



Analysis of Amended Bill

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Sponsor:

Bill Number: SB 1210

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Introduced: February 15, 2018 &
Amended: March 22, 2018

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Related Bills: See Legislative
History

Subject: PIT Rates & Brackets/8.8 Percent for Income Below \$75,000 and \$100,000/Middle Class Tax Relief Act

Summary

This bill, under the Personal Income Tax Law (PITL), would modify the personal income tax brackets and rates.

Recommendation – No position.

Summary of Amendments

As introduced on February 15, 2018, this bill created alternate PITL tax tables. The March 22, 2018, amendments replaced those tables with the tables discussed in this analysis.

This is the department's first analysis of the bill.

Reason for the Bill

The reason for this bill is to provide tax relief for middle-income taxpayers.

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, 2018.

Federal/State Law

Federal law imposes different income tax rates on individuals ranging from 10 percent to 37 percent.

Existing state law imposes different tax rates under the PITL ranging from one percent to 12.3 percent.¹ There is an additional tax of 1 percent on the portion of a taxpayer's taxable income that exceeds \$1,000,000.²

This Bill

For taxable years beginning on or after January 1, 2018, this bill, under the PITL, would create an alternate tax table for taxable income of \$75,000 or less (\$100,000 or less for Head of Household (HOH)) that would include a top rate of 8.8 percent.

Under the terms of this bill, the following tax table would apply for taxpayers whose taxable incomes are not over \$75,000:

If the taxable income is:	The tax is:
Not over \$8,479	1% of the taxable income
Over \$8,479 but not over \$20,102	\$84.79 plus 2% of the excess over \$8,479
Over \$20,102 but not over \$31,727	\$317.25 plus 4% of the excess over \$20,102
Over \$31,727 but not over \$44,041	\$782.25 plus 6% of the excess over \$31,727
Over \$44,041 but not over \$55,661	\$1,521.08 plus 8% of the excess over \$44,041
Over \$55,661 but not over \$75,000	\$2,450.67 plus 8.8% of the excess over \$55,661

¹R&TC section 17041. Proposition 30, passed by a majority of California voters on November 6, 2012, added Section 36 to Article XIII of the California Constitution, which temporarily increases the top tax rate of 9.3 percent under R&TC section 17041 for taxable year beginning on or after January 1, 2012, and before January 1, 2019. Proposition 55, passed by a majority of California voters on November 8, 2016, extended the increase for taxable years beginning on or after January 1, 2019, and before January 1, 2031. Under both of these propositions, the 9.3 percent tax rate is increased for taxpayers that have taxable income over \$250,000. The increased tax rates are 10.3 percent for the portion of taxable income that is over \$250,000 but not over \$300,000, 11.3 percent for the portion of taxable income that is over \$300,000 but not over \$500,000, and 12.3 percent for the portion of taxable income that is over \$500,000, recomputed under subdivision (h) of Section 17041 of the R&TC.

² R&TC section 17043.

The following tax table would apply for taxpayers filing as HOH whose taxable incomes are not over \$100,000:

If the taxable income is:	The tax is:
Not over \$16,969	1% of the taxable income
Over \$16,969 but not over \$40,205	\$169.69 plus 2% of the excess over \$16,969
Over \$40,205 but not over \$51,829	\$634.40 plus 4% of the excess over \$40,205
Over \$51,829 but not over \$64,143	\$1,099.36 plus 6% of the excess over \$51,829
Over \$64,143 but not over \$75,765	\$1,838.19 plus 8% of the excess over \$64,143
Over \$75,765 but not over \$100,000	\$2,767.94 plus 8.8% of the excess over \$75,765

The new tax brackets and income thresholds of \$75,000 and \$100,000 would be annually adjusted for inflation as provided under current law for taxable years beginning on or after January 1, 2019, and each year thereafter.³

Implementation Considerations

Implementing this bill would require some changes to existing tax forms and instructions and information systems.

Should the actual change in the California Consumer Price Index differ from the estimated growth rate used to develop the proposed 2018 tax tables, the author may wish to amend the bill.

Legislative History

AB 1922 (Fong, et al., 2017/2018), among other changes, would modify personal income tax rates except for the income tax rates set forth in Article XIII, Section 36(f)(2)(B) of the California Constitution. AB 1922 is pending before the Assembly Revenue and Taxation Committee.

³ The brackets are adjusted based on the percentage change in the California Consumer Price Index (CCPI), which is generally available by August.

Other States' Information

The states surveyed include *Illinois*, *Massachusetts*, *Michigan*, *Minnesota*, and *New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Illinois has a flat tax rate of 4.95 percent. *Massachusetts* has a split rate, a flat tax rate of 5.1 percent for most income, and a 12 percent rate for certain capital gains. *Michigan* has a flat tax rate of 4.25 percent. *Minnesota* has a progressive rate with a maximum rate of 9.85 percent. *New York* has a progressive rate with a maximum rate of 8.82 percent.

Fiscal Impact

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified and an appropriation will be requested, if necessary.

Economic Impact

Revenue Estimate

This bill would result in the following revenue gain:

Estimated Revenue Impact of SB 1210 as Amended March 22, 2018
For Taxable Years Beginning On or After January 1, 2018
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$150
2019-2020	- \$100
2020-2021	- \$110

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

Based on output from the Franchise Tax Board's Personal Income Tax micro-simulation model, it is estimated that in taxable year 2018, the alternative tax brackets for incomes below the specified amounts would result in a \$95 million revenue loss.

The tax-year estimates are converted to fiscal years, and then rounded to arrive at the amounts shown in the above table.

Support/Opposition

Support: None provided.

Opposition: None provided.

Arguments

Proponents: Some may argue that a reduction in personal income tax rates would reduce the tax burden on low- to middle-income Californians.

Opponents: Some may argue that reducing rates could require California to reduce services for the most vulnerable citizens.

Policy Concerns

This bill would provide a tax benefit only for individuals in the narrow tax bracket (\$55,661 but not over \$75,000 and HOH \$75,765 but not over \$100,000) that would not be provided to individuals in other tax brackets.

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