Statement of Robert S. McIntyre
Before the California Commission on the 21st Century Economy
Regarding Tax Fairness and Economic Growth
April 9, 2009

I'm Bob McIntyre, director of Citizens for Tax Justice in Washington, D.C. Thank you for the opportunity to speak to you today about possible changes to California's tax system.

My basic message is that a fair tax system is the best way to achieve adequate revenues and promote economic prosperity in California. In contrast, proposals to make the California tax system less fair will not serve the interests of the vast majority of Californians.

One of the fundamental problems with California's tax system is that it fails to provide sufficient revenues to meet the cost of the public services that Californian families and business want and need to prosper. From this perspective, the Commission's mandate to produce revenue-neutral proposals is unfortunate. On the other hand, as I will discuss later, this revenue-neutral constraint has substantial advantages in highlighting the consequences of some misguided tax ideas that have been put forward before the Commission.

My testimony is divided into five parts.

- Part 1 looks at the current distribution of California taxes by income group.
- Part 2 examines how various California taxes have performed over time in generating revenues that keep up with the economy.
- Part 3, the heart of my statement. takes a hard look at the distributional consequences of reducing California income taxes on capital gains.
- Part 4 critiques the weak economic arguments for lowering taxes on capital gains.
- Part 5 offers a few recommendations.

Finally, for those not familiar with me or Citizens for Tax Justice, I've attached a summary of some of our work over the past three decades. It can be found after the conclusion of my testimony (on page 11).

So let's start with where California's tax system is right now.

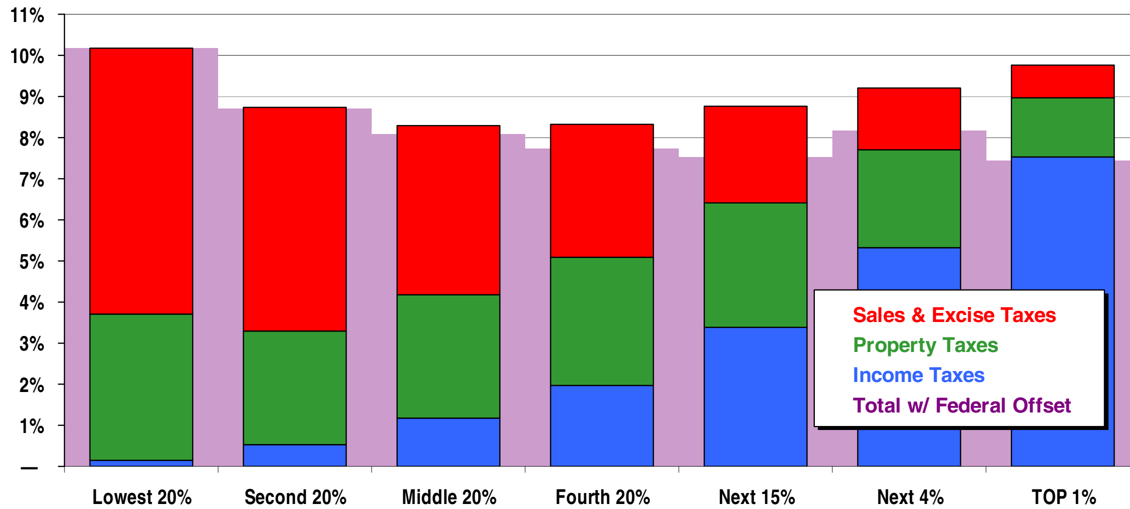
1. Who pays California taxes now? It's not so onerous on the rich as some seem to think.

The table below shows our preliminary analysis of distribution of all California taxes in 2007, plus the effects of the tax changes in the recent budget agreement. Several things stand out:

- California's income tax is quite progressive, as are property taxes on business and the corporate franchise tax.
- But California's other taxes, most notably sales and excise taxes, are extremely regressive.

