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## California Tax Commission Report

Governor Schwarzenegger established the Commission on the 21st Century Economy (the "Commission") to evaluate and recommend changes to California's tax system. A report of the Commission's findings was published in September 2009. Six recommendations were proposed, which, if approved, would take effect in 2012.

Although the passage of some or all of the Commission's recommendations is uncertain, the following list highlights the proposed changes:

### Personal Income Tax

- Reduce the number of tax brackets from six to two with the following tax rates:
  - 2.75% for taxable income up to \$56,000 for joint filers (\$28,000 for single filers);
  - 6.5% for taxable incomes above that amount
- Allow a choice between a standard or itemized deductions:
  - Standard deduction of \$45,000 for joint filers (\$22,500 for single filers)
  - Itemized deductions limited to mortgage interest, property tax and charitable contributions
- Eliminate credits, other than the other states' tax credit

### Corporation and Franchise Tax

- Eliminate the corporation tax and minimum franchise tax

### Sales Tax

- Eliminate the General Fund portion of the sales and use tax, currently at 5% (various local sales taxes would remain)
- Retain sales tax on gas and diesel fuels, with revenue used for improvements to transportation, as prescribed by Proposition 42

#### Business Net Receipts Tax

- Establish a new business net receipts tax ("BNRT") at a rate of 4%, to be phased in over 5 years
  - Applied to the "net receipts" of entities doing business in California, with net receipts equal to gross receipts less purchases from other firms
  - Includes an exemption for small businesses with less than \$500,000 in gross receipts and a credit for research and development activities
- The BNRT is essentially a value added tax that would be imposed on all goods and services

#### Independent Tax Forum

- Establish an independent body to resolve disputes between the state and taxpayer

#### Rainy Day Reserve Fund

- Establish a new Rainy Day Reserve Fund with a target of 12.5% of revenues
- Restrict the ability to suspend transfers into the fund or withdrawal revenue from the fund, only to maintain the prior year's spending level adjusted for changes in population and inflation

For further information about the California Tax Commission Report, contact [Dawn Mayer](mailto:dmayer@sheppardmullin.com) at [dmayer@sheppardmullin.com](mailto:dmayer@sheppardmullin.com) or (213) 617-4246, or any member of the Sheppard Mullin tax group.