What About Tax Expenditures?

Tax expenditures were instigated as a special tax treatment to achieve particular social purposes. They may serve worthy goals and in California currently include the deduction for mortgage interest expense, sales tax exemption for food, bank and corporation tax exemptions for employer contributions to health plans, and rate reductions for small corporations.

A tax expenditure is defined as a revenue loss which occurs because of deductions, credits, exclusions and preferential rates in a tax code. Tax expenditures shrink the tax base, and several other aspects of tax expenditures are also problematic to the budget process.

Tax expenditures are enacted with a simple majority vote of the legislature. To repeal a tax expenditure, however, requires a two-thirds majority vote, in that repeal is considered a tax increase. Rarely is a tax expenditure put in place with a sunset clause; with little review no one really knows if the expenditure's desired effects are being reached.

Money not collected is not a part of the budget, so once in place, tax expenditures no longer appear as part of any budget document—they are "off budget." Yet, they account for more than $20 billion in taxes not collected.

Proposed for the November 2004 ballot was an initiative measure known as the Corporate Tax Accountability Act that would have addressed some of the more egregious components of California's tax expenditure practices.

State and Local Finance Qniz

T F 1. Personal income tax accounts for half of the money raised by the state.

T F 2. A regressive tax affects low-income families more than those with higher incomes.

T F 3. CalWORKs (California Work Opportunity and Responsibility to Kids) payments are about 25 percent of the state budget.

T F 4. The Home Mortgage Interest Deduction is a tax subsidy.

T F 5. The state shares the cost of child welfare programs equally with counties.

T F 6. Kindergarten-12 education funding from the state grows every year.

T F 7. If California mandates a program, it pays for it.

T F 8. Fees for services have traditionally been a way for local government to raise revenue.

T F 9. Revenue the state can spend comes from bonds, federal aid, state taxes and state fees.

10. The three most important services for state and local budgets to finance are:

a)

b)

c)

1. False. Sales tax, fees, bank and corporation taxes and others account for about 60 of the total budget. 2. True. When everyone pays the same percentage or dollar amount in taxes, it widens the gap between high and low-income earners. 3. False. Less than 10 of the budget goes to CalWORKs. 4. True. This tax deduction costs the state about $3 billion each year. 5. False. The state pays about 70 of the non-federal dollars for child welfare services. 6. True or False! The dollar amount grows due to enrollment growth, but the dollar per student amount may decrease in some years. 7. False. 8. True. However, fees are becoming an ever increasing way to fund programs. 9. True. Federal aid is about 30 of the budget, bond sales about 5 and state taxes and fees account for the rest of the state budget. 10. It's tough to list just three things, isn't it? The governor and legislature have the same problem: there are many needs but a limited amount of money.