

Tax breaks mostly help the masses

By Dan Walters

dwalters@sacbee.com

Critiquing California's state and local tax structure – which generates more than \$200 billion a year – has become something of a cottage industry.

Politicians, academicians and journalists perpetually debate whether we are taxing too much, or too little, whether tax burdens are fair, and whether they incentivize or discourage economic growth. The debate always includes competing notions of how taxes could be improved.

There are some points of consensus – that Californians bear a relatively high state-local tax burden (11-plus percent of personal income), that an ever-increasing dependence on income taxes on a relative handful of high-income Californians has dangerously increased revenue volatility, or that dozens of “tax expenditures” shield certain transactions, income streams or assets from levies.

They are called “tax expenditures” because their fiscal effect is the same as if their beneficiaries received direct allocations of money from governmental budgets.

They are often called “loopholes,” and some certainly are that – exemptions from taxation carved out at the behest of narrow interests, supposedly for a benign public purpose.

There are dozens of such narrow interest tax breaks, and no legislative session is complete without new ones being proposed and sometimes adopted.

Recent examples include corporate tax breaks for the motion picture and aerospace industries in hopes of generating more job-creating activity, and to compete with tax breaks in other states.

When the debate over taxation turns to reform, closing unjustified loopholes always rates a mention, but as a new report from the Legislature's budget analysis office demonstrates, there's probably not much new revenue to be gained from that strategy.

State sales and income tax expenditures, the report says, total \$55 billion a year, but the big ones that account for most of that impressive total don't benefit narrow interests but rather millions of ordinary Californians.

The biggest is the sales tax exemption for food, valued at \$5.6 billion, followed by the income tax exemptions for employer-supplied health insurance (\$5.5 billion), mortgage interest expense (\$4.7 billion), employer contributions to workers' pension plans (\$3.6 billion) and Social Security benefits (\$3.2 billion).

The 19 largest tax expenditures total \$45.3 billion and only two, a \$1.6 billion credit for corporate research and development, and a \$1 billion sales tax exemption for livestock feed and other tangible agricultural expenses, could be said to benefit narrow interests.

It's highly unlikely – impossible, really – that the big tax breaks with broad applicability will be scaled back.

So while closing some unjustified loopholes may be worth doing, especially as part of wider tax reform, it would not generate the big bucks that some seek.

Call The Bee's Dan Walters, (916) 321-1195. Back columns, sacbee.com/dan-walters. Follow him on Twitter @WaltersBee.

