Editor's Note:
The following presentation is printed in the Utility Reporter as an educational service which can, if retained by our readers, provide a resource which will be of some value in making personal determinations on tax policy questions at election time.

Mr. Peevey’s views and statements are his own and do not necessarily reflect the views of the editors of this publication. However, his views deserve careful consideration because they are set forth in a professional manner and are the product of competent research.

The Editorial Board of the Utility Reporter offers this detailed discourse on California’s tax situation as an example from the largest populated State in the Union which can be reasonably related to situations which apply to other states and to the Federal Government.

Comments from our readers are invited and will be printed in forthcoming issues of the Utility Reporter. We are indebted to Mr. Peevey for his kindness in allowing us to reprint his paper.

Ronald T. Weakley, Executive Editor

California’s Tax Structure: The Need for Reform

I. Introduction

Business and labor, homeowners and renters, rich and poor, young and old—liberals and conservatives—agree that California’s state and local tax system needs major reform. As expected, however, near consensus on the need for reform is not followed by agreement on what changes are needed.

Each group, instead, has its own, often contradictory, views of what constitutes tax reform.

Business and the wealthy, when they call for reform, usually seek a reduction in taxes, or a shift in the tax burden from themselves to others. They generally claim that changes in the state’s tax laws are necessary to improve what is vaguely called “California’s business climate.” Yet they are not always consistent.

They were extremely vocal in 1965, for example, when the Governor unsuccessfully proposed an increase in the bank and corporation tax rate from 5 1/2 to 6 percent. Curiously, in 1967 this same tax was successfully raised to 7 percent without significant business opposition. As a generalization, business and the wealthy prefer, if taxes must be increased, that consumption levies, such as sales taxes, be raised, rather than taxes on business or the personal income tax.

Most homeowners associate tax reform with reducing residential property taxes. A rebellion of homeowners against ever-increasing property taxes is apparent, as are suggestions by present and prospective office holders on how to cut property taxes.

Yet when a measure to cut property taxes in half, such as Proposition 9 last year, goes before the voters it is roundly defeated. Why? Aside from the fact that Proposition 9 was poorly drafted and was opposed by practically every major organization, most homeowners clearly were not sure they wanted their income and sales taxes increased greatly to offset a property tax cut.

Other easily recognizable groups, chiefly liberals and labor, criticize the tax structure on equity grounds, feeling it is unfair to low and middle income groups while unjustly rewarding the well-to-do. This basic charge, though true, often allows such groups to assume a “holier than thou” attitude.

By Ronald T. Weakley

Please send any corrections of name, address or zip code to P.O. Box 584 Walnut Creek, Calif. 94597
Thank God for election years. The race is on and you look at everyone who is concerned about environmental pollution. Six months ago it was difficult to find a politician who would stick his neck out on this subject and now it is just as difficult to find one who hasn’t made pollution his favorite cause. It must be amusing to people like Senator Petris, Senator Nejedly, Assemblyman Knox and others who have tried to fight the good fight of pollution, to find themselves with so many allies, when in the past they were hard pressed to find votes for their bills. Let’s not knock H, but let us instead take advantage of this new interest in a field which has been overlooked too long. We must not allow these politicians to make “hot air” promises and conveniently forget them once they are elected. We must document their every promise and force them to live up to these promises.

There is one thing we must remember now that we have support for pollution control and that is that each law must be tempered with reason and not emotion. There are certain factions among conservation groups which would wipe out industry for the sake of a single tree and these people must be recognized and ignored. On the other side of the coin, there are certain industries which have polluted our air and water with no thought or concern about the people they are harming. They must also be recognized and stopped.

Pick the candidate of your choice and congratulate him on his interest in environmental pollution. Write to him and let him know that you will be watching his efforts in this area.

The thought of once again drinking clean water and breathing clean air should cause us all to rejoice.

EDITORIAL—ELECTION YEAR PROMISES

A large majority of the voters expressed approval of the offer which resulted from negotiations on a wage opener in the second year of the current Edison contract. The climbing旅程manyear is now $5.50 per hour. The 1969 rate was $5.115 per hour.

On the gas side, no reports have yet been received regarding recent settlements among the major companies.

