

California Taxes Poor At Highest Levels

Low-income families in California pay a higher share of their income in state and local taxes than do the richest Californians, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, California’s tax system is unfair.”

California’s Tax Code: High Taxes on the Poorest

When all California taxes are totaled up, the study found that:

- California families earning less than \$18,000—the poorest fifth of California non-elderly taxpayers—pay 11.3% of their income in California state and local taxes.
- Middle-income California taxpayers—those earning between \$30,000 and \$47,000—pay 9.4% of their income in California state and local taxes (9.2% after taking account of their tax savings from federal itemized deductions).
- The richest California taxpayers—with average incomes of \$1.6 million—pay 10.6% of their income in California state and local taxes, before taking account of the tax savings from federal itemized deductions. After counting the federal offset, the tax rate on the best-off Californians is only 7.2%, the lowest of any income group.

“California’s progressive income tax does not offset the regressivity of its sales and excise taxes, giving the state a tax system where the poor have the highest burden and the rich the lowest,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, rather than leaving families with the lowest incomes with the highest burden, as is the case in California.”

California Progressivity Declines

The study also examined the impact of changes in the regressivity of California taxes since 1989, when the last cycle of state government shortfalls began. The study’s findings include:

- Taxes rose on the poorest Californians, but fell on the richest.
- Progressive changes were offset by increases in excise and sales taxes at both state and local levels.

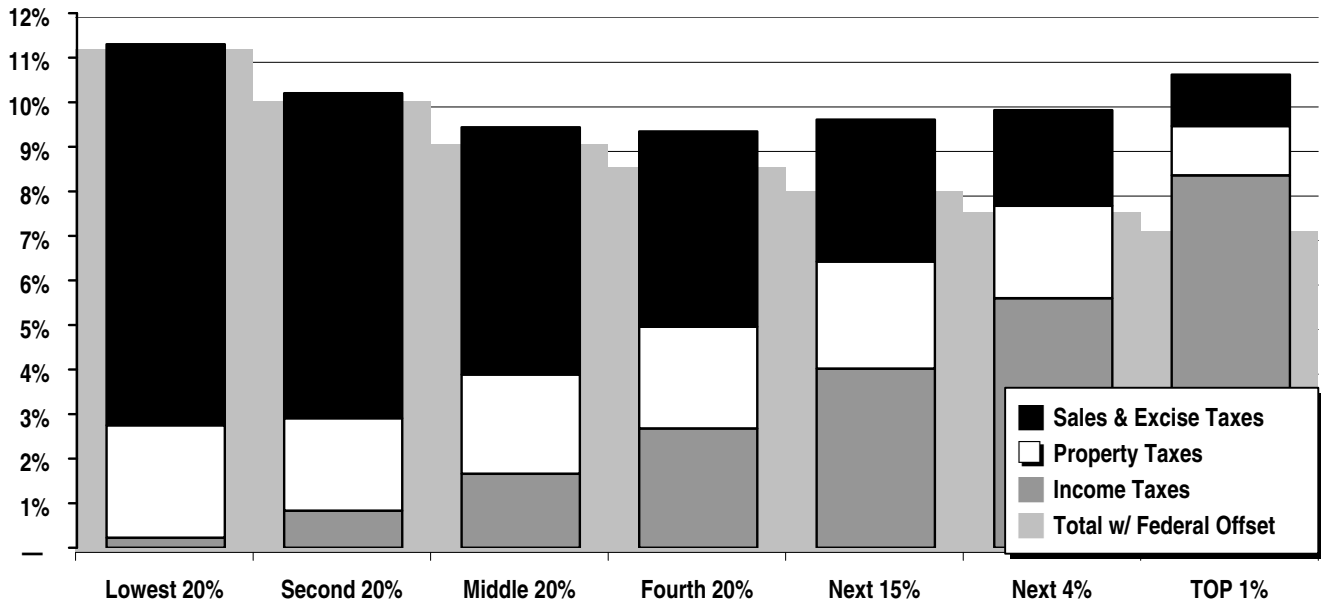
“California undid much of the benefit of its strong progressive income tax changes by hiking sales and excise taxes so comprehensively,” said McIntyre. “As lawmakers consider budget-balancing strategies in 2003, they should remember that their tax system still places the highest tax burdens on low-income taxpayers.”