California State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than $20,000	$20,000 – $34,000	$34,000 – $55,000	$55,000 – $94,000	$94,000 – $208,000	$208,000 – $620,000	$620,000 or more
Average Income in Group	$12,600	$27,100	$43,800	$72,000	$133,000	$321,300	$2,257,000
Sales & Excise Taxes	**6.5%**	**5.4%**	**4.1%**	**3.2%**	**2.3%**	**1.5%**	**0.8%**
General Sales—Individuals	3.2%	2.9%	2.3%	1.9%	1.4%	0.9%	0.5%
Other Sales & Excise—Ind.	0.8%	0.6%	0.4%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.4%	1.9%	1.4%	1.0%	0.7%	0.5%	0.3%
Property Taxes	**3.6%**	**2.8%**	**3.0%**	**3.1%**	**3.0%**	**2.4%**	**1.4%**
Property Taxes on Families	3.5%	2.7%	2.9%	3.0%	2.9%	2.1%	0.7%
Other Property Taxes	0.1%	0.0%	0.1%	0.1%	0.1%	0.3%	0.7%
Income Taxes	**0.1%**	**0.5%**	**1.2%**	**2.0%**	**3.4%**	**5.3%**	**7.5%**
Personal Income Tax	0.1%	0.5%	1.1%	1.9%	3.3%	5.1%	7.1%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.5%
TOTAL TAXES	**10.2%**	**8.7%**	**8.3%**	**8.3%**	**8.8%**	**9.2%**	**9.8%**
Federal Deduction Offset	–0.0%	–0.0%	–0.2%	–0.6%	–1.2%	–1.0%	–2.3%
TOTAL AFTER OFFSET	**10.2%**	**8.7%**	**8.1%**	**7.7%**	**7.5%**	**8.2%**	**7.4%**

Addendum: 2009 budget agreement effects

Tax changes as % of income	+1.0%	+0.9%	+0.9%	+0.9%	+0.7%	+0.6%	+0.5%
New total taxes	11.1%	9.6%	9.2%	9.2%	9.5%	9.8%	10.2%
New total after offset	**11.1%**	**9.6%**	**8.9%**	**8.5%**	**8.2%**	**8.7%**	**7.8%**

- The bottom line, after taking account of the federal tax savings itemizers get from deducting their California income taxes (or in rare case, sales taxes) in computing their federal taxable income, is this: **Californians with the very highest incomes pay a lower effective tax rate than any other income group.**

In other words, those who have the greatest ability to pay taxes, and who arguably get the greatest benefits from living in California, pay the lowest share of their income to support public services — lower than the poorest Californians and lower than middle-income families.

Given these facts, those who want to make California's tax system "less progressive" — or more precisely, *more regressive* — need to make an awfully good case for their position.

2. One source of revenue that has kept up with the economy, and others that haven't.

A reliable tax system is one that over time produces revenues that keep up with a state's economy. From this perspective:

- California's personal income has done well. Over the past decade, personal income tax revenues grew by 129 percent, an annual growth rate of 8.6 percent.
- The yield of California's sales tax has declined over time relative to personal income. This reflects the shift in economic activity from goods to services, as well as the rise of Internet and mail-order sales that escape taxation. Over the past decade, sales tax revenues have grown by only 51 percent, an annual growth rate of only 4.2 percent. That meant that sales taxes fell far short of keeping up with income growth.

Changes in CA Personal Income Tax Revenues

Fiscal years	Change
97/98 to 98/99	+20%
98/99 to 99/00	+11%
99/00 to 00/01	+28%
00/01 to 01/02	+13%
01/02 to 02/03	–26%
02/03 to 03/04	–1%
03/04 to 04/05	+11%
04/05 to 05/06	+18%
05/06 to 06/07	+19%
06/07 to 07/08	+4%
97/98 to 07/08:	
annual rate	+8.6%
total change	+129%

Source: Calfornia Dept. of Finance January 2009

Changes in California Sales Tax Revenues

Fiscal years	Change
97/98 to 98/99	+8%
98/99 to 99/00	+11%
99/00 to 00/01	+1%
00/01 to 01/02	+1%
01/02 to 02/03	+5%
02/03 to 03/04	+6%
03/04 to 04/05	+8%
04/05 to 05/06	+7%
05/06 to 06/07	+1%
06/07 to 07/08	–4%
97/98 to 07/08:	
annual rate	+4.2%
total change	+51%