One item of interest involves some developments just south of Pacific Lighting Corporation’s distribution area. Large scale pollution control and that is that each law must be tempered with reason and not emotion. There are certain factions among conservation groups which would wipe out industry for the sake of a single tree and these people must be recognized and ignored. On the other side of the coin, there are certain industries which have polluted our air and water with no thought or concern about the people they are harming. They must also be recognized and stopped.

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ELECTION YEAR PROMISES

The merged distribution facility which resulted from negotiations will, I understand, form the largest single gas distribution company in the United States. Its relation to our situation will become even more important than in past years, when the two companies split this vast service territory between them. The Utility Workers Union and the Chemical Workers Union will fight it out to decide which union will remain on the property. This is another example of merger problems which are affecting and will continue to affect many utility employees’ wages, conditions and security benefits.

As the 1970 bargaining front warms up, we shall report what’s going on in the industry in order to keep our members abreast of other situations as they contemplate their own situations.

We need a heavy return on our Membership Survey in order to better assess the opinions and desires of our people who plan to negotiate for 1970 contract negotiations.

If you haven’t returned yours, please do so at once. If you have lost, destroyed, or misplaced yours, please check with your Steward, your Business Representative or my office and you will receive a duplicate form. Deadline for return is February 1, 1970.
Are Mutual Funds Useful for Retirement Savings?

By Sidney Margolius
Consumer Expert for Utility Reporter

A number of families looking ahead to retirement in 10 or 15 years have asked for information about savings and investment programs. They are concerned about the erosion inflation is making in future buying power, and hope to increase their savings yield to at least compensate for the inexorably rising prices.

This is a sound attitude. But it is noticeable that almost all of the people who recently asked about corporate bonds, mutual funds and investments other than traditional savings accounts and government bonds, have little knowledge of these more sophisticated plans. An innocent small investor can get hurt in what sometimes is a high-pressure business run by people who arrogantly are resisting closer government regulation.

Let’s start with some basic information.

“What is your opinion of mutual funds as an investment savings program?” Mrs. C. B. M. asks. “My husband has 12 years until retirement. What rate of return can one expect from mutual funds?”

First of all, savings and investment plans should be divided into two groups:

1. Fixed-value savings, like credit union and bank accounts. Annuities, government bonds and mortgage investments, will pay you a fixed rate of return. The only investment you lose. These plans offer maximum safety, although no growth potential other than the compounding of interest. Nor, except for E bonds, do they offer much “tax shelter” opportunity to save on taxes on the earning.

2. Fluctuating investments, like mutual-fund shares, stocks and even corporate bonds now yielding as much as 9 per cent, may be higher or lower in market value at the time you want your money back. Such investments are not for your real backbag but may have value in protecting you—although sometimes erratically—from inflation.

It’s safest to keep a foot in both camps and not put most of your money into fluctuating investments.

The potential usefulness of mutual funds is not so much their dividends. They often pay only 2-4 per cent dividends. They strive, rather, for growth in value of shares.

One problem with mutual funds for retirement purposes is that many charge a high sales commission, usually 8-9 per cent of the money you invest.

Thus, if you invest $3,000 you will get only $2,760 worth of shares. Assuming the fund earns 4 per cent, it would take about two years to recover the sales fee without considering possible gain or loss in the value of the shares themselves.

Also, as we have warned before, many mutual-fund sellers want you to sign a contract to invest so much a month for a specified number of years. In most states you may have to pay a heavy penalty if you do not complete the contract; for example, 55-50 per cent of your investment if you drop the plan in the first year.

There are a number of mutual funds that charge no sales fee at all other than a redemption fee of 1-2 per cent when you cash in the bonds. They have no salesmen but offer their prospectuses in newspapers, financial pages and financial magazines.

