January 20, 2016

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LAO 75 YEARS OF SERVICE

Proposition 39 (2012)

Presented to:
Senate Committee on
Energy, Utilities and Communications
Hon. Ben Hueso, Chair

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Corporate Tax Basics

☑ **Third-Largest General Fund Revenue Source**

☑ **Highly Concentrated Among Large Companies**

- In 2013, 0.4 percent of corporations filing returns paid around 75 percent of the tax.

☑ **Apportionment**

- Corporate income tax law apportions (attributes) profits of multistate corporations to California using a number of techniques.
- For most of the last few decades, apportionment focused on the percentage of a company's sales, property, and employees here in California.

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Before Proposition 39

☑ **Many Changes to Corporate Tax Law During Recession**

- Short-term measures to increase tax revenue and help the state budget.
- Some such actions reduced tax revenue over the longer term.

☑ **"*Optional* Single Sales Factor"**

- The February 2009 budget package changed apportionment law.
- Starting in 2011, firms could choose *either* (1) the prior apportionment factors of sales, property, and employees or (2) a new apportionment factor that considered only the corporation's percentage of sales (the "optional single sales factor") in California.
- Reduced ongoing state General Fund revenues by well over $1 billion per year, based on most recent estimates.

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Proposition 39 (2012)

☑ **Approved by 61 Percent of Voters**

☑ **"*Mandatory* Single Sales Factor" Apportionment by Corporations**

- Required use of single sales factor beginning in 2013. Ended past apportionment methods.
- Partially offset long-term loss of revenues due to earlier corporate tax changes.
- Increased state revenues by hundreds of millions of dollars per year, compared to the optional single sales factor law then in effect.

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Benefits of Mandatory Single Sales Factor

☑ **LAO Had Recommended Mandatory Single Sales Factor Policy**

- The February 2009 optional single sales factor policy created problematic incentives for some companies.
- In a 2011 letter to Senator de León (available on our website), we described how "the optional single sales factor…could give some California-based companies an incentive to expand into other states as opposed to expanding here in California."
- We also described how some California-based companies could receive a relative tax advantage compared to out-of-state companies, in certain scenarios.

☑ **Over Time, Researchers Will Want to Evaluate Long-Term Effects**

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Use of Proposition 39 Funds

☑ **Clean Energy Projects**

- Proposition 39 required half of its estimated new revenues—up to $550 million per year—to be used for energy efficiency and alternative energy through 2017-18. (Other new revenues, including all revenues after 2017-18, were to go to the General Fund.)
- In 2015-16, to meet this Proposition 39 requirement, the Legislature appropriated about $360 million for energy efficiency and clean energy projects. This has been provided primarily to school and community college districts.