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TAX REFORM'S IMPACT ON THE CALIFORNIA STATE INCOME TAX

ORANGE, CA—A study conducted by the Anderson Center for Economic Research and Hoag Center for Real Estate and Finance examines the potential impact of the House and Senate tax reform bills that eliminate the deductibility of state income tax. Specifically, the Chapman University researchers determined the impact of removing the deductibility of state income tax for families with incomes ranging from \$45,000 to \$3,000,000. The findings suggest that the elimination of the state tax deduction for current homeowners with incomes above \$150,000 is the equivalent of an increase in the effective state income tax from 33.3% to 66.7%. The 33.3% rate represents the increase for incomes of \$150,000 from the current effective rate of 3% to 4% if the deductibility on federal returns is removed. The 66.7% rate represents the increase for incomes of \$1,500,000 from the current effective tax rate 6.1% to 10.2% if the deductibility on federal returns is removed.

Although the study includes the impact on new homebuyers and renters (see Table 2), the following findings relate to the impact on existing homeowners.

Table 1. The Impact on Current Homeowners of Ending the Deductibility of the California State Income Tax

Income	Increase in the Effective California Income Tax Rate
\$45,000 to \$100,000	No impact
\$150,000	3.0% to 4.0% \Rightarrow Increase of 33.3%
\$350,000	4.0% to 6.2% \Rightarrow Increase of 53.8%
\$1,500,000	6.1% to 10.2% \Rightarrow Increase of 66.7%

These findings are shown in Figure 1. The “Actual Rate” line shows the statutory rate while the “Effective Rate Resulting from Deduction” line shows the rate after benefitting from deducting state taxes on federal taxes.. For example, at an income of \$350,000, the California average tax rate is 6.2% but is effectively 4.0% after the benefit of the federal deduction. The increase from 4.0% to 6.2%, as noted in Table 1, represents an increase of 53.8% in the state income tax because of the elimination of the state tax deduction.

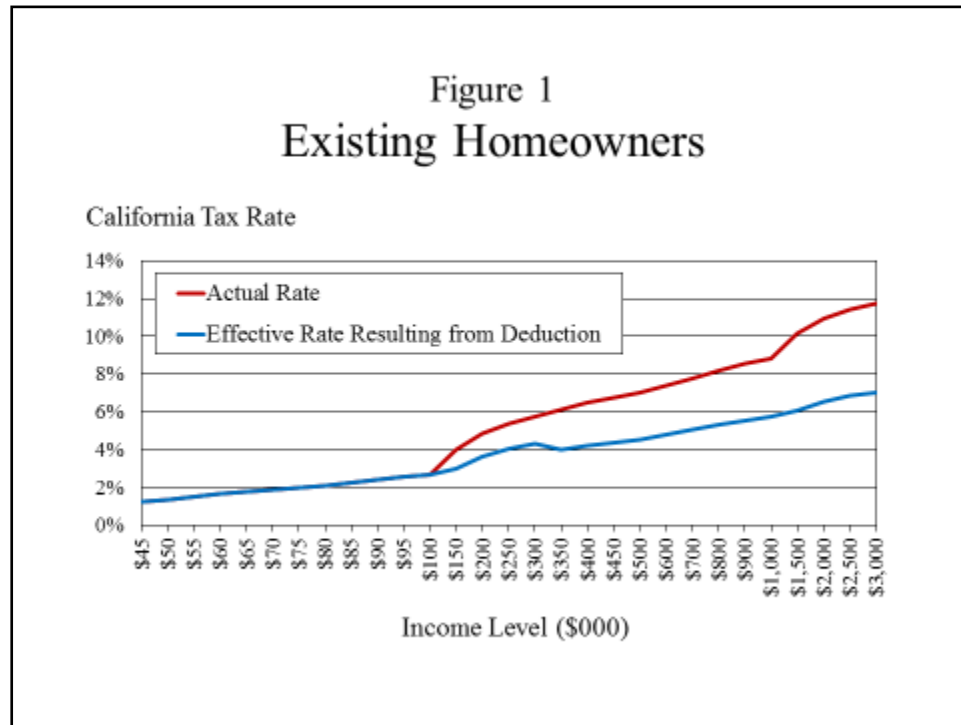


Figure 1 shows the impact of removing the deductibility of state income taxes across various income levels. California families with incomes above \$100,000 would pay higher average state income tax rates as shown above in the “Actual Rate” line in contrast to the lower “Effective Rate” line they are currently paying. As family incomes rise, the impact of removing the state income tax deduction on federal taxes also rises.