Source: Phil Spilberg, California Dept. of Finance, Jan. 22, 2009

- California real estate taxes were slashed by Proposition 13 in 1978, which reduced them by more than half as a share of personal income. The property tax has never recovered, even during the boom in home prices prior to the recent economic crisis. Current California real estate taxes are estimated to average only about 0.5 percent of property values. That compares to double that in my home state of Virginia (which is generally considered to be a low-tax state).
- The corporate franchise tax has declined markedly over the past three decades. More recently, i.e., over the past decade, it has had its ups and downs, without any clear trend. But future problems loom due to recently passed legislation that dramatically changed the corporate apportionment formula.

3. California income taxes on capital gains.

A central concern, perhaps *the* central concern, underlying the formation of this Commission is what Gov. Schwarzenegger described as "the volatility inherent in California's personal income tax[, which] is driven significantly by its reliance on capital gains tax revenues."

Unless one worries only about short-term volatility, however, this supposed concern is largely misplaced.

Over any reasonable time period, a progressive income tax, including taxes on capital gains, has been by far the most stable, most growing source of revenues for states. One reason why this is true is that at least since the late 1970s, the rich have been getting much richer, although not by the same amount every year. In addition, even without changes in the distribution of income, a progressive income tax, even one indexed for inflation, rather naturally keeps up with the economy.

In contrast, other taxes don't do so well. As noted above, sales taxes, which are hard to expand beyond taxes on goods, naturally decline as services become a larger share of the economy. Corporate taxes are dependent to a greater or lesser degree upon federal tax policies, including enforcement (or lack thereof) and Congress's affection for loopholes, not to mention the aggressiveness of companies in sheltering income. And except in California, property taxes reflect the real estate market, which has its own substantial volatility.

From 1997 to 2007, capital gains reported on California tax returns grew by 168 percent, an annual growth rate of 10.4 percent. Other income reported by California residents grew by a still healthy 71 percent (an annual growth rate of 5.5 percent).

Growth in Reported Capital Gains & Other Income
Tax Years 1997-2007

	US Totals		California	
	Cap Gains	Other	Cap Gains	Other
1997 to 1998	+25%	+8%	+23%	+9%
1998 to 1999	+22%	+7%	+61%	+11%
1999 to 2000	+16%	+8%	+26%	+13%
2000 to 2001	–48%	+2%	–58%	–1%
2001 to 2002	–27%	–1%	–32%	–1%
2002 to 2003	+23%	+2%	+37%	+2%
2003 to 2004	+61%	+7%	+66%	+7%
2004 to 2005	+41%	+7%	+50%	+6%
2005 to 2006	+17%	+7%	+5%	+7%
2006 to 2007p	+9%	+6%	+8%	+3%
1997 to 2007:				
annual rate	+9.1%	+5.3%	+10.4%	+5.5%
total change	+139%	+67%	+168%	+71%

Sources: IRS and California Franchise Tax Board

So if the income tax, and particularly the capital gains tax, is the one bright spot in California's long-term tax picture, why would anyone want to cut it?

I have no doubt that for many who favor eliminating or sharply reducing California's income tax on capital gains, the real motivation is that they simply favor lower taxes on the rich — even if that means higher taxes on everyone else.

That's because taxes on capital gains and taxes on the rich are largely synonymous.

For America's 400 richest taxpayers, many of whom live in California, almost two-thirds of reported income is capital gains. In fact, these 400 returns had 8.5 percent of all reported capital gains. Should they be exempt from paying taxes on most of their income?

And, of course, lots of income that is called "capital gains" is really ordinary income that has been converted into capital gains to minimize federal taxes. Private-equity managers are one famous example. Should California reward such tax-sheltering by not taxing such income?

In 2007 in California, almost 40 percent of the income reported by the best-off one percent of California residents was capital gains. For the bottom 95 percent, the percentage of reported income that was capital gains was only 1 percent.

