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How Much Do Californians Pay in State and Local Taxes?

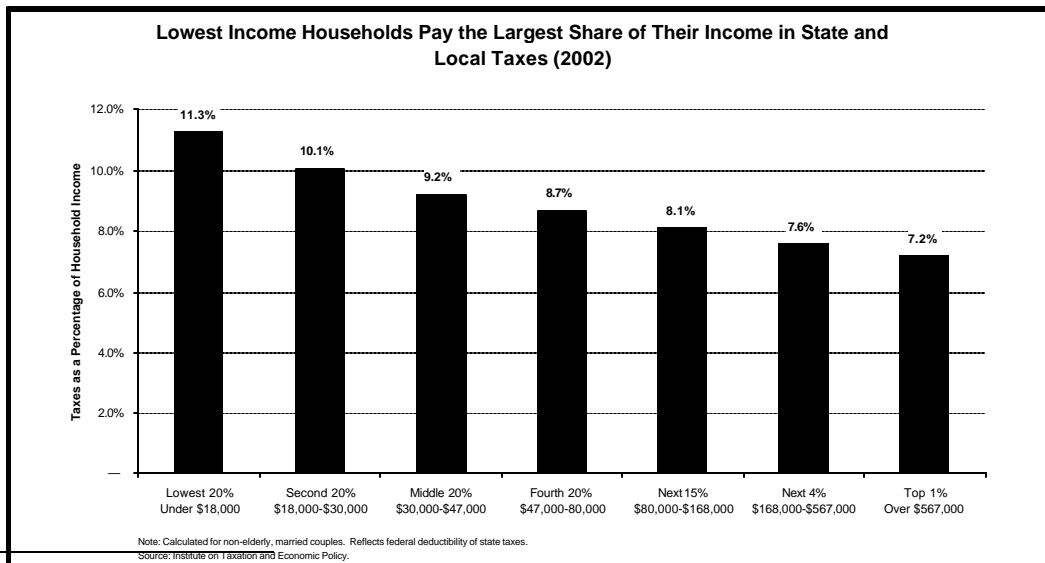
Measured as a share of family income, California’s poorest families pay the most in taxes. The poorest fifth of the state’s non-elderly families, with an average income of \$11,100, spent 11.3 percent of their income on state taxes in 2002. In comparison, the wealthiest one percent, with an average income of \$1.6 million, spent 7.2 percent of their income on state taxes.¹

The total tax burden on California’s families is a function of the state’s highly progressive personal income tax and regressive sales and excise taxes. Higher income households pay more in income taxes. Lower income households pay more in property taxes. Households also bear a share of the burden of taxes imposed on business through higher prices and reduced corporate earnings. Higher income households pay a relatively greater share of the corporate income tax, while lower income households pay a greater share of businesses’ sales and excise tax burden.

A single mother with one child will have no 2004 income tax liability unless she earns over \$35,780. A family of four with two children will have no 2004 state income tax liability unless their income exceeds \$44,480.² California’s high income tax threshold is attributable to the increases in the dependent credit enacted in 1997 and 1998. The state’s high tax threshold also means that low- to moderate-income families receive minimal or no benefits from the state’s various credits, deductions, and other tax benefits, since they have little or no tax liability to offset.

How Much Does the “Average” California Family Earn?

California’s 2003 median household income, the income where half of all households earned more and half earned less, was \$49,300.³ The median income for all California personal income taxpayers was



¹ Institute on Taxation and Economic Policy. Microsimulation Tax Model (January 2003). Reflects offset for federal deductibility.

² California Franchise Tax Board. Assumes taxpayers claim the renters’ tax credit and do not itemize their deductions.

³ US Census Bureau. Income reported for income taxpayers excludes that of low-income households who are not required to file tax returns, and includes income from capital gains, which are not included in household income by the Census Bureau.

\$31,734 in 2002, the most recent year for which data are available.⁴ The 2002 median income of married taxpayers filing joint returns was \$57,996.

Who Pays the Corporate Income Tax in California?

Small businesses pay a very small share of the corporate income tax. While 550,853 corporations filed tax returns in 2002, the 1.6 percent with taxable incomes in excess of \$1 million paid 81.2 percent of the 2002 tax.⁵ The most costly corporate tax credit is the Research and Development (R&D) Credit. In 2002, 1,625 corporations claimed \$450.1 million in R&D credits, averaging \$276,995 per firm.⁶ Overall, relatively few corporations claim the various state tax credits. In 2002, fewer than 2 percent of the state's corporations claimed any of the state's tax credits.

Is California a High Tax State?

California is a moderate tax state. In 2002-03, California ranked 16th among the 50 states with respect to state taxes as a percentage of personal income and the state ranked 18th with respect to total "own source" revenues – the broadest measure of state and local revenues - raised by state and local governments in 2001-02, the most recent year for which data are available. California ranks relatively high with respect to personal and corporate income tax collections, although the available data fail to take into account the relatively modest growth in revenues in recent years. The state ranks relatively low with respect to property, fuel, and alcoholic beverage taxes.

How Have California's Tax Policies Changed Over Time?

Over the past two decades, the burden of funding state services has shifted from corporate to personal income taxpayers. The personal income tax is expected to provide 49.5 percent of General Fund revenues in 2004-05, up from 35.4 percent in 1980-81. Corporate tax receipts are expected to provide 10.9 percent of General Fund revenues in 2004-05, down from 14.6 percent in 1980-81. New, increased, and expanded corporate tax breaks and the 1996 corporate rate reduction are responsible for the decline in the share of state revenues provided by the corporate income tax. Tax reductions enacted between 1997 and 2004 alone will reduce 2004-05 revenues by \$7.2 billion.

Who Doesn't Pay Taxes in California?

How Does California Compare?			
Revenues as a Percentage of Personal Income			
	CA Rank	CA	US Total
Total State & Local Own Source (2001-02) ^a	18	15.69%	15.11%
Total State & Local Taxes (2001-02)	14	10.59%	10.32%
State Taxes (2002-03)	16	6.76%	6.06%
State & Local General Sales Taxes (2001-02)	19	2.75%	2.54%
State & Local Property Taxes (2001-02)	35	2.66%	3.18%
State General Sales Tax (2002-03)	27	2.13%	2.05%
State Motor Fuels Taxes (2002-03)	44	0.27%	0.36%
State Tobacco Tax (2002-03)	32	0.09%	0.13%
State Alcoholic Beverage Taxes (2002-03)	39	0.02%	0.05%
State Individual Income Tax (2002-03)	8	2.79%	2.02%
State Corporate Income Tax (2002-03)	6	0.59%	0.32%

^aTotal Own Source revenues, which excludes federal government transfers, is the broadest measure of state and local government revenues.

Source: US Census Bureau

⁴ California Franchise Tax Board, *Annual Report 2003*, p. 18.

⁵ California Franchise Tax Board, *Annual Report 2002*, p. 142.

⁶ California Franchise Tax Board, *Annual Report 2002*, p. 153. Includes credits claimed by S corporations.

⁷ California Franchise Tax Board, *Annual Report 2002*, pp. 20 and 22.

In 2002, the most recent year for which data are available, 347,189 taxpayers reported incomes of \$200,000 or more. However, 1,334 of these households paid *no* California personal income tax.⁷ How did they do it? The largest tax breaks claimed by “no tax” households include enterprise zone tax breaks, the Manufacturers’ Investment Credit, Los Angeles Revitalization Zone Credits, and miscellaneous deductions. The number of high income “no tax” returns more than doubled between 1999 and 2002.
