

January 20, 2016

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

LAO 
75
YEARS OF
SERVICE

Proposition 39 (2012)

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





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.



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.



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.



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



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.