More than 80 percent of total income taxes on capital gains were paid by the top one percent of California residents. For this small, wealthy group, income taxes on capital gains represented 44 percent of their total 2007 California income taxes paid.

Of course, there has been some very substantial year-to-year variance in capital gains, mostly reflecting stock and real estate prices. Nevertheless, from 1998 through 2007, capital gains reported on California tax returns on average represented almost 10 percent of the total amount of income reported. Because capital gains are so concentrated at the top income levels, this meant that more than a fifth of all California income taxes over that decade came from taxes on capital gains.[1]

Like most states, California, with no capital gains tax break, has benefitted much more from the growth in capital gains than the federal government, which has frittered away its potential revenue gains from capital gains taxes by sharply lowering the capital gains tax rate in 1997 and 2003. According to the IRS, in 2005, federal tax breaks for capital gains and dividends reduced federal income taxes by $92 billion. That represented a tax cut of more than a tenth of total federal personal income tax revenues after credits.

Net Capital Gains as a % of Total Income Reported by California Residents in 2007

Income Group	Average reported income	% capital gains
Lowest 20%	$ 8,600	0.1%
Second 20%	21,400	0.1%
Middle 20%	36,700	0.3%
Fourth 20%	63,000	0.5%
Next 15%	119,300	2.7%
Next 4%	276,300	13.3%
Top 1%	1,848,000	39.4%
ALL	**$ 72,600**	**12.7%**

Source: ITEP Tax Model, April 2009

Income Taxes on Capital Gains Paid by California Residents in 2007 ($-billion)

Income Group	Tax on capital gains	% of total capital gains tax	CG tax as % of total income tax
Lowest 20%	$ —	—	—
Second 20%	0.0	0%	0%
Middle 20%	0.0	0%	0%
Fourth 20%	0.0	0%	1%
Next 15%	0.5	4%	5%
Next 4%	2.1	14%	19%
Top 1%	11.7	81%	44%
ALL	**$ 14.3**	**100%**	**27%**

Source: ITEP Tax Model, April 2009

[1]This calculation treats capital gains as the last dollars of income received by taxpayers with capital gains.

Over the years, I have heard many arguments for reducing taxes on the wealthy. Some of those who favor such an approach say that such tax reductions will lead to reduced spending on public programs. For example, that was President Reagan's argument when he called for cutting "Congress's allowance." Others maintain that upper-income tax cuts will lead to such a large increase in work effort and investment by the wealthy that the tax cuts will actually allow *more* spending on public programs. Often, these contradictory claims are made by the same people. For example, President Reagan reportedly asserted that he would pay for his huge defense buildup with the "added revenues" generated by his tax cuts.[2]

But the novel assertion that the rich deserve a tax cut because they pay more capital gains taxes in some years than others, well, that's one I hadn't heard before. After giving it due consideration, I find this claim both amusing and completely unpersuasive. Just because capital gains taxes on the rich may vary from year to year doesn't seem like an even slightly plausible argument for exempting a huge chunk of their income from tax.[3]

This Commission's mandate requires it to offset any tax concessions that some of its members might be inclined to offer the wealthy with offsetting tax increases on other Californians. To show just how unhappy the consequences of implementing such a tax redistribution would be for most Californians, the tables on the next page offer three ways it might be accomplished, which illustrate the limited range of options.

Option 1 would exempt capital gains from the California income tax and replace the lost revenues with a 37 percent surtax on the remaining California income tax. Under this scenario, California income taxes would fall by almost a quarter on the best-off one percent, and rise substantially on every other income group. This is the least regressive of my three options.

Option 2 would also exempt capital gains from income tax, but would replace the revenues with about a 40 percent increase in all California state sales and excise taxes. Under this scenario, those in the top one percent would get a net tax cut of almost $67,000 a year, equal to 39 percent of their current income tax. But the bottom 95 percent of Californians would face very large tax increases.[4]

Option 3 would be to replace California's income tax with a flat-rate tax on all reported income, with no adjustments, deductions or credits.[5] Under this scenario, the best-off one percent would see their income tax cut in half — a tax cut of almost $84,000 a year. The bottom 95 percent of Californians, on the other hand, would face huge tax increases.

