



State Taxes & Budget

The roads you drive on, the schools in your neighborhood, the water you drink, all cost money – just like your groceries and clothes. Government pays for these services with money they collect from all of us.

Types of taxes

Taxes are money we pay for public services, whether we use them or not. There are three basic kinds of taxes:

- ❶ **A tax on what you earn.** People pay “income taxes” to the U.S. government and also to the state of California. Businesses also pay income taxes. A special kind of income tax is “capital gains” on money you earn from the sale of a house or investment. In California, capital gains are taxed the same as “ordinary” income.
- ❷ **A tax on what you buy.** If you buy a \$40 jacket, a “sales tax” of about 9.5 percent is added to the cost. You pay \$43.80 and that extra \$3.80 goes to state and local government. Different counties have different sales tax rates.
- ❸ **A tax on what you own.** If you own a house, each year you pay a “property tax” that is used for local services like water, fire and police. If you rent, your landlord pays that tax.

Most of the money government uses is collected from taxes.

Government also gets money from:

- fees (like when you visit a state park), and
- bonds which are loans the government takes out to pay for big projects like building bridges, schools or mass transit

How the state budget works

Just as you and your family are responsible for making a spending plan, the people we elect in state government make decisions about how to pay for public services with the money from our taxes. This spending plan is called the state budget. It runs from July 1 to June 30 each year.

Every January, the Governor’s Office proposes a budget plan based on its best estimate of how much money will come in from taxes, fees and also from the federal government. Then the state legislators we elect work on the budget. In California, 2/3 of both the Assembly and Senate need to agree on the budget for it to pass. When the Governor signs it, the state budget becomes law.

You need to know:

- You elect people who are in control of the state budget.
- Most state government spending is for local services and assistance (schools, health care for the poor, etc.).
- 2/3rds of state lawmakers (Assembly and Senate) in each house must agree to pass the budget or to raise taxes.
- There are many proposals to change the state budget process.



Are taxes high or low in California?

Each state has different rates on different kinds of taxes. California has a high income tax rate for high-wage earners and low or no income tax rate for very low-wage workers. Our sales tax rate is higher than most other states but we tax fewer kinds of purchases. Our property taxes are lower than most states.

Current income for our state

The state budget for July 2009 through June 2010 is estimated to spend \$110 billion:

- \$25 billion in "Special Funds" that are required to be used for specific purposes like transportation
- \$85 billion in the State's General Fund

Most of the budget discussions you hear about in the news are about the "General Fund" because those are the monies that can be used for any state purpose. The state also expects to receive and spend \$94 billion in money from the federal (U.S.) government mainly for dedicated purposes.

In the current economic recession, tax income for the state has dropped quite a bit, especially due to lower income tax. This has led lawmakers to make cuts in spending as well as adopt temporary tax increases.

