



State Taxes & Budget

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

Types of taxes

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

- 1) **A tax on what you earn.** Both people and businesses pay “income taxes” to the U.S. government and also to the state of California. “Capital Gains Tax” is an income tax on profit you earn from the sale of an investment such as shares of stock. In California, capital gains are taxed the same as “ordinary” income.
- 2) **A tax on what you buy.** When you buy a \$40 jacket, a “sales tax” of about 8.5 percent is added to the cost. You pay \$43.40 and that extra \$3.40 goes to state and local government. Different counties have different sales tax rates.
- 3) **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 schools, fire and police. If you rent, your landlord pays that tax. Property tax is also paid on business property.

Most of the money government uses is collected from taxes.

Government also gets money from other sources including:

- Fees, collected when you use a service like visiting a state park
- 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 a family is responsible for making a spending plan, the people we elect in state government make decisions about what public services the government should provide and how to pay for these services with the money from our taxes. This spending plan is called the state budget. The budget is for twelve months, starting on July 1 each year.

Every January the Governor’s Office proposes a budget plan based on best estimates of how much money will come in from taxes, fees and also from the federal government. State legislators create their own versions of the budget. Then the legislature and Governor work together to come up with a budget that a majority of legislators will vote for and the Governor will sign. After the Governor signs the state budget, it becomes law.

You need to know:

- As a voter, you elect people who are in control of the state budget.
- Most state government spending pays for local services and assistance, such as public schools, health care for the poor, etc.
- More than half of state lawmakers in each house (Assembly and Senate) must agree in order to pass the budget.
- It takes $\frac{2}{3}$ of state lawmakers in each house to increase state taxes.



Are taxes high or low in California?

Each state has different rates on different types 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.

Income for our state

The initially proposed California state budget for 2016–2017 has estimated spending of:

- \$49.9 billion in “Special Funds” that are required to be used for specific purposes like transportation
- \$122.6 billion in the State’s General Fund

Most of the budget discussions you hear are about the “General Fund” because it contains the monies that can be used for any state purpose. The state also expects to receive substantial grant funds from the federal (U.S.) government, mainly for specific purposes such as health care for low-income people (these amounts are not included in the above Special Funds or General Fund amounts discussed here).

The amounts in the table at right for 2015–2016 reflect the approved budget for the fiscal year ending June 30, 2016; the amounts shown for 2016–2017 reflect the Governor’s initial budget proposal for the fiscal year beginning July 1, 2016 and ending June 30, 2017 (not yet approved by the State Legislature).

State General Fund Income	2015-2016	2016-2017
Personal Income Tax	\$81.3 billion	\$83.8 billion
Sales Tax	25.2 billion	25.9 billion
Corporate Tax	10.3 billion	10.9 billion
Other	3.5 billion	3.5 billion
Subtotal	\$120.3 billion	\$124.1 billion
Transfer to Rainy Day Fund	-2.8 billion	-3.5 billion
TOTAL	\$117.5 billion	\$120.6 billion

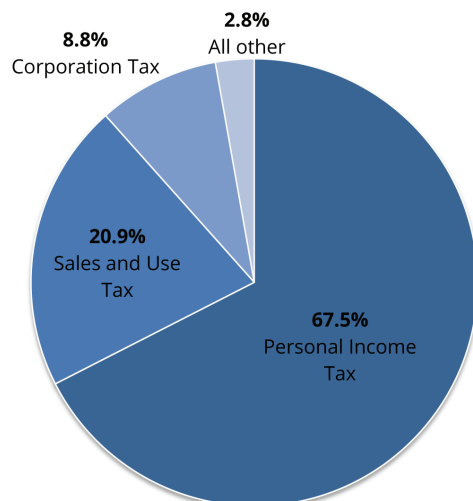
Source: CA Department of Finance: Summary Charts, pg. 16

What we spend it on

Two thirds of state government spending is for local services, such as schools and health care for the poor, rather than for operating costs for state departments. Over three quarters of the 2016–2017 General Fund spending is for education and social services. The state spends almost as much on criminal justice as it does on higher education.

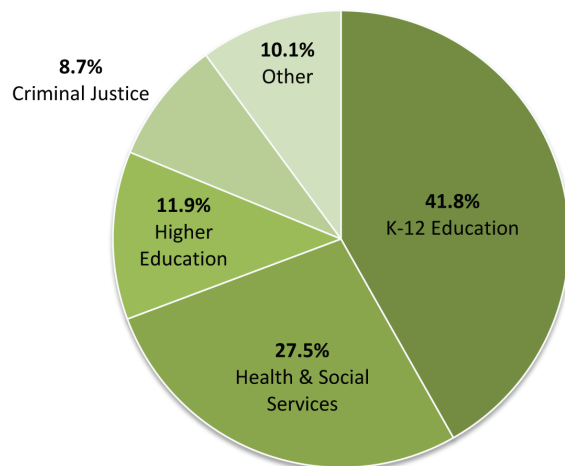
What the State Collects

\$120.6 billion



How the State Spends

\$122.6 billion



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

A familiar way to make a budget is to see how much money is 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 government, there are laws that require spending on certain kinds of services such as education and health care for low-income people. Even if income goes down, the state is required to pay for those services.

To get the state budget balanced, lawmakers may have to make cuts to services, eliminate or reduce government jobs, or pass tax increases. Even before the recent economic recession, California’s state government has had difficulty balancing its budget. Here’s why:

Past decisions by lawmakers: Lawmakers have said “yes” to people who wanted to add programs and also to people who wanted to 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 weakened. That means that state officials start planning each year with a budget that is already out of balance. This is called a “structural deficit.”

Past decisions by voters: Voters have passed many ballot measures that make it very difficult for state lawmakers to get income and spending to balance. For example, in 2010 voters passed Prop 26, which makes it harder to raise revenues because more of these proposals would require approval by 2/3rds of the Legislature or local voters. On the other hand, they passed Prop 98, which requires that a certain amount of the budget be spent on K-12 education and community colleges. In addition, the “Three Strikes and You’re Out” law that was passed by voters is a leading cause of increasing prison costs. Often called “ballot box budgeting,” these decisions by voters have limited taxes, but increased the amount of money the state must spend. This makes it hard to balance the budget.

What about the rainy day fund?

As a result of Proposition 2, approved in 2014, the state is required to deposit a portion of its revenue in an expanded rainy day fund each year, with withdrawals limited to years in which there are steep downturns.

You can get involved:

- Find out where your tax dollars are going.
- Learn about ballot measures that affect the state budget at **votersedge.org/ca**
- Vote for Assembly and Senate representatives who agree with what you think the state should and should not spend taxes on.
- Call your Assembly Member or State Senator, write a letter, or send an e-mail, with your point of view about what they are voting on.
- How would you balance the state budget? Take the Next 10 Budget Challenge at **budgetchallenge.org**.

