.9 billion in cuts if Prop. 30 fails, but whatever the outcome, the state will need to consider a range of options for addressing long-term fiscal imbalance. This Rose Institute policy brief summarizes the two measures and highlights differences between them.

### **Proposition 30: Sales and Income Tax Increase**

#### Summary

#### Description of Proposed Tax Increases

Proposition 30 seeks to raise approximately \$6 billion per year in new revenues by the following means:

- Increases the *state* sales tax by ¼ cent from 7.25 to 7.5 percent.  
[Note: Because local jurisdictions also impose sales taxes, the overall sales tax is higher than these rates.]
- Raises state income tax rates for taxpayers earning over \$250,000:
  - For those earning between \$250,000 and \$300,000: from 9.3 to 10.3 percent.
  - For those earning between \$300,000 and \$500,000: from 9.3 to 11.3 percent.
  - For those earning between \$500,000 and \$1,000,000 from 9.3 to 12.3 percent.
  - For those earning over \$1,000,000: from 10.3 to 13.3 percent.

[Note: these state income tax rates are in addition to federal income taxes.]

- This tax increase for high earners would last for the next seven years; the sales tax increase would last for four years.
- According to the California Franchise Tax Board, the proposed income tax increases would be apply to the top 3 percent of California taxpayers.

Estimated New Revenues

- Additional state tax revenues of about \$6 billion annually from 2012-13 through 2016-17. Smaller amounts of additional revenue would be available in 2011-12, 2017-18, 2018-19.

Allocation of Revenues

- Allocates temporary tax revenues 89 percent to K-12 schools and 11 percent to community colleges.
- Bars use of funds for administrative costs, but provides local school governing boards. Discretion to decide, in open meetings and subject to annual audit, how funds are to be spent.
- Guarantees funding for public safety services realigned from state to local governments.
- Planned spending reductions of approximately \$6 billion in 2012-13, mainly to education programs, would not take effect.

Leading Proponents	Leading Opponents
<ul style="list-style-type: none"> <li>• Gov. Jerry Brown</li> <li>• California Teachers Association</li> <li>• American Federation of Teachers</li> <li>• California State Council of State Employees</li> <li>• California School Employees Association</li> <li>• League of Women Voters of California</li> <li>• California Democratic Party</li> <li>• California State Sheriffs' Association</li> <li>• California Police Chiefs Association</li> </ul>	<ul style="list-style-type: none"> <li>• Howard Jarvis Taxpayers Association</li> <li>• California Taxpayer Protection Committee</li> <li>• California State Board of Education</li> <li>• Small Business Action Committee</li> <li>• Los Angeles County Board of Education</li> <li>• California Republican Party</li> <li>• Americans For Prosperity</li> <li>• Campaign for Children and Families</li> </ul>

### Arguments in Favor

- Schools and colleges face about \$6 billion cuts without Prop 30. Prop 30 is necessary to prevent those cuts and provide funding for schools. Money can be spent on smaller class sizes, up-to-date textbooks and rehiring teachers
- Guarantees public safety by having funding in the state's constitution, which cannot be touched without voter approval
- Balances the budget and helps to pay down the debt
- Only increases personal income taxes on the highest income earners
- Proposed tax increases are only temporary

### Arguments Against

- No guarantee that the money would be used for schools
- Nothing in Prop 30 reforms the education system to cut waste, eliminate bureaucracy or cut administrative overhead
- Prop. 30 will go to "backfill the insolvent teacher's pension fund"
- Prop. 30 threatens that the voters should vote yes, or else more money will be taken out on schools
- Prop. 30 will drive the highest earners – highest tax contributors – out of the state

## Prop 38: Income Tax Increase

### Summary

#### Description of Proposed Tax Increases

- Increases personal income tax rates on annual earnings over \$7,316 using sliding scale from 0.4 percent for lowest individual earners to 2.2 percent for individuals earning over \$2.5 million.
- This income tax increase would last for 12 years.

#### Estimated New Revenues

- Approximately \$10 billion per year.

#### Allocation of Revenues

- During first four years, allocates 60% of revenues to K-12 schools, 30 percent to repaying state debt, and 10 percent to early childhood programs. Thereafter, allocates 85 percent of revenues to K-12 schools, 15 percent to early childhood programs.
- Provides K-12 funds on school-specific, per-pupil basis, subject to local control, audits, and public input.
- Prohibits state from redirecting funds.