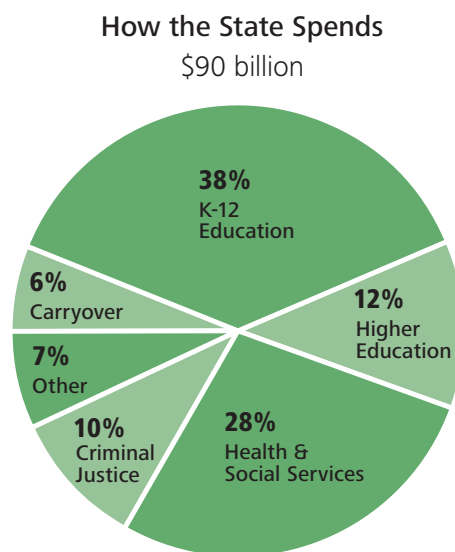
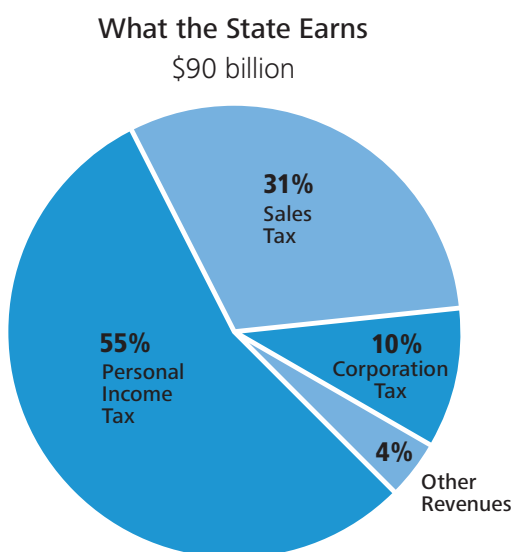
State General Fund Income	2007–08	2008–09	2009–10*
Personal Income Tax	\$54.2 billion	\$43.8 billion	\$48.9 billion
Sales Tax	26.6 billion	24.3 billion	27.6 billion
Corporation Tax	11.8 billion	9.7 billion	8.8 billion
Other Revenues	9.9 billion	6.3 billion	4.2 billion
TOTAL	\$102.5 billion	\$84.1 billion	\$89.5 billion

Source: Legislative Analyst's Office

* budgeted

What we spend it on

Most of the \$90 billion 2009-10 State General Fund spending is for education and social services. Over the past several years, the fastest growing category of the budget is for criminal justice. Two thirds of state government spending is actually for local services such as schools and health care for the poor, rather than for operating costs for state departments.



NOTE: Fall 2009 forecasts show that there will be less tax income this year than hoped, which means that additional steps will need to be taken to balance the 2009-10 budget.

Why does California have a hard time passing its state budget?

The classic way to make a budget is to see how much money you have coming in and then limit your expenses to fit within that amount. If you are spending no more than you take in, then your budget is “balanced.” But in the case of our state, there are laws that require spending on certain kinds of services. Even if income goes down, the state has to still pay for those services unless the law is changed. People expecting the services, such as school students, may increase even while income drops.

To get the 2009-2010 state budget to balance, lawmakers had to make deep cuts to services like schools and health care, and eliminate or reduce government jobs. And they also passed temporary tax increases. Even before the current economic recession, California state government has had difficulty balancing its budget. Here are some of the challenges:

Past decisions by lawmakers: Lawmakers can find it hard to say no to people who want to add programs and also to people who want lower taxes. For example, when our economy was strong in 1998 and 1999, tax cuts were put in place that were hard to undo later. At the same time, new programs were added that many lawmakers did not want to cut when the economy got weaker. That means that they start planning each year with a budget already out of balance, called a “structural deficit.”

Past decisions by voters: Voters have passed many ballot measures that make it much more difficult to get income and spending to balance. For example, they passed Prop 13 which limits property taxes and makes it harder to raise other taxes. On the other hand, they passed Prop 98 which requires a certain formula for education spending that increases when state income goes up. The “Three Strikes and You’re Out” law passed by voters is one of the reasons that prison costs have gone up so much. Some say that voters may not understand the financial impact of this “ballot box budgeting.”

2/3rds must agree: To pass the state budget, two-thirds of the Assembly and State Senate must agree on the budget. California is one of just three states with this requirement. Most other states just need over 50% of their lawmakers to agree. Many people like that it takes 2/3rd to agree even if it slows things down. Some others think it turns the budget process into a long political battle each year that hurts our state.

You can get involved:

- 1 Find out where your tax dollars are going.
- 2 Learn about and decide how to vote on ballot measures that affect the state budget at www.easylvoter.org and www.smartvoter.org.
- 3 Vote for Assembly and Senate representatives who agree with what you think the state should and should not spend taxes on.
- 4 Call your Assemblymember or State Senator, write a letter, or send an e-mail, with your point of view about what they are voting on.
- 5 How would you balance the state budget? Take the Next 10 Budget Challenge at www.next10.org.