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[2]I do not mean to pick on President Reagan, who soon saw the error of his ways when his aides' budget and economic projections turned out to be a fantasy. ("You mean Tip O'Neill was right?" Reagan reportedly asked his budget director.) President George W. Bush offered similar contradictory arguments for his upper-income tax cuts, and never relented. And such illogical claims continue to be repeated by many members of Congress to this day.

[3]When Sam Walton, founder of Wal-Mart died, Arkansas's estate tax temporarily went through the roof. But this event did not cause Arkansas' policymakers to bemoan the volatility of the estate tax and call for its repeal.

[4]The distributional effects of a revenue-equivalent broadening of the sales tax base or instituting a tax on carbon or energy, would be roughly similar to those shown in the Option 2 table.

[5]I essentially borrowed this approach from a proposal by the Pacific Research Institute — except that I set the new tax rate to the level required to break even. See the box on page 8 for more details on the PRI proposal.

Possible Revenue-Neutral Options for Eliminating or Sharply Reducing California Income Taxes on Capital Gains

(In 2007, compared to 2007 California law)

OPTION 1
Exempt capital gains from tax, apply 37% surtax to remaining income tax

Income Group	Average '07 Income Tax	Ave. New Inc. Tax	Ave. Tax Change	% change in income tax
Lowest 20%	$ 9	$ 12	**$ +3**	+37%
Second 20%	123	168	**+45**	+36%
Middle 20%	439	598	**+158**	+36%
Fourth 20%	1,271	1,717	**+447**	+35%
Next 15%	4,357	5,646	**+1,288**	+30%
Next 4%	17,285	19,085	**+1,801**	+10%
Top 1%	169,864	130,275	**–39,589**	–23%

OPTION 2
Exempt capital gains from tax, increase state sales & excise taxes by 40%

Income Group	Average Changes In: Income tax	Sales & excise taxes	Total taxes	Tax change as % of '07 income tax
Lowest 20%	$ —	$ +326	**$ +326**	+3,770%
Second 20%	–0	+583	**+583**	+474%
Middle 20%	–2	+720	**+718**	+163%
Fourth 20%	–13	+917	**+903**	+71%
Next 15%	–225	+1,251	**+1,027**	+24%
Next 4%	–3,313	+2,010	**–1,303**	–8%
Top 1%	–74,493	+7,724	**–66,769**	–39%

OPTION 3
Replace current income tax with a 4.65% flat-rate tax on current reported income (AGI before adjustments); no adjustments, deductions or credits

Income Group	Average '07 Income Tax	Ave. New Inc. Tax	Ave. Tax Change	% change in income tax
Lowest 20%	$ 9	$ 399	**$ +390**	+4,511%
Second 20%	123	997	**+875**	+712%
Middle 20%	439	1,705	**+1,266**	+288%
Fourth 20%	1,271	2,930	**+1,659**	+131%
Next 15%	4,357	5,548	**+1,191**	+27%
Next 4%	17,285	12,851	**–4,434**	–26%
Top 1%	169,864	85,941	**–83,923**	–49%

A California Flat-Rate Tax?

My co-panelist's group, the Pacific Research Institute (PRI), has proposed replacing the California personal income tax with a flat-rate personal income tax on all reported income, with no adjustments, deductions or credits.[6] It also proposes an incoherent business tax to replace the corporate franchise tax.[7]

PRI does seem to understand that the rich would pay much less and everyone would pay much more under its plan.[8] That's a feature of all flat-tax proposals, of course. Robert Hall and Alvin Rabushka, authors of the best-known Flat Tax proposal, admit in their 1983 book that their plan "will be a tremendous boon to the economic elite." They also note the "bad news" that "it is an obvious mathematical law that lower taxes on the successful will have to be made up by higher taxes on average people."[9] In 1984, an analysis by the Reagan Treasury Department confirmed this "bad news," and President Reagan rejected the flat tax as far too regressive.

