

## Chapter 6

# Time for Change

**G**iven the significant demographic and economic shifts in California’s economy, reform of the state’s tax structure is long overdue. Achieving comprehensive tax reform is a long-term endeavor that requires public education and broad engagement. This effort must start now while California continues to experience fiscal stability.

The good news is that everyone has an opinion about taxes.

We invite community organizations, civic groups, universities and colleges, chambers of commerce, journalists, the philanthropic community, and others to join in facilitating meaningful future conversations. Some Council members suggest before major tax reform proposals are considered, a standard procedure should be established using the criteria discussed in this framework.

### Some Guiding Principles

To assess specific tax reform proposals, the members of the Council agreed on the following guiding principles.

#### *Effects on People*

Promote tax fairness and equity

#### *Budgetary and Fiscal Policy*

Encourage revenue sustainability

Enhance comprehensive taxation

Promote revenue stability

Encourage systemic flexibility and adaptability

Adjust state-local alignment

#### *Economy*

Promote economic vitality

Encourage revenue sustainability

Address infrastructure, housing, and transportation needs

### ***Compliance and Administration***

Make it easier for taxpayers to comply

Ease tax administration

Ease regulatory requirements

## **Balancing Tradeoffs**

Comprehensive tax reform has eluded policymakers because of the necessary hard choices such reform would entail. Among the tradeoffs are:

***Local Fiscal Discretion.*** Will reform address current local dependence on state fiscal policy? Will local governments be given greater discretion to set their own tax and spending policy? If local governments are given discretion to raise taxes, should state tax levies be reduced commensurately?

***Changes for the Tax on Capital Gains.*** If reform reduces income taxes paid by investors, will other taxpayers be expected to make up for the foregone revenue?

***Financing an Increase in Critical Infrastructure like roads.*** Should users—like drivers—be expected to pay for the full cost of infrastructure improvements through user fees? Or, should taxpayers also pay a share through higher sales and personal income taxes?

***Improving Government Performance.*** Will improved service cost more? Can taxes be cut and service delivery be improved? How will reform ensure improved transparency and performance? What can be done to improve accountability?

***Fostering an Improved Business Climate.*** Will tax reform include reductions in regulations and compliance costs? If so, how will the changes affect Californians not directly regulated?

***Who Bears What Burden?*** Should the poorest continue to bear the great burden of the state not investing adequately in child care and other programs with the potential of lifting families out of poverty?

At its heart, a tax system is a social compact detailing how to pay for the common good. Definitions of what constitutes the common good may vary. However, people across the political spectrum agree that California's current tax structure does not reflect the times. Regardless of our differences, we must work together now to fix it.