



September 7, 2010

69 Days and Counting ...

California is now 69 days into the fiscal year without a state budget - the second longest delay in state history. The longest delay was in 2008 when the Legislature acted on September 19 and the Governor signed the budget on September 23. This Legislature appears to be fighting to be #1.

Over the Labor Day weekend, you may have missed an [article](#) in the Sacramento Bee by reporter Kevin Yamamura: "*Democrats say new tax plan would cut California deficit without raising taxes.*"

The article reports that Democratic leaders Darrell Steinberg and John Perez have tweaked their original tax swap plan to raise state revenues without a net tax increase to any income group. The revised plan still focuses on increasing the income tax and vehicle license fee, while reducing the state sales tax rate. The net result is higher state tax receipts but lower federal tax burden on each income group.

Under this newest proposal, the vehicle license fee would remain at 1.15 percent, and income tax brackets would be consolidated from the current six into four. The state sales tax rate, then, would be reduced in fiscal year 2011-12 to 3.58%. (No, that's not a typo - the state's sales tax rate was carefully calculated down to the hundredth of a percentage point.)

To many, this construct may still seem like fuzzy math and the net result is an increase in taxes. But balancing out federal tax liability does allow for an increase in state taxes with no net increase on individual tax payers. A lowering of the state's sales tax rate should stimulate economic activity and create jobs. In addition, California's historical position as a tax contributor to the rest of the nation would be reduced through increased federal tax deductions.

CSAC will continue to monitor any and all activity in the Capitol and will report developments to California counties as they occur.

Paul McIntosh
Executive Director
California State Association of Counties
1100 K Street, Suite 101
Sacramento, CA 95814
(916) 327-7500 Ext. 506
www.csac.counties.org

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