

A Fair California Flat Income Tax

Since 1935 California individuals and corporations have been paying a state income tax. The individual California income tax is considered progressive, meaning the more one earns the greater the “rate” imposed. California corporations pay a flat tax depending upon the industry classification. The personal California rates are divided into 9 tax rate brackets from 1 to 12.3%. 13.3 % if you earn over \$1,000,000. The highest brackets just voted into law (proposition 30 in 2012) by the voters of California.

So why so many income tax rates? The sales tax is a true flat tax. Whether your economic status is resting on the bottom, or you are a one per center we all envy, that a pair of shoes, a hamburger or a gallon of gas is taxed at the same rate. That seems fair. Why wouldn't a similar flat tax be just as fair for income earned? Some consider the flat tax a regressive tax. The tax would represent a greater proportion of total income for low wage earners. A true regressive tax would of course be the opposite of a progressive one.

The philosophy behind the progressive tax is that those who are able to should pay more but will impact their financial situation less. Fair? The debate about a flat tax has been going on for decades. For as many years politicians have been trying to reform the tax code especially at the federal level.

A single person with “taxable wages” of \$20,000 would pay approximately \$364 in California income taxes. \$50,000 would pay \$2212, and at \$500,000, \$48,468. (2013 CA Tax Sch.) Taxable wages are those after adjustments and deductions are subtracted.

If one were to impose a true flat tax on California wage earners, low wage earners will be required to pay more while the other group on the opposite of the earning spectrum will pay less. For example, if all wage earners were to pay 8.84% tax rate (present California corporation flat tax), the above tax payer (single) would pay \$1768, \$4420, and \$44,200 respectively. You can see the upper wage earners would get a tax break while others would have their taxes increased.

If we were to impose the same flat tax with only tax exemptions per individual and per spouse/RDP (considered marginal tax rate) at 8.84% with a personal exemption of \$1600, that single person would pay \$168, \$2820, and \$42,600 respectively. Keep in mind no other adjustments or deductions will be allowed. As you can see no matter how hard you try the present tax schedule (brackets) revenue cannot be replicated with a flat tax, even when you alter it (marginalized) with exemptions. It is possible that

persons on the low end of the income scale will pay no income tax. This does however, level the playing field and removes numerous adjustments and deductions utilized by high wage earners not available to others. Would it be fair? In my opinion it represents the closest we can come to a flat tax.

Not only would it to be fair, but efficient and effective. Like so many state and federal codes and regulations have demonstrated, their effort to produce fairness usually results in the opposite of efficiency and effectiveness. Reduced paper work, reporting, and tax collection agencies would be dramatically reduced. I would imagine if we were to stream line our tax codes at the state and federal levels the savings to taxpayers would be significant enough that such a flat tax would work. It is also possible that less taxes would have to be collected because of the afore mentioned stream lining of tax codes.