PRI suggests that by slashing taxes on the wealthy, the "volatility" of California's tax system would be reduced. But it then amusingly undermines its own argument with a table showing that of the five states with the *most* "tax volatility," four have no income tax at all.

4. Would capital tax cuts for the rich promote economic growth?

Proponents of cutting capital gains taxes on the rich often argue that such a tax change would lead to a significant gain in economic growth. But careful research by non-partisan analysts shows that there is no connection between lower capital gains taxes and higher economic growth, in either the short run or the long run.

In 2002, the Congressional Budget Office (CBO) evaluated the stimulative effect that several different approaches to cutting taxes might have. It found that "capital gains tax cuts would provide little fiscal stimulus," since most of the benefits of such cuts would accrue to high-income households, households that are more likely to save than spend, when the very aim of such stimulus is to boost consumption.[10] Indeed, the CBO determined that, of the range of

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[6]Pacific Research Institute, "Ending the Revenue Roller Coaster" (May 2008).

[7]The PRI business tax would arbitrarily disallow 75 percent of all business deductions other than for cost of goods sold. Thus, 75 percent of business expenses for wages, interest, rents, and so forth would be non-deductible. The effect of this bizarre proposal would be to expand its corporate tax base almost ten-fold.

Then, however, PRI would allow corporations to deduct dividends paid to shareholders. PRI doesn't seem to realize that corporate dividends paid are far larger than taxable dividends reported on individual tax returns, since most dividends are paid to non-taxable recipients. In 2006, the Bureau of Economic Analysis reports that corporations paid about $700 billion in dividends to U.S. residents (and that U.S. residents received a corresponding amount). But the IRS reports that only $137 billion in "qualified dividends," i.e., dividends excluding money-market interest, were reported on individual tax returns.

[8]The admission is grudging. PRI states: "it is an unfortunate implication of the design of a flat tax that switching to it may allow particular upper-income households to enjoy a reduction in their total tax liability, while a particular working-class household (which owns a home, has children, etc.) may end up with a larger tax bill."

[9]Robert Hall and Alvin Rabushka, *Low Tax, Simple Tax, Flat Tax* (1983). The Hall-Rabushka flat tax would have exempted investment income (capital gains, dividends, interest, etc.), and limited the base of its flat-rate individual tax to wages, health insurance benefits and other earnings. But it would at least have allowed a reasonably large standard deduction and personal exemptions.

[10]Congressional Budget Office, *Economic Stimulus: Evaluating Proposed Changes in Tax Policy*, Washington, DC, January 2002.

approaches it examined, capital gains tax cuts were among the least effective. Similarly, but more recently, Mark Zandi, the Chief Economist of Moody's economy.com, examined a set of proposals Congress could adopt to stimulate the economy in the wake of the credit crisis and the developing recession. He found that each dollar spent by the federal government in making President Bush's dividend and capital gains tax cuts permanent would boost Gross Domestic Product (GDP) by just 38 cents.[11] To put that in perspective, Zandi determined that each dollar dedicated to bolstering the food stamp program, extending Unemployment Insurance, or improving public infrastructure would yield over $1.50 in additional GDP.

Looking at the long-run effects of capital gains tax cuts yields a similar conclusion about the ineffectiveness of capital gains tax cuts in boosting the economy. Research by Len Burman, the director of the joint Brookings Institution-Urban Institute Tax Policy Center, shows that, over the last 50 years, real GDP growth has not varied in response to changes in capital gains tax rates. Even when one accounts for the possible lag between a capital gains rate cut and subsequent economic activity, the relationship between rates and growth is not statistically significant.[12]

Attempting to use capital gains tax cuts to promote economic growth on a state-by-state basis is even more shortsighted.

For one thing, the lion's share of a capital gains tax cut is unlikely to benefit the local economy, since any new investment encouraged by that tax cut could occur anywhere in the United States — or abroad. For example, simply because Rhode Island offers a preferential tax rate for capital gains does not make it more likely that investors living in Rhode Island will steer capital towards companies based in the Ocean State and thus spur in-state economic activity. After all, they will receive the same tax cut whether they invest in companies based in Rhode Island, Long Island or the islands of Indonesia. So they will seek out the highest return on their investment, without regard to location, just as they would in the absence of a state tax break for capital gains.