Table 2. First-Year House Bill Impact on California State Tax Rate (Married Filing Jointly)

	Current Homeowner			New Homeowner			Non-Homeowner		
Income Level (\$000)	Actual CA Tax Rate	Effective CA Tax Rate after Federal Deduction	Implied Tax Change	Actual CA Tax Rate	Effective CA Tax Rate after Federal Deduction	Implied Tax Change	Actual CA Tax Rate	Effective CA Tax Rate after Federal Deduction	Implied Tax Change
\$45	1.2%	1.2%	0.0%	1.1%	1.1%	0.0%	1.2%	1.2%	0.0%
\$50	1.3%	1.3%	0.0%	1.1%	1.1%	0.0%	1.4%	1.4%	0.0%
\$55	1.5%	1.5%	0.0%	1.2%	1.2%	0.0%	1.7%	1.7%	0.0%
\$60	1.6%	1.6%	0.0%	1.3%	1.3%	0.0%	1.8%	1.8%	0.0%
\$65	1.8%	1.8%	0.0%	1.4%	1.4%	0.0%	2.0%	2.0%	0.0%
\$70	1.9%	1.9%	0.0%	1.5%	1.5%	0.0%	2.2%	2.2%	0.0%
\$75	2.0%	2.0%	0.0%	1.6%	1.6%	0.0%	2.4%	2.4%	0.0%
\$80	2.1%	2.1%	0.0%	1.7%	1.7%	0.0%	2.6%	2.6%	0.0%
\$85	2.3%	2.3%	0.0%	1.8%	1.7%	5.9%	2.8%	2.8%	0.0%
\$90	2.4%	2.4%	0.0%	1.9%	1.7%	13.6%	3.0%	3.0%	0.0%
\$95	2.6%	2.6%	0.0%	2.1%	1.8%	13.6%	3.2%	3.2%	0.0%
\$100	2.7%	2.7%	0.0%	2.2%	1.9%	13.6%	3.4%	3.4%	0.0%
\$150	4.0%	3.0%	33.3%	3.2%	2.4%	33.3%	5.2%	5.2%	0.0%
\$200	4.9%	3.7%	33.3%	4.2%	3.1%	33.3%	6.3%	6.3%	0.0%
\$250	5.4%	4.1%	33.3%	5.1%	3.8%	33.3%	6.9%	6.9%	0.0%
\$300	5.8%	4.3%	33.3%	5.7%	3.7%	53.8%	7.3%	7.3%	0.0%
\$350	6.2%	4.0%	53.8%	6.2%	4.0%	53.8%	7.6%	7.3%	3.4%
\$400	6.5%	4.2%	53.8%	6.5%	4.2%	53.8%	7.8%	7.2%	8.7%
\$450	6.8%	4.4%	53.8%	6.8%	4.4%	53.8%	8.0%	7.0%	13.0%
\$500	7.0%	4.6%	53.8%	7.0%	4.6%	53.8%	8.1%	6.9%	16.6%
\$600	7.4%	4.8%	53.8%	7.4%	4.8%	53.8%	8.4%	6.8%	22.3%
\$700	7.8%	5.1%	53.8%	7.8%	5.1%	53.8%	8.7%	6.8%	26.9%
\$800	8.2%	5.3%	53.8%	8.2%	5.3%	53.8%	9.0%	6.9%	30.4%
\$900	8.5%	5.6%	53.8%	8.5%	5.6%	53.8%	9.3%	7.0%	33.2%
\$1,000	8.8%	5.7%	53.8%	8.8%	5.7%	53.8%	9.5%	7.0%	35.4%
\$1,500	10.2%	6.1%	66.7%	10.2%	6.1%	66.7%	10.7%	7.0%	51.5%
\$2,000	11.0%	6.6%	66.7%	11.0%	6.6%	66.7%	11.3%	7.3%	55.7%
\$2,500	11.4%	6.9%	66.7%	11.4%	6.9%	66.7%	11.7%	7.4%	58.0%
\$3,000	11.8%	7.1%	66.7%	11.8%	7.1%	66.7%	12.0%	7.5%	59.6%