

chair **John Chiang**
member **Betty T. Yee**
member **Michael C. Genest**



State of California
Franchise Tax Board

03.04.09

Roland Boucher
United Californians for Tax Reform
11 Deerspring
Irvine, CA 92604

Dear Roland Boucher,

Thank you for your presentation at the Taxpayers' Bill of Rights Hearing held on 12.04.2008. I am responding to the issue you raised at the hearing suggesting an increase to the standard deduction to the same value offered to Federal taxpayers.

Departmental support is not recommended for the suggestion to increase the standard deduction to an amount equal to the Senior Federal standard deduction and eliminate the 1% tax rate. For some taxpayers who have itemized deductions greater than the State standard deduction and less than the Federal standard deduction, the suggestion would ease the burden of filing by allowing the use of the 540 2EZ instead of the 540/540A. However, there are many other factors besides itemized deductions which may continue to require the 540/540A. Such as filing status, number of dependents, amount of income, sources of income, federal/state adjustments, type of withholdings, tax credits, and other taxes.

The suggestion includes elimination of the 1% tax rate in order to make this change revenue neutral. However, this assumption would only be true for those taxpayers whose itemized deductions are currently between the State and Federal standard deduction amounts. For all other taxpayers with itemized deductions greater than the Federal standard deduction, this would result in a tax increase since the tax rate would start at 2% instead of 1% with no corresponding increase in deduction.

Although we haven't gathered statistics on how many taxpayers are impacted or the revenue associated with this, it appears that some taxpayers would have an increased tax liability due to the elimination of the 1% tax rate, allowing other taxpayers to file a simpler return with little or no tax impact. While simplification of paper is important, the current problem is a burden limited to those who paper file, and we don't want to simplify for one group at the expense of another. Also, taxpayers who e-file do not have any greater burden to file under the current scheme. Since we are strategically focused on getting more people to e-file, we do not believe we should sponsor this type of legislative change.

Sincerely,

Steve Sims, EA
Taxpayers' Rights Advocate

cc: Hon. John Chiang, Chair
Hon. Betty T. Yee, Member
Hon. Michael C. Genest, Member