In addition, part of any capital gains tax break will never end up in the pockets of state residents, nor in the cash registers of local merchants, nor on the balance sheets of local employers. This is due to the interaction between state and federal income taxes. Cuts in state capital gains taxes generally mean lower federal itemized deductions and higher federal income taxes.

It's worth pointing out that California is surrounded by states that (like California) are in horrendous fiscal shape right now, with fiscal 2009 budget deficits as a share of general-fund spending approaching, or in the case of Arizona, actually exceeding, what California just dealt with. Two of these states, Arizona and New Mexico, have explicitly tried to make their economic climate better by cutting top income tax rates in the past decade, and it didn't help.

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[11] Zandi, Mark, "Testimony before the US House of Representatives Committee on the Budget," January 27, 2009.

[12] Burman, Leonard and Kravitz, Troy, "Capital Gains Tax Rates, Stock Markets, and Growth," *Tax Notes*, November 7, 2005.

Likewise, a report released last year by the Center for American Progress and the Economic Policy Institute reviews the impact that "supply-side" tax cuts, chief among which are lower rates for capital gains, have had on the US economy since 1981. It finds that such an approach to tax policy, when evaluated across a range of economic measures — such as the growth in Gross Domestic Product, median household incomes, average hourly earnings, or employment — simply does not work at the federal level. (Ettlinger, Michael and Irons, John, *Take a Walk on the Supply Side*, Center for American Progress and Economic Policy Institute, Washington, DC, September 2008.)

New Mexico also enacted a big capital gains tax cut, and that didn't help either. Still others have adopted a Pacific-Research-style flat tax (Utah, two years ago) or have chosen never to enact an income tax in the first place (Nevada). They're all in the same boat as California with big ongoing deficits.

To sum up, tax breaks for capital gains and tax cuts for the rich in general are simply not effective at promoting economic growth.

5. Conclusion & recommendations

California's tax system needs reform to enhance tax fairness and adequately meet the state's revenue needs in the future. We have several recommendations to help achieve these goals:

1. **California's progressive personal income tax** is the fairest, best-working component of California's tax system. It makes a major contribution toward offsetting the regressivity of California's other major taxes, and because it is deductible on federal tax returns by better-off taxpayers, a substantial portion of the income tax burden is exported to non-Californians. The California income tax should be maintained.

2. **Reforming California's property tax**, even on a revenue-neutral basis, would significantly improve the fairness of California's tax system. The gross unfairness imposing widely different taxes on similar homes and businesses should be gradually ended by repealing the current limits on assessment increases.

3. **California's corporate income** depends to a significant degree upon federal corporate tax policies, including enforcement (or lack thereof) and Congress's affection for loopholes, not to mention the aggressiveness of companies in sheltering income. The Commission should encourage California's representative in Congress to address some of the many problems in the federal corporate tax (as the President and many in Congress are proposing). In addition, the Commission could recommend that California repeal the recent change in California's corporate apportionment formula, which is scheduled to allow companies to choose a sales-only apportionment factor in lieu of the property-payroll-sales formula. This scheduled change is a recipe for new corporate tax-sheltering opportunities and substantial revenues losses in the future, which ought to be stopped before they take effect.

4. **Expanding the base of the California sales tax**, even on a revenue-neutral basis, may slightly curb the continuing long-term decline of the sales tax. It should be kept in mind, however, that expanding the base to cover more services would not significantly reduce the sales tax's inherent regressivity.

5. **To deal with significant year-to-year variations in tax collections**, the Commission should recommend smarter budgeting to deal with short-term volatility in revenues.

About Robert S. McIntyre & Citizens for Tax Justice

Robert S. McIntyre is director of Citizens for Tax Justice. CTJ is a nonpartisan research and advocacy group that fights for tax fairness—at the federal, state and local levels. Widely respected on Capitol Hill as "the average taxpayer's voice in Washington," CTJ was ranked at the top of the Washington Monthly's list of America's "best public interest groups."

