

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Skinner Analyst: Brian Werking Bill Number: AB 1130  
 Related Bills: See Prior Analysis Telephone: 845-5103 Amended Date: May 2, 2011  
 Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** PIT Tax Rates/Increase to 10.3% For Taxable Income Over \$500,000 For Taxable Years Beginning On Or After January 1, 2011

**SUMMARY**

This bill would establish a 10.3 percent income tax rate on taxable income in excess of \$500,000.

**RECOMMENDATION AND SUPPORTING ARGUMENTS**

No position.

**SUMMARY OF AMENDMENTS**

The May 2, 2011, amendments would clarify that the 10.3 percent income tax rate applies to taxable income that exceeds \$500,000. The amendments also provide for indexing of the income bracket amount and add tax levy language.

As a result of the amendments, the department’s “Implementation Considerations,” “Technical Consideration,” and one of the “Policy Concerns” provided in the analysis of the bill as introduced February 18, 2011, and amended March 25, 2011, have been resolved. A new “Technical Consideration” has been indentified, and the remaining “Policy Concern” is included below for convenience. The “This Bill” and “Economic Impact” discussions have been revised. The remainder of the prior analysis still applies.

**EFFECTIVE/OPERATIVE DATE**

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2011.

Board Position:	Asst. Legislative Director	Date
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_____ NAR		
	Patrice Gau-Johnson	05/06/11

## **ANALYSIS**

### THIS BILL

This bill would establish a 10.3 percent tax rate for taxable years beginning on or after January 1, 2011, for individuals, individuals filing as head of household, married individuals/registered domestic partners filing jointly, and married individuals/registered domestic partners filing separately for taxable income over \$500,000 after indexing for the annual fiscal change in the California Consumer Price Index. The \$500,000 tax bracket, after indexing, would apply equally to the taxable income of individuals, individuals filing as head of household, individual income of married individuals/registered domestic partners filing separately, and the joint income of married individuals/registered domestic partners filing a joint return.

### TECHNICAL CONSIDERATIONS

The language of this bill requires the Franchise Tax Board (FTB) to recompute the \$500,000 tax bracket for the first year it is imposed. It is unusual for a defined tax bracket to be indexed in its initial taxable year and may lead to confusion among taxpayers. The author may wish to amend the language to prevent confusion and require the FTB to index the \$500,000 tax bracket beginning in the second year of its imposition. The following amendments are suggested:

On page 3, line 6, replace "2011" with "2012".

On page 4, line 24, replace "2011" with "2012".

## **ECONOMIC IMPACT**

This bill would result in the following revenue gains:

Estimated Revenue Impact of SB 1130 For Taxable Years Beginning On or After January 1, 2011 Enactment Assumed After June 30, 2011 (\$ in Billions)*		
2011-12	2012-13	2013-14
+\$2.3	+\$1.7	+\$1.8

\* This estimate assumes indexing of the 10.3 percent tax bracket begins for taxable years beginning on and after January 1, 2012. (See preceding "Technical Considerations" discussion.)

This estimate does not account for changes in employment, personal income, or gross state product that could result from this bill.

## **POLICY CONCERNS**

This bill would increase the personal income tax rate from 9.3 percent to 10.3 percent on taxable incomes greater than \$500,000, and would apply equally across filing statuses. The application of the increased tax rate regardless of filing status would create a "marriage penalty"<sup>1</sup> and encourage affected married individuals/registered domestic partners to file separately to reduce their overall tax burden. If the author intends to prevent this result, the author may wish to amend the language to equalize the tax treatment of married individuals/registered domestic partners filing separately and married individuals/registered domestic partners filing jointly.

## **LEGISLATIVE STAFF CONTACT**

Brian Werking  
Legislative Analyst, FTB  
(916) 845-5103  
[brian.werking@ftb.ca.gov](mailto:brian.werking@ftb.ca.gov)

Patrice Gau-Johnson  
Asst. Legislative Director, FTB  
(916) 845-5521  
[patrice.gau-johnson@ftb.ca.gov](mailto:patrice.gau-johnson@ftb.ca.gov)

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<sup>1</sup> The "marriage penalty" refers to the higher tax liability of married two-worker couples, compared to their non-married counterparts. The "marriage penalty" was a consequence of the Revenue Act of 1948, when Congress abandoned treatment of the individual as the taxpayer unit and adopted the split-income plan of joint returns for married persons. (Pub. L. No. 471, Ch. 168, §§ 301-305, 62 Stat. 110, 114-16 (codified as amended in scattered sections of 26 U.S.C.)).