



Senate Bill 8 Upward Mobility Act

SUMMARY

The Upward Mobility Act increases opportunities for California's businesses and creates an upward mobility ladder for residents. Senate Bill 8 updates California's tax system to reflect modern economic activities, including information and services. SB 8 starts by broadening the sales tax base to include services. The bill also considers changes to corporate taxes that enhance the business climate and incentivize entrepreneurship; such changes would be linked to providing a more reasonable minimum wage. Finally, SB 8 reduces personal income taxes (PIT) with an aim toward equality and investment in the future. Additional revenues would be used for higher education, K-12 education, and local infrastructure projects. The goal is to move beyond short-term budget balancing measures to a vision for California that shapes its tax system.

ISSUE

Strategic, long-term investments in infrastructure and education from the 1950s and 1960s paid off as California grew to be the fifth largest economy in the world. However, as state and local budgets became intertwined, long-term investments receded. The state's financial commitment to K-12 waned and by 2011, ranked 43rd nationally in per pupil spending. The state's commitment to higher education also receded, including for California's community colleges, the largest provider of workforce training in the nation.

The underlying problem is that, while California's economy evolved, its tax system failed to keep up. Over the past 60 years, California moved from an agriculture- and manufacturing-based economy to a services-based economy. State tax revenues thus became more reliant on PIT, especially those of its top earners, leading to dramatic revenue swings.

As a result, services like health care and child care for low-income families faced budget cuts at a time when they were most needed (during the recession). In addition, the state cut billions of dollars to education, including adult vocational and literacy education, which could help low-income families recover from the economic downturn.

Further, our inability to fund new infrastructure and education investments has diminished opportunities for Californians and fuels the growing income inequality in our state. A modern tax system that is based on the 21st century economy is needed and must ensure that new revenue is invested to help all California residents.

SB 8 (HERTZBERG)

The Upward Mobility Act proposes three broad changes to the tax code. SB 8 proposes to broaden the tax base by imposing a tax on services. SB 8 also examines the current corporate tax structure to incentivize both business investment and a more reasonable minimum wage. Finally, SB 8 adjusts personal income taxes in a way that balances fairness with state revenues. These latter provisions would be phased in only when it is clear that new revenues from the service taxes are sufficient to replace revenues lost by changes to the PIT and corporate tax and are sufficient to provide low-income workers with an Earned Income Tax Credit.