United Californians for Tax Reform

Eileen Roush
Senior Consultant
Assembly Revenue and Taxation Committee
Capitol Bldg. # 4121
Sacramento CA 95814
Jan 7, 2001
Subject: Review of Tax Expenditures

Dear Ms Roush; In examining The Tax Expenditure Report for the Year 2001-2002 Prepared by the Department of Finance We have found a number of errors and omissions in Table 3 page 10 which should be addressed before any legislation is contemplated. for example:

CORRECTIONS AND COMMENTS

1 The Home mortgage interest deduction is overstated by 250% A more accurate figure would be $1,410 million rather than the $3,200 million depicted in table 3. This Error is hard to explain considering that an independent analysis verifies the accuracy of the cost of the real estate and othe tax deductions, as well as the contributions to self employed retirement plans and to IRA's. The exemption Credit for Senior Citizens also seems accurate.

2 While the direct cost of Defined Contribution Pension plans are accurate, their true cost is negligible considering that these plans merely defer taxes, not eliminate them. Today these plans pay out neai as much as social security and are fully taxable. Any promised increase in revenue from these sour are an illusion and would be unfair to those who save for their retirement years.

3 The Exclusion of Social Security Benefits from taxation by the State of California constitutes a very sizable benefit to our Senior Citizens and may negate the need to continue the senior tax credit.

4 The exclusion of pension contributions can be considered another form of tax deference rather than t reduction and should be retained especially as concerns defined contribution pension plans.

5 The Exclusion of employer Contributions to health plans can be considered to be a simple evasion of taxation and could be fairly taxed at the average rate of taxation on the personal income of the worke or instead at 1/2 the rate of taxation of business income as an approximation of the true revenue los

6 The renters credit and the Property tax exemption are intended to protect citizens from excessive property tax levies. The people of California through the initiative prop 13 have given us all a much more valuable protection in its 1% tax rate . Additional tax reduction is unnecessary.

11 Deerspring Irvine CA 92604
Tel 949 552-9174 Fax 949 552-5749 email rolandfly@earthlink.net

United Californians for Tax Reform

OMISSIONS

1 The personal tax credit imposes a loss in revenue of $1100 million. Replacing this credit with an increase in the standard deduction would provide an incentive to simplify taxes for millions of Californians.

2 The child dependent tax credit imposes a loss in revenue of over 900 million. This credit could be replaced with a tax credit for those who place their children in private schools. This change would encourage competition in education while increasing the funding available for public schools. a sizable saving in tax expenditures would result even if the credit were increased to $500 or $1000.

CONCLUSIONS

While the Magnitude of the tax expenditures reported by the Department of finance may be overstated by as much as 50 percent, they present an opportunity to fund major reform and simplification to the California Tax Code. for example;

1 Harmonizing the tax brackets with the federal code. Congress Reserves its highest tax bracket for taxpayers who earn twice the salary of a Congressman ($ 288,000) while the State of California Imposes its top tax bracket at one third the salary of an Assemblyman. Rectifying this obvious injustice without loss in revenue could be achieved by eliminating 4 billion dollars in tax expenditures.

2 Most Californians are prevented from using the 540 2EZ tax form because of unnecessary restrictions carried over from the federal tax code. Removing these restrictions and limiting the tax rate to 2.5% would allow up to 90 percent of our citizens to file on the 540 2EZ Tax Form. This simple one page tax form would require two pages of instructions rather than the 63 pages of unintelligible instructions requi by form 540 Long Form. The expected Loss in revenue could be made up by eliminating 600 million dollars in tax expenditures

3 The standard deduction in California is less than 20% of the California minimum wage Yet the congre allows over 40%. Wouldn't it make more sense to establish the standard deduction at 1/2 the minimum wage and pay for the resulting loss in revenue by eliminating 250 to 300 million in tax expenditures?

FINALLY

This is a wonderful opportunity to reform and simplify the tax code by using the elimination of tax expenditures as a funding mechanism. To simply use this opportunity to raise taxes on the overburdened California taxpayer would be a cruel hoax and unworthy of the members of this committee.

Roland Boucher, Chairman

11 Deerspring Irvine CA 92604
Tel 949 552-9174 Fax 949 552-5749 email rolandfly@earthlink.net