Leading Proponents	Leading Opponents
<ul style="list-style-type: none"><li>• Molly Munger</li><li>• The California State Parent Teacher Association</li><li>• Education Trust-West</li></ul>	<ul style="list-style-type: none"><li>• California Chamber of Commerce</li><li>• California Taxpayer Protection Committee</li><li>• California State Sheriffs' Association</li><li>• The California Republican Party</li><li>• The California Democratic Party</li></ul>

#### Arguments in Favor

- Schools need funding. More than 40,000 educators have been laid off and California now has the largest class sizes in the nation.
- Prop. 38 prioritizes schools. It restores well-rounded education and improves educational outcomes.
- It will generate approximately \$10 billion per year.
- Money can be used to reduce class sizes or restore classes in art, music, math, science, vocational and technical education, and college preparation.
- The Legislature can't touch the money. Prop. 38 prohibits the Legislature from diverting or borrowing the money.
- School districts will be accountable for improvement at each school.

Arguments Against

- Prop 38 raises California personal income tax by as much as 21%, on top of the Federal income tax.
- The politicians and bureaucrats get billions of dollars in new taxes, with virtually no accountability on how the money is spent and how much actually gets into the classroom.
- Instead of creating jobs and improving the economy, Prop 38 will force family businesses to cut jobs, move out of state, or even close.

**Comparisons Between Propositions 30 and 38**

	<b>Prop. 30</b>	<b>Prop. 38</b>
Lead sponsor	Gov. Jerry Brown	Attorney Molly Munger
Sales tax increase	¼ cent (from 7.25 to 7.5 percent)	None
Income tax increase	Applies to high earners (\$250,000 per year and above) (see chart for details)	Applies to most taxpayers (see chart for details)
Duration	Income tax increase: 7 years Sales tax increase: 4 years	Income tax increase: 12 years
Estimated new revenues	\$6 billion/year	\$10 billion/year
Allocation of revenues	Allocates temporary tax revenues 89% to K-12 schools and 11% to community colleges. Guarantees funding for public safety services realigned from state to local governments.	For the first four years, \$6 billion would be used for schools, \$1 billion for child care and preschool and \$3 billion for debt payments. From 2018 to 2015, larger shares go to schools, child care and preschool – and debt payments would decline

**Prop. 30 Income Tax Increases (for single filer):**

Bottom of Income Bracket	Top of Income Bracket	Current Income Tax Rate	Proposed Income Tax Rate	Income Tax Rate Increase	Income Tax Increase (%)
\$0	\$7,142	1.00%	1.00%	0%	0%
\$7,142	\$17,346	2.00%	2.00%	0%	0%
\$17,346	\$27,377	4.00%	4.00%	0%	0%
\$27,377	\$38,004	6.00%	6.00%	0%	0%
\$38,004	\$48,029	8.00%	8.00%	0%	0%
\$48,029	\$250,000	9.30%	9.30%	0%	0%
\$250,000	\$300,000	9.30%	10.30%	1%	10.75%
\$300,000	\$500,000	9.30%	11.30%	2%	21.51%
\$500,000	\$1,000,000	9.30%	12.30%	3%	32.26%
\$1,000,000	\$2,500,000	10.30%	13.30%	3%	29.13%
\$2,500,000	No limit	10.30%	13.30%	3%	29.13%

**Prop. 38 Income Tax Increases (for single filer)**

Bottom of Income Bracket	Top of Income Bracket	Current Income Tax Rate	Proposed Income Tax Rate	Income Tax Rate Increase	Income Tax Increase (%)
\$0	\$7,142	1.00%	1.00%	0%	0%
\$7,142	\$17,346	2.00%	2.40%	0.4%	20.00%
\$17,346	\$27,377	4.00%	4.70%	0.7%	17.50%
\$27,377	\$38,004	6.00%	7.10%	1.1%	18.33%
\$38,004	\$48,029	8.00%	9.40%	1.4%	17.50%
\$48,029	\$250,000	9.30%	10.90%	1.7%	17.20%
\$250,000	\$300,000	9.30%	11.10%	1.8%	19.35%
\$300,000	\$500,000	9.30%	11.20%	1.9%	20.43%
\$500,000	\$1,000,000	9.30%	11.30%	2.0%	21.51%
\$1,000,000	\$2,500,000	10.30%	12.40%	2.1%	20.39%
\$2,500,000	No limit	10.30%	12.50%	2.2%	21.36%

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