California’s Gov. Schwarzenegger backs new tax breaks for the rich

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10 November 2009

Last month, the Commission on the 21st Century Economy, created by California Governor Arnold Schwarzenegger and members of the Democrat-controlled state legislature, proposed an overhaul of the tax code that would benefit the state’s most affluent layers and big business.

The proposed changes are being advanced in the midst of the worst economic crisis in California since the Great Depression. Despite slashing upward of $15 billion from the state budget in July, California’s treasury is once again more than a $1 billion in the red due to a fall-off in tax receipts as a result of the economic meltdown. With an official jobless rate of 12.2 percent, the state now ranks fourth-highest in the nation for unemployment.

Under the pretext of stabilizing the state’s finances, this desperate situation is being taken advantage of by the political establishment and corporate interests to offload an even greater portion of the tax burden onto the working class, professionals, and smaller businesses. As commission chairman Gerald Parsk observed in an October 1 article published in *Capitol Weekly*, a Sacramento newspaper, “Sometimes crisis can serve as a catalyst for real reform.”

The commission’s plan consists of three proposals: reducing the number of personal income tax brackets, eliminating the corporate tax and the state’s sales tax and replacing them with a tax on production inputs, similar to a consumption tax, and creating a “rainy day” fund to absorb any future budgetary surplus.

First, the commission proposes an alteration to the current income tax rate plan, reducing the number of tax brackets to two from seven, essentially instituting a version of the reactionary “flat tax” plan pushed by ultra-right forces for years.

The current system taxes a rate of one percent on those earning up to $7,168; two percent on those earning between $7, 169 and $16,994; four percent on those earning between $16,995 and $26,821; 6 percent on those earning between $26,822 and $37,233; 8 percent on those earning between $37,234 and $47,055; 9.3 percent on those earning between $47,056 and $1,000,000; and 10.3 percent on those earning anything above $1,000,000.

Based on the new plan, joint-filers earning anything up to $56,000, or single-filers earning up to $28,000, will pay a tax rate of 2.75 percent, while those earning anything above $56,000 will pay a tax rate of 6.7 percent. In other words, the most impoverished sections of the working class—those making under $16,994—will have to pay more taxes, while those making above $1 million will see a tax break of approximately 4 percent. This will result in tens of thousands of dollars in yearly savings for these individuals. For example, a person making $1,000,000 a year in income will see a decrease of approximately $36,000 in paid taxes.

The second proposal calls for eliminating the corporate income tax and reducing the state’s sales tax from 8.25 to 3.25 percent over the next five years. This net five percent reduction represents that portion of the state tax that goes to the state’s general fund.

To account for the lost revenue, the state would instead create a Business Net Receipts Tax (BNRT) of 4 percent, which would tax all types of businesses, including corporations, pass-through entities, and sole proprietorships. The BNRT would tax businesses on what they produce and the services they provide. The tax would also affect companies that do business in California, but are not physically present in the state.

This will be a boondoggle for larger companies, which will stand to benefit from the elimination of the corporate income tax, which is currently 8.8 percent, and its replacement with the lower BNRT. In contrast, smaller companies will be hit with higher taxes, a cost that will likely be passed on to consumers.

The third proposal outlined by the commission calls for the creation of a "rainy day" fund that would set aside 5 to 12.5 percent of the state's general fund for times of budget deficit when the state's revenue does not meet that of the previous year. The "rainy day" fund essentially guarantees that even should the California treasury again experience a surplus, whatever cuts in social services and programs are currently implemented will still remain in effect, as excess funds must be channeled into a "rainy day" savings account as opposed to being used to finance new programs. This measure, which has also long been sought by the political right, is a way of creating permanent austerity conditions in the state.

Schwarzenegger endorsed the commission's recommendations and said he would call the legislature into a special session to consider them. The governor told *Capitol Weekly* that if the plan came to him in a form of a bill, he would immediately sign the latter.

Unlike most changes to the state tax code which require a two-thirds majority, the legislature can approve this new tax plan with a simple majority vote. The new plan would then be instituted in 2012 and would be implemented in stages over the next five years.

Assembly Speaker Karen Bass, a Los Angeles Democrat, claims credit for calling for the creation of the commission. In response to its anti-working class proposals, she thanked "the members of this commission for their hard work and dedication in addressing such a complicated, multilayered problem. They have all made many personal and professional sacrifices in taking on this challenge, and the State of California owes them our gratitude." Whether or not the commission's proposals become law at this point, they indicate the general direction of government policy in California and throughout the country.

Indeed, commission members made it clear that their intention was to establish a precedent in restructuring the tax code that could be picked up and instituted elsewhere. The commission claims that if passed, the new tax plan might "serve as a blueprint for every state taxing jurisdiction in the nation."

While the Obama administration has not commented on the commission proposals, the efforts to restructure the tax code in California should be considered in light of Washington's refusal to bail out the state, either with an infusion of funds similar to that given to Wall Street, or through underwriting securities sold to outside investors.

Instead, Obama's Treasury Secretary Tim Geithner has insisted that the state needs to take measures to "restore its creditworthiness." The massive cuts in public education and social programs recently passed by the state legislature were means by which the ruling elite in California met this demand.