Since he began his career in tax reform in 1976, Bob has written hundreds of articles on tax policy issues, in publications like the *Washington Post*, the *New York Times*, the *New Republic*, and academic journals. He also frequently appears on television and radio programs, and is a contributing editor at *The American Prospect*, where he wrote a column, "The Taxonomist," from 2000 through 2006. Bob often advises government officials on tax policy, both informally and in written testimony.

Profiles of Bob have appeared in *The Wall Street Journal* (May 2, 1985), *Student Lawyer* (Dec. 1985), *National Journal* (May 3, 1986), T*he National Law Journal* (July 7, 1986), *Smart Money* (1995), *The New York Times* (May 21, 2001) (which called his analytical work "indispensable"), *The Attleboro Sun* (Sept. 27, 2004) and *The Hill* (Oct. 5, 2004).

A graduate of the University of Pennsylvania Law School (1975) and Providence College (1970) with an LL.M. from Georgetown University Law Center (1976), Bob is a member of the Massachusetts and D.C. Bars. Bob and his wife Nancy, an artist, have two grown children: Molly (who lives in Oakland) and Jake.

For three decades, Citizens for Tax Justice and our research arm the Institute on Taxation and Economic Policy have been at the center of the tax debates in Washington, D.C. and around the nation. In 1992, for example, we did the arithmetic for Bill Clinton and Al Gore's book of campaign tax plans, which was called one of only set of budget promises that actually added up. The best of those proposals were enacted in 1993, and helped lead to a balanced budget and an economic boom in Clinton's second term.

In 1981, we led the fight against Ronald Reagan's regressive and unaffordable tax program. Although it was adopted anyway, our work was central to persuading Reagan and Congress to scale back the tax cuts significantly starting in 1982. Eventually, our widely publicized reports on corporate tax avoidance helped provide the impetus for the bipartisan, loophole-closing Tax Reform Act of 1986. The *Washington Post* said that the studies represented a "key turning point" that "had the effect of touching a spark to kindling" (June 29, 1986) and "helped to raise public ire against corporate tax evaders" (July 18, 1986). The *Wall Street Journal* (July 18, 1986) said that the studies "helped propel the tax-overhaul effort."

During the 2001 debate over George W. Bush's tax program, the *New York Times* reported that CTJ "exerted more influence on the tax debate this year than any lobbyist in town." "I don't know what we'd do without CTJ," Sen. Kent Conrad (D-ND) told the *Times*. "The agencies of government that are supposed to provide this information don't, and the only way we can get it is from CTJ." (Of course, we lost that battle.)

Recently, noted tax author David Cay Johnston, formerly of the *New York Times*, wrote in *Tax Notes*:

> "Citizens for Tax Justice has been consistently on target with estimates of tax costs and savings. Bob McIntyre looks at the tax system through the eyes of the poor and the middle class, and with a jaundiced eye for the tax-avoiding machinations of the super-rich. And he is very sophisticated about numbers and the tax code. What makes McIntyre stand out in Washington, however, is that his politics never trump the integrity of his calculations. Over the years, people who go apoplectic at McIntyre's interpretations have told me they respect his numbers."

At the state level, our work has been equally important, if not more so. We began in 1979 by providing the evidence to defeat a well-funded effort by Howard Jarvis, author of California's notorious Proposition 13 property tax limitation, who came back the next year with a plan to gut California's progressive income tax. Jarvis enjoyed 2 to 1 support in the early summer of 1979. But by the time voters went to the polls in the fall, the had learned enough from CTJ about the merits of the income tax to hand Jarvis a crushing defeat.

Starting in the mid-1990s, ITEP has periodically released major studies of the distribution of state and local taxes in all 50 states. Over the years, *Who Pays?* has become the bible for advocates of fair and adequate state taxes.

Today, ITEP staffers are hard at work on the latest update to *Who Pays?*, which will be released soon.

Every year, ITEP analyzes the effects of scores of specific state tax proposals, some good, some bad. Armed with these analyses, advocates around the country make the case for better tax policies.