Two pages of tables detailing the study’s California findings follow

California

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$30,000	\$30,000 – \$47,000	\$47,000 – \$80,000	\$80,000 – \$168,000	\$168,000 – \$567,000	\$567,000 or more
Average Income in Group	\$11,100	\$23,700	\$38,300	\$61,900	\$111,200	\$241,700	\$1,630,000
Sales & Excise Taxes	8.6%	7.3%	5.6%	4.4%	3.2%	2.1%	1.2%
General Sales—Individuals	4.4%	4.1%	3.2%	2.7%	2.0%	1.4%	0.7%
Other Sales & Excise—Ind.	1.4%	0.9%	0.6%	0.4%	0.3%	0.2%	0.1%
Sales & Excise on Business	2.8%	2.3%	1.7%	1.3%	0.9%	0.6%	0.4%
Property Taxes	2.5%	2.1%	2.2%	2.3%	2.4%	2.1%	1.1%
Property Taxes on Families	2.5%	2.0%	2.2%	2.2%	2.3%	1.9%	0.7%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.2%	0.4%
Income Taxes	0.2%	0.8%	1.7%	2.7%	4.0%	5.6%	8.4%
Personal Income Tax	0.2%	0.8%	1.6%	2.6%	4.0%	5.5%	7.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.4%
TOTAL TAXES	11.3%	10.2%	9.4%	9.3%	9.6%	9.8%	10.6%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.7%	-1.5%	-2.2%	-3.4%
TOTAL AFTER OFFSET	11.3%	10.1%	9.2%	8.7%	8.1%	7.6%	7.2%

Note: Table shows 2002 tax law at 2000 income levels.

California Tax Trends

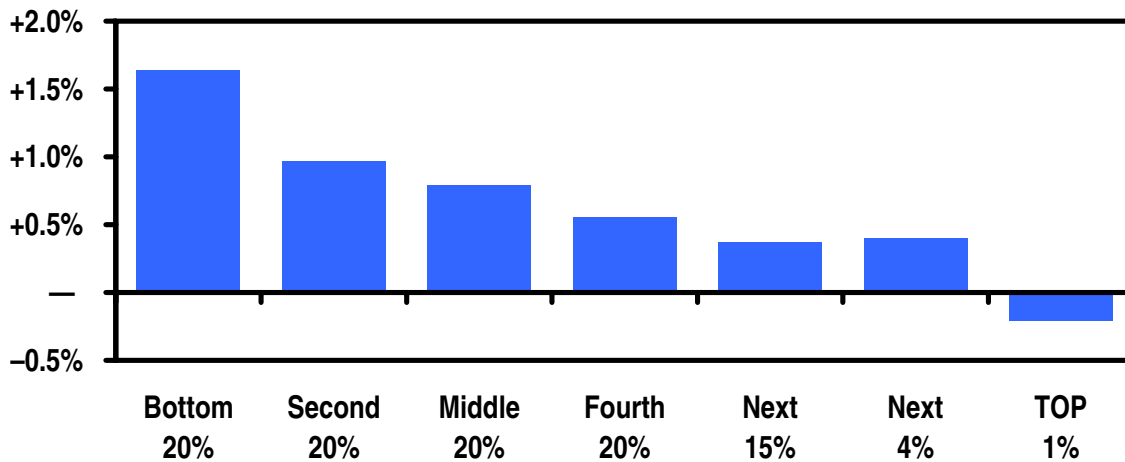
Progressive Features

- ✓ Graduated income tax rates
- ✓ Refundable low income tax credits
- ✓ Income tax indexed for inflation
- ✓ Homestead exemption for property tax
- ✓ Alternative minimum tax

Regressive Features

- ✗ High excise taxes

Changes in Taxes as Shares of Income, 1989 – 2002

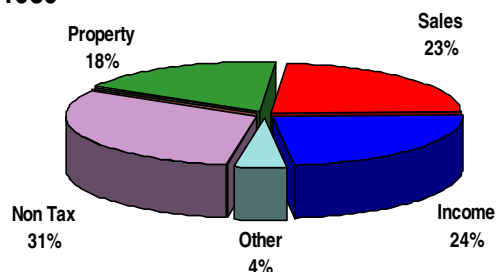


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+1.4%	+1.0%	+0.8%	+0.6%	+0.4%	+0.3%	+0.1%
Property	-0.2%	-0.2%	+0.1%	-0.1%	-0.3%	-0.3%	-0.2%
Income	+0.5%	+0.2%	+0.0%	+0.2%	+0.5%	+0.6%	+1.1%
Federal Offset	-0.0%	-0.0%	-0.1%	-0.1%	-0.2%	-0.2%	-1.3%
Overall Change	+1.6%	+1.0%	+0.8%	+0.6%	+0.4%	+0.4%	-0.2%

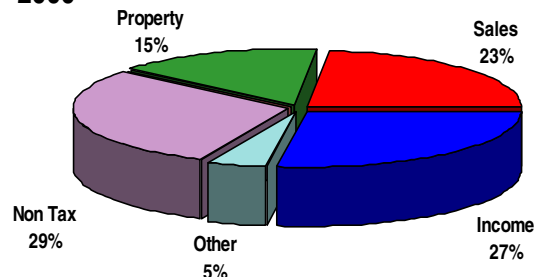
California sales taxes increased at both the state and local level during the 1990s, as did cigarette, gasoline and alcohol excise taxes. For middle and lower income taxpayers, these tax increases and a mostly regressive income tax cut overwhelmed a progressive (but expensive) cut in the Vehicle License Fee (California's car tax).

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census