Examples of these so-called “no load” funds include those sponsored by:

- American Enterprise Fund, New York
- American Investors Fund, Greenwich, Conn.
- Beacon Hill Mutual Fund, Boston
- deVeug Mutual Fund, New York
- Drexel Equity Fund, Philadelphia
- Energy Fund, New York
- Guardian Mutual Fund, New York
- General Securities, Inc., Minneapolis
- Hubshman New York
- Ivy Fund, Boston
- Johnson Mutual Fund, New York
- Loemis-Sayles Funds, Boston
- Mates Fund, New York
- Mathers Fund, Chicago
- One William Street Fund, New York
- Penn Square Mutual Fund, Reading, Penn.
- Pennsylvania Mutual Fund, New York
- Pine Street Fund, New York
- T. Rowe Price Funds, Baltimore, Md.
- Rittenhouse Fund, Philadelphia
- Scudder, Stevens & Clark, Boston
- Southco Fund, Philadelphia
- Stein, Roe & Farnham, Chicago

This list should not be considered a recommendation but only as examples. Nor should your only consideration be the sales fee. Some fee-charging funds have better performance records than some of the no-load funds. But you will find several of the no loads among the most successful mutual funds listed in annual compilations in Nuwex’s Investment Companies Book, United Business Service.

For example, growth funds are usually available in public libraries. "Performance" is the main way to select a mutual fund. How well a fund has performed in the past is no assurance of future success, but it is a sign of effective management. Read the prospectuses of various mutual funds. These, by law, state their past record of gains and earnings. Compare these records, both for a short recent period as the last year or two, and longer periods as the last five or ten years.

Another no-load, no-redemption fee mutual fund is the Fund for Mutual Depositors sponsored by savings banks. Shares are sold only to depositors in "Certifying Savings Banks" in some states (so far, Del., Maine, Mass., Alaska, Conn., Minn., N.H., N.J., N.Y., Pa., R.I.).

A depositor at a certifying bank must get a certification of his depository status from the bank. Depositors can get more information from their savings banks or from P. James Riorian, Fund for Mutual Depositors, 4 Park Ave., New York, N.Y. 10016.

One of the most comprehensive and sincere investment books available is the 95-cent paperback 350 New Ways to Make Your Money Grow, by Faye Hilem, the well-known financial analyst, and radio commentator. This book has easy-to-understand information on all kinds of savings plans.
TAX REFORM IN CALIFORNIA—FACTS,

(Continued from Page One)

thereby avoiding being involved in the complicated legislative bargaining that ultimately may produce reform. Also, they may overlook the legitimate demand of other groups that the tax system not mis-allocate resources or impose undue hardship on them.

Thus, while all major groups are united in their belief tax reform is needed, the shape such reform must take is a matter of widespread disagreement. Before exploring possible reforms and their consequences, however, a brief review of California’s state and local tax structure is desirable.

II. California’s Tax Structure

Last year over $57 billion in taxes were collected in California by all levels of government. The federal government collected about 62 percent of the total; local government 18 percent; and state government 20 percent. While the state government used a variety of taxes to raise revenue, almost 90 percent of the revenue raised by California’s 58 counties, 1,484 school districts, and 3,990 special districts came from the property tax.

Table 1 indicates the state level California, to varying degrees, uses practically every major type of tax, with the exception of a tax on oil severance.*

Table 1. Estimated State Tax Collections, 1969-70

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>Amount (in millions)</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$1,730.0</td>
<td>30.4</td>
</tr>
<tr>
<td>Personal Income</td>
<td>1,520.0</td>
<td>21.5</td>
</tr>
<tr>
<td>Highway User</td>
<td>920.2</td>
<td>15.2</td>
</tr>
<tr>
<td>Bank and Corporation</td>
<td>539.0</td>
<td>9.5</td>
</tr>
<tr>
<td>Cigarette</td>
<td>590.0</td>
<td>9.8</td>
</tr>
<tr>
<td>Motor Vehicle License Fees</td>
<td>227.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Inheritance and Gift</td>
<td>171.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Insurance</td>
<td>137.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Beverage Taxes and Fees</td>
<td>124.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Horse Racing Fees</td>
<td>63.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>306.4</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,658.4</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


A major misunderstanding about the property tax is the belief that the single family owner-occupied property is responsible for the majority of the property taxes. According to Table 2, owner-occupied single family residences represent slightly less than 30 percent of the property tax base as compared to the non-occupied single family residences. While the owner-occupied single family residence represents a larger portion of the property tax base than does the non-occupied single family home, as Table 2 indicates.

