



CENTER ON BUDGET AND POLICY PRIORITIES

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CALIFORNIA

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. California is rated as having a significant risk of a structural deficit based on its score of seven on the risk scale for structural deficits.



- In California, the percent of sales subject to sales tax declined by 13.4 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points. Moreover, California's sales tax covers less household services than the average state.
- In California, corporate income taxes as a share of total taxes declined by 7.7 percentage points from 1979-2002, surpassing the US average decline of 5.5 percentage points.
- California could lose an estimated \$2.9 to \$4.6 billion in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.
- During 1994-2000, California reduced vehicle taxes, and more significantly, reduced the top income tax rates to 1991 levels (the top rates had expired). This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.
- California has a constitutional spending limit which restricts growth of appropriations to the growth in personal income and population. It also has limits on local property tax rates and assessment increases. Lastly, California has a supermajority requirement for all tax increases.
- California remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$1.4 billion per year.
- Three other national studies (Hovey 1998, Boyd 2002, and Besendorf & Kottlikoff 2002) found that California has a structural gap.
- Lastly, although this paper did not categorize California as having unusually high spending needs, it does face some spending pressures from: a growing elderly population and the number of non-elderly disabled people.