



CALIFORNIA 2016
BALLOT BACKGROUNDER

Proposition **55**

Income Tax Extension

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Purpose

Proposition 55 would extend the temporary increase in the state personal income tax voters approved in 2012 and provide additional money to public education and health care programs.

Background¹

In 2012, California voters approved Proposition 30, an initiative that raised state's sales tax for four years and the state's income tax on high-income taxpayers for seven years. At the time, Governor Jerry Brown argued that temporary tax increases were needed to address a dire budget shortage. Four years later, the state budget is balanced, but some remain concerned that state programs are underfunded and vulnerable to future cuts. A coalition of public employee unions, health care organizations, Democratic elected officials, and other groups now seek to extend Prop. 30's increase in income tax rates for an additional 12 years and provide new revenues to public education and health care programs.

Existing Law

Prop. 30 raised the state sales tax from 7.25 percent to 7.5 percent. This rate will expire at the end of 2016.

¹[https://ballotpedia.org/California_Proposition_55,_Extension_of_the_Proposition_30_Income_Tax_Increase_\(2016\)](https://ballotpedia.org/California_Proposition_55,_Extension_of_the_Proposition_30_Income_Tax_Increase_(2016))

PROPOSITION 55-INCOME TAX EXTENSION

Prop. 30 also raised income tax rates for high earners. It created four tax brackets for taxpayers whose incomes were greater than \$250,000 (or \$500,000 for joint filers.)

The new personal income tax rates for individual filers were as follows:

- 10.3 percent tax rate on taxable income between \$250,000 and \$300,000
- 11.3 percent tax rate on taxable income between \$300,000 and \$500,000
- 12.3 percent tax rate on taxable income between \$500,000 and \$1,000,000
- 13.3 percent tax rate on taxable income over \$1,000,000

The state income tax rates established by Prop. 30 are the highest in the nation.² These rates are scheduled to phase out beginning in 2018 and return to pre-Prop. 30 levels.

Proposed New Law

Prop. 55 would extend Prop. 30's temporary income tax rates on high earners for an additional 12 years, until 2030. It does not seek to extend Prop. 30's temporary sales tax rates.

Approximately half of the revenues generated by Prop. 55 would go to K-14 education.

In addition, Prop. 55 would create a new budget formula that would require the state to set aside up to \$2 billion per year in new spending on the state's Medi-Cal program, depending on budget conditions.

Fiscal Impact³

The Legislative Analyst estimates that Prop. 55 would:

- Increase state revenue from \$4 billion to \$9 billion annually from 2019-2030
- Increase funding for schools and community colleges by roughly half of the revenue raised by the measure
- Increase funding for Medi-Cal, a health care program for low-income state residents, by amounts ranging from \$0 to \$2 billion per year
- Increase budget reserves and debt payments ranging from \$60 million to roughly \$1.5 billion each year (because a share of increased revenues must be allocated to budget reserves and debt payments).

² <http://www.cnsnews.com/news/article/michael-w-chapman/california-tops-list-10-states-highest-taxes>

³ <http://vig.cdn.sos.ca.gov/2016/general/en/pdf/complete-vig.pdf>

Supporters

Prop. 55 was put on the ballot and is promoted by a coalition of public employee unions, hospitals, and other organizations and individuals that seek funding for public education and health care programs.

Supporters include:

- California Teachers Association
- California Federation of Teachers
- Association of California School Administrators
- California School Boards Association
- California State PTA
- California Hospitals Association
- California Association of Public Hospitals and Health Systems
- California Children’s Hospital Association
- Service Employees International Union (SEIU) California
- Numerous Democratic elected officials
- California Democratic Party

As of September 2016, the campaign in support of Prop. 55 has raised approximately \$49 million.⁴

The top five largest donors were:

- California Hospitals Committee on Issues, CHCI Sponsored by California Association of Hospitals and Health Systems (\$25 million)
- California Teachers Association (\$14 million)
- California Council of Service Employees Issues Committee
- SEIU – Local 1000 Issues PAC
- California Federation of Teachers COPE Prop/Ballot Committee

Arguments of Supporters⁵

Supporters argue that Prop. 55:

- Maintains current income tax rates without raising anyone’s taxes

⁴ <http://powersearch.sos.ca.gov/advanced.php>

⁵ <http://vig.cdn.sos.ca.gov/2016/general/en/pdf/complete-vig.pdf>

PROPOSITION 55-INCOME TAX EXTENSION

- Makes the wealthiest Californians pay their fair share
- Provides needed funding to schools by restoring funding that was cut during the recession and protecting against future cuts

Opponents

Opponents of Prop. 55 include:

- California Taxpayers Association
- Howard Jarvis Taxpayers Association
- California Chamber of Commerce
- National Federation of Independent Business.
- California Republican Party

As of September 2016 no PAC had spent any money to oppose Prop. 55.⁶

Arguments of Opponents

Opponents argue that Prop. 55:

- Violates the spirit of Prop. 30, which was meant to be a temporary tax increase
- Is not needed, because the state has a budget surplus and schools are fully funded, with education spending having grown by \$24.6 billion since 2012
- Increases reliance on high-income taxpayers and risks driving some out of the state

Conclusion

Voting Yes on Prop. 55 would extend for 12 years the temporary income tax increases on high-income taxpayers that voters adopted in 2012. Approximately half of the revenues would go to education, with additional money for health care, budget reserves, and debt payments.

Voting No on Prop. 55 would allow the temporary income tax increases adopted in 2012 to phase out at the end of 2018.

For more information on Proposition 55, visit:

www.roseinstitute.org

www.protectingcalifornia.com

www.opposeprop55.com

⁶ <http://cal-access.sos.ca.gov/Campaign/Measures/Detail.aspx?id=1382647&session=2015>