Table 2. Distribution of Assessed Valuation by Type of Property, 1966

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family residences</td>
<td></td>
</tr>
<tr>
<td>Owner-occupied</td>
<td>28.3</td>
</tr>
<tr>
<td>Rented</td>
<td>9.5</td>
</tr>
<tr>
<td>Multi-family residences</td>
<td>9.9</td>
</tr>
<tr>
<td>Total Residential</td>
<td>47.7</td>
</tr>
<tr>
<td>Non-Residential</td>
<td></td>
</tr>
<tr>
<td>Farms</td>
<td>8.1</td>
</tr>
<tr>
<td>Vacant Lots</td>
<td>2.9</td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>30.4</td>
</tr>
<tr>
<td>Railroads and public utilities</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Total Property Tax Roll</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 3. California and New York: A Comparison of State and Local Taxes, 1968-69

<table>
<thead>
<tr>
<th>Type of State Tax</th>
<th>California</th>
<th>New York</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount</strong></td>
<td><strong>Percent</strong></td>
<td><strong>Amount</strong></td>
</tr>
<tr>
<td>Personal Income</td>
<td>$1,075</td>
<td>27.1</td>
</tr>
<tr>
<td>Sales</td>
<td>1,620</td>
<td>40.8</td>
</tr>
<tr>
<td>Excise (cigarettes, alcohol, etc.)</td>
<td>347</td>
<td>8.7</td>
</tr>
<tr>
<td>Business</td>
<td>772</td>
<td>19.4</td>
</tr>
<tr>
<td>Other</td>
<td>157</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total State Taxes</strong></td>
<td><strong>$5,971</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Property</td>
<td>$3,956</td>
<td>88.4</td>
</tr>
<tr>
<td>Non-Property</td>
<td>519</td>
<td>11.6</td>
</tr>
<tr>
<td><strong>Total Local Taxes</strong></td>
<td><strong>$4,455</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td><strong>Total State &amp; Local Taxes</strong></td>
<td><strong>$8,426</strong></td>
<td><strong>$8,736</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Type of Local Tax</strong></th>
<th><strong>Amount</strong></th>
<th><strong>Percent</strong></th>
</tr>
</thead>
<tbody>
<tr>
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<td><strong>$8,736</strong></td>
</tr>
</tbody>
</table>

Source: See Table 1.

M. Measuring California’s Tax System

While nearly everyone agrees that any tax system, whether it be federal or state/local, should be “fair,” there is little agreement among individuals and groups about the definition of “fair.” When organized labor calls for creation of a “fair” tax system, for example, it means a system that places heavy reliance on the progressive income tax. Often, when businessmen talk of a “fair” tax system, they mean one that favors investment, treats capital gains preferentially, and so forth.

There are several ways of determining whether a tax system is “progressive,” “fair,” or “normal.”

1. Horizontal Equity. Under the principle, persons with the same income should pay the same amount of taxes.

2. Vertical Equity. This principle concerns itself with whether a tax system is “fair” by measuring whether the overall impact is progressive, proportional, or regressive.

3. State and Local Taxation

Most tax experts agree that all tax systems should provide horizontal equity by taxing alike taxpayers earning or receiving annually the same amount of income, regardless of source. In practice, unfortunately, neither the federal tax system nor California’s provide horizontal equity.

Moreover, it is difficult to create a perfectly horizontal tax structure. In the first place, people with the same income spend their money in varying ways. A young family with two children will spend a much larger portion of its income on items subject to sales tax, for example, than will an elderly couple with the same income. Secondly, as a society we have decided to tax some goods, services, and amusements at higher rates than others, thereby intentionally treating some taxpayers differently than others. The taxes on cigarettes, alcohol, and horseracing are examples of this form of tax treatment.

Beyond the above, however, there are other fundamental questions regarding horizontal equity. Much of the current debate on tax reform focuses on such issues as the following:

1. Why should capital gains income be taxed at lower rates than wage and salary income?

2. Should wealthy persons now receiving tax-free income pay at least a minimum tax in the future?

3. Does the depletion allowance on oil and other natural resources give the particular industries and individuals an unfair advantage over others?

4. Should the sales tax apply to certain, presently exempt services, such as newspapers, containers, amusements, haircuts, etc.

In each of the above areas there is clearly room for improvement in California and each forward step would help to make our tax structure fairer.

