



## 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.** People pay “income taxes” to the U.S. government and also to the state of California. Businesses also pay income taxes. “Capital Gains” is a special kind of income tax on money 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 how to pay for public 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 California state budget for July 2011 through June 2012 is estimated to spend \$120 billion:

- \$34 billion in “Special Funds” that are required to be used for specific purposes such as transportation
- \$86 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 \$79 billion in money from the federal (U.S.) government, mainly for specific purposes such as health care for low-income people.

State General Fund Income	2009–10 <sup>1</sup>	2010–11 <sup>2</sup>	2011–12 <sup>3</sup>
Personal Income Tax	\$44.9 billion	\$50.0 billion	\$50.4 billion
Sales Tax	26.7 billion	27.1 billion	19.0 billion
Corporation Tax	9.1 billion	10.0 billion	9.0 billion
Other Revenues	6.3 billion	7.7 billion	10.1 billion
<b>TOTAL</b>	<b>\$87.0 billion</b>	<b>\$94.8 billion</b>	<b>\$88.5 billion</b>

Source: CA Department of Finance

<sup>1</sup>actual

<sup>2</sup>estimated

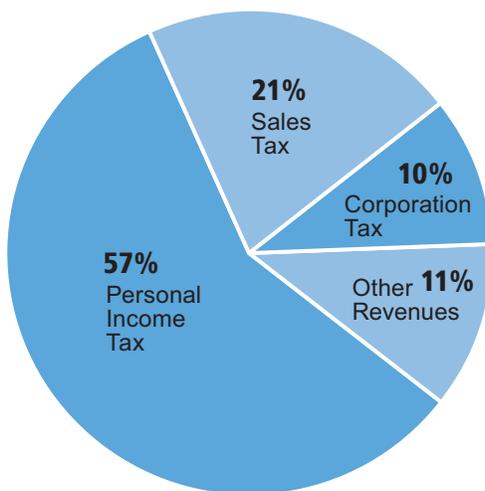
<sup>3</sup>budgeted

## What we spend it on

Over three quarters of the 2011-12 State General Fund spending is for education and social services. The state spends almost as much on criminal justice as on higher education. 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.

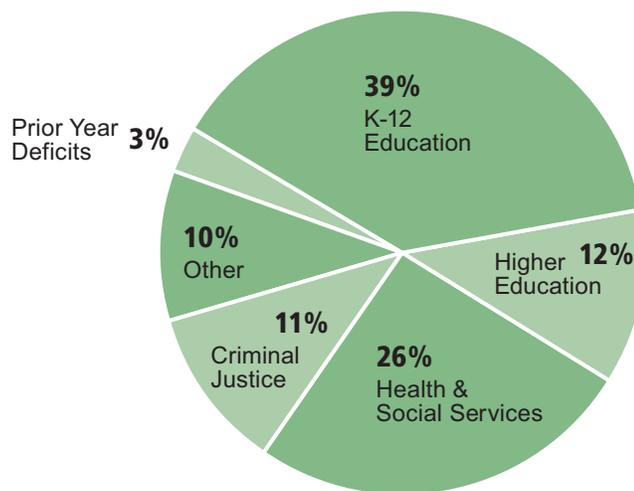
### What the State Earns

\$88.5 billion



### How the State Spends

\$88.5 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. The problem gets worse when the number of people expecting the services, such as school students, increases while state income drops.

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 are some of the reasons:

**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.

**You can get involved:**

- 1 Find out where your tax dollars are going.
- 2 Learn about ballot measures that affect the state budget at [www.smartvoter.org](http://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 Assembly Member 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](http://www.next10.org).

