Revamp tax laws to support California spending

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Op ed

An individual knows that if he is content with his spending, but struggles to pay for it, he needs to rethink his income stream. Perhaps his salary hasn't kept up with inflation or he needs to retool and get a better job. An individual also knows that if he wants or needs to spend more - get a finer car or raise another child - he needs a raise, an extra job, or a better paying one.

California needs to do the same. If legislators and the governor are content with the spending side of the budget and want or need to spend more, such as on health care or education, they need to rethink the state's revenues - they need to get the state a better paying job.

Can't the state just get a "raise" by increasing tax rates? Sure, but California's personal income tax top rate of 9.3 percent is already high, as is our sales tax (8.75 percent in some California cities). Increasing these rates could lead to loss of business activity in the state, tax evasion and damage to both low-income and high-income taxpayers.

How can California get that "better paying job?" It can improve its tax structure. Three of several possibilities: improve use tax collection; broaden the sales tax; and reduce generous income tax breaks.

First, improve use tax collection. When individuals and businesses buy goods from out of state and are not charged sales tax, they usually owe use tax. It is the complement to the sales tax and is owed on catalog and Internet sales when the seller has no physical presence in California. There is a line on state income tax forms for reporting it, but compliance is low. Every year, $1 billion goes uncollected. More can be done to collect this tax. Not doing so is like an employer not paying employees for all of their work.

Second, broaden the sales tax. Since the inception of this consumption tax in 1933, it has applied only to tangible personal property. Yet, today we live in a world where we consume lots of services and intangibles as well (music and software downloads, movie tickets, pet care, nannies, personal trainers, and more). California's sales tax has not kept pace with today's way of living. When people shift from buying music on CDs to buying it online, California loses sales tax revenue. California needs to update its sales tax. Not doing so is like an employer only paying for work completed with paper and pencil rather than with modern technology.

Third, some taxpayers get income tax breaks that are not available to everyone. Some of these breaks don't make sense and some have outlived their original purpose.
These tax breaks should be carefully reviewed. Those for which no valid purpose can be found should be eliminated or modified to meet a valid purpose.

For example, both federal and California income tax rules allow individuals to deduct home mortgage interest on two homes. The mortgages can total as much as $1.1 million. There are good reasons for the government to encourage home ownership through tax incentives, such as a mortgage interest deduction. But why two homes? Also, even in high cost-of-living areas in California, the median home price is under $1.1 million. Why give unnecessary tax breaks to wealthy individuals? This deduction should be modified to meet a more targeted purpose.

Reviewing and modifying the mortgage interest deduction and other special rules - such as for employer-provided health and life insurance, senior exemptions, and various tax credits - can ensure they serve a valid purpose. It can also help California's revenues.

While there are many reasons for budget stalemates, one is certainly the challenge of covering state spending needs. California must do what any individual would do - get a better job. For California, that job would be to improve its tax laws.

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