When speaking of “vertical equity” the concepts of progressivity, proportionality, and regressivity come to mind. Under the progressive tax system, the proportion of a person’s income going to taxes increases as his income increases. The California personal income tax personifies this concept. Under it, the tax brackets run from 1 to 10 percent of income, reflecting the view that as a person’s income rises so does his “ability to pay.”

The basic philosophy underlying the progressive, or “ability to pay” concept, is that as a person’s income rises the tax rate on each increment of additional income should be higher.

A proportional tax, or tax system, extracts the same percentage of one’s income, regardless of income level. Under such a system, for example, assuming a tax rate of 5 percent, a family with an annual income of...
FIGURES AND PROPOSED SOLUTIONS

$10,000 would pay $600 in taxes (or 5 percent of their income) and a family with an annual income of $100,000 would pay $5,000 in taxes (again, 5 percent of their income). Although such a system may seem appealing at first glance, most tax specialists do not view it as desirable, choosing instead to support the "ability-to-pay" principle. A regressive tax, or tax system, takes a higher proportion of the income of a poor person than it takes of a wealthy person. Using the above figures a regressive tax system would, for instance, take 10 percent of the income of the family earning $10,000 and 5 percent of the family earning $100,000. Such a system penalizes those with low incomes and says in effect: You must pay more proportionately in taxes than persons with higher incomes because you earn less.

When the above concepts are used to judge California's major taxes the following conclusions emerge:

1. The sales tax is regressive because low income groups, by necessity, spend more of their incomes on necessities. The exemption of foods and drugs, however, makes the sales tax only moderately regressive.

2. The income tax, because its rates run from 1 to 10 percent, is highly progressive. The treatment of certain items such as capital gains, however, makes it less progressive than possible.

3. The bank and corporation tax is progressive; the cigarette tax is regressive. Motor vehicle taxes, on the other hand, appear to be roughly proportional.

4. Residential property taxes are clearly regressive, taking, as Table 5 indicates, over 4,5 percent of the annual incomes of persons earning $4,000 or less and only 2.2 percent of the income of persons earning between $50,000 and $100,000. Interestingly, before passage of Proposition IA in 1968 residential property taxes were much more regressive. Proposition IA, however, by granting a $750 property tax exemption to homeowners, reduced the amount of regressivity through aiding low and moderate-income homeowners.

Fortunately, a tax structure with a high degree of elasticity and a progressive tax structure are generally one and the same.

Reflecting the fact that the California tax structure presently is not progressive, every few years the state suffers another "tax crisis." At such times of course, the advocates of this system are vocal and effective and the general public, often confused and angry, votes down state and local bond issues with regularity. Yet this need not be the case.

Typically, state General Fund expenditures grow faster than revenues; in recent years the former increased at an average rate of 10 to 11 percent, while the latter grew about 7 percent. This difference between outgo and income periodically created a revenue gap which had to be closed by an increase in tax rates. The major tax increases in 1967 and 1969 were solely to close such gaps.

Over the past 12 years the average annual increase in the personal incomes of Californians has been 7.6 percent. Yet, because of the increased role of the personal income tax following in 1967, General Fund revenues are increasing at an annual rate of 7.6 percent. Thus, the General Fund has a growth rate slightly above the growth in personal incomes. This is expressed in an elasticity relationship of 1.06 (i.e., the growth in taxes is 1.06 percent of personal income growth).

Table 7 indicates the wide differences in the growth rates of certain types of taxes. At one end of the scale is the personal income tax with an elasticity factor of 1.55; at the other end of the scale is the cigarette tax at .40.

Table 7. Elasticity of General Fund Tax Revenues

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Elasticity Factor</th>
<th>Average Annual Increase in Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>1.55</td>
<td>11.2</td>
</tr>
<tr>
<td>Inheritance and Gift</td>
<td>1.05</td>
<td>10.9</td>
</tr>
<tr>
<td>Insurance</td>
<td>1.25</td>
<td>9.0</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>.85</td>
<td>6.2</td>
</tr>
<tr>
<td>Bank and Corporation</td>
<td>.82</td>
<td>6.2</td>
</tr>
<tr>
<td>Alcoholic Beverage</td>
<td>.80</td>
<td>5.8</td>
</tr>
<tr>
<td>Private Car</td>
<td>.75</td>
<td>5.4</td>
</tr>
<tr>
<td>Horseshoeing</td>
<td>.60</td>
<td>4.3</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>.40</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: See Table 1

An important conclusion to be drawn from Table 7 is, to avoid periodic tax increases, California should make the personal income tax the dominant source of tax revenue for the General Fund. This could be done, of course, by increasing its role to approximately 75 percent of the tax base. In New York, there nearly one-half of state tax revenues come from this progressive, highly elastic tax. Likewise, Table 7 makes clear that placing reliance on such inequitable taxes as those on retail sales, cigarettes, and alcohol means that periodically revenue falls short of expenditure needs, thereby causing such taxes to be continuously raised. The political, social, and economic consequences of repeatedly having to raise taxes are not difficult to fathom.

IV. Possible Tax Reforms

Today's challenge is to devise and enact a meaningful tax reform program that would sharply reduce the role of regressive levies while greatly increasing reliance on progressive, "ability-to-pay" tax sources, particularly the personal income tax. Without such a development it is questionable whether school districts will be able to provide a truly good education for all students; cities provide cleaner air and water, mass transportation, urban renewal and safe streets; and counties provide adequate social services.

Fortunately, there are numerous ways California's state and local tax structure can be reformed. Although the specific details of any reform package will differ, most of the following potential reforms should be included in any basic overhaul of the state's tax structure.

1. Personal Income Tax. As indicated earlier, this tax, with graduated rates, meets the "ability-to-pay" criteria and is highly elastic. Accordingly, if its role as a revenue-raiser were increased to the point where at least one-half of all state General Fund revenue came from it, two objectives of tax reform—making the tax structure more progressive and elastic—would be achieved.

From the standpoint of fairness, the personal income tax has unique advantages. First, it is the most effective way of exempting the poor from the state and local tax burden. In this regard through the use of credits or rebates, it can be used to return to low income groups some of the consumption taxes they have paid. Second, if the personal income tax permits a good share of the tax burden to be adjusted, through the use of exemptions, to family size. Neither sales nor property taxes make allowance for family size.

In the fiscal year 1969-70, the personal income tax will raise over $1.2 billion in revenues. Its role in the state tax structure could be greatly increased through adoption of a 50 percent surtax, by increasing the individual graduated rates, by reducing the size of the brackets (which are now $8,000 for a married couple, $5,000 for an individual).

A 50 percent surtax would raise $600 million in additional state revenues; these funds could then be used to reduce the role of regressive taxes in the state's local tax structure. Yet, for a family of four earning $10,000 a year, this would mean an increase of only $32 (about equal to what the same family would pay if the sales tax were raised from 5 to 6 percent). For a family with annual earnings of $7,500 it would mean a $2 increase.

(Continued on Page Six)
Proposed Tax Reforms For California

(Continued from Page Five)

increase. For persons earning above $20,000 the increase, of course, would be considerably more.

Even if a major increase in rates for all income classes now paying the tax is not adopted, however, other changes in the personal income tax are desirable. Three, in particular, stand out.

First, a pay-as-you-go, or withholding system, should be adopted. A withholding system patterned after the federal system would have the following benefits:

(a) It would improve taxpayer equity by reducing tax evasion by those who should pay but do not, often by leaving the state prior to the filing period.
(b) It would provide a more convenient means of tax payment because tax payments would be deducted from pay checks throughout the year, thereby avoiding one lump-sum payment each April.
(c) It would closely match state income tax collections with personal income, thus reducing end-of-year volatility. Yet no taxpayers (except those practicing “tax evasion”) would pay more state income tax; they only would pay it somewhat sooner.

Second, like the federal government, California treats capital gains preferentially by taxing only one-half of such income. This is the well-known capital gains “loophole.” Although this loophole has received considerable attention nationally, little light has been shed on it in California. Yet, even the spurious claim made at the federal level that capital gains are preferential treatment in order to spur investment cannot be made at the state level (because investment decisions are not made on the basis of California personal income tax provisions, but, if made at all, on the basis of federal tax law).

Removing the capital gains “loophole” from California law would mean an increase in state income taxes of about $160 million in 1970. For the average wage and salary earner this would not mean any tax increase; for persons receiving a good portion of their income from capital gains it would mean, of course, that they would be taxed at the same rate as wage and salary workers.

A third possibility is to increase the top bracket of the personal income tax from 10 percent to 15 percent. The latter rate applied in California until World War II. Raising the top bracket to 15 percent would mean a tax increase for families with taxable incomes above $31,000 a year. Obviously, this relatively select group can afford to pay more in taxes.

Increasing the top bracket from 10 to 15 percent would increase state income tax revenues by about $130 million.

All told, adoption of withholding, closing the capital gains “loophole,” and setting the top rate at 15 percent would increase state general fund revenues by about $325 million. These funds could be used to directly reduce property tax rates to provide additional support for local government, or some combination of both.

(2) Property Taxes. Property taxes are the backbone of local government finance. The residential property tax is highly regressive. It is also unpopular because most home owners pay their property taxes only twice a year and hence make large lump sum payments, and because the tax increases annually. There is now widespread agreement that the role of the property tax on residential property should be reduced.

One possibility is to divide the property tax base in two classes—residential and non-residential. The state tax could be levied on a uniform statewide basis on business property. Since over one-half of all property tax revenues come from business and from retail establishments, this approach seems reasonable. Under this concept, the state would, in effect, guarantee a certain level of support for education in each school district. Combined with other possible state programs of increased school financial aid, this would reduce much of the upward tax pressure on residential property.

Other important advantages of dividing the property tax base into two classes, with the state levying a tax on business property, include:

(a) Eliminating the wide variations in business property wealth that exist among districts and between one school district and another.
(b) Removing the incentive for businesses to locate in one area of the state rather than another because the state-localized tax would be at a uniform rate.

Another means of reducing the role of the property tax is to shift the financing of specific government functions to the state level. California’s 58 counties this year will spend about $280 million as their share of the cost of social welfare. Social welfare costs are not the same in all counties, however, as Table 8 indicates.

If the state absorbed the social welfare costs of county governments, the greatest relief would go to those counties currently bearing the heaviest tax rate burden.

As an alternative, the state could assume the costs of California’s community college system. Local governments now spend about $250 million a year to support their community colleges. If the state were to absorb these costs, tax relief could be provided property taxpayers.

A major drawback in the case of the state absorbing the costs of various programs is that local government programs, however, is that the ensuing tax relief would go to all property taxpayers. Yet single-family owner-occupied residences represent only 28 percent of the total property tax base and even when examined as a form of residential property is included, the percentage rises to only 48 percent.

For this reason it would be preferable to increase the present $750 homeowner’s exemption to $1,500 or more. This way the tax relief would be targeted solely for those in need—homeowners.

In addition, since at least 15 percent of the average rent check goes to pay the property tax of apartment house owners, renters could be aided by a state program of reimbursing low income renters for this portion of their rent payment. This could be combined with an increase in the personal income tax to produce a parallel reduction in the property tax burden.

(3) Increase Taxes on Extractive Industries. The special provisions of federal law dealing with the taxation of the oil industry and other extractive industries have come under sharp attack in recent years. The feeling among most tax specialists is that the “oil depletion” allowance and similar tax breaks for natural resources which are not used in the production of goods, services, or productive industries, are unfair.

Proposed reforms would allow the depletion allowance to be taken forever, would increase state revenues by $23 million.* It would also remove the competitive advantage owners of natural resources now enjoy over other types of business.

California tax law also operates in this manner. Closing this “loophole” in California by limiting tax recovery to actual cost, rather than allowing depletion to be taken forever, would increase state revenues by $23 million.* It would also remove the competitive advantage owners of natural resources now enjoy over other types of businesses.

(4) Broader Use of “Special Tax” Revenues. Presently revenues from the tax on motor fuels are “earmarked” for highway construction. The funds cannot be used for any other purpose. Since Special Fund revenues exceed $1.3 billion annually, there are strong advocates both for retaining “earmarking” and for using such funds for more general purposes. In recent years, however, the movement to use such funds for broader purposes, chiefly mass transportation in urban areas, has grown considerably.

Two major criticisms of “earmarking” are that it infringes on the policymaking power of the administration because it removes a portion of government activity from periodic review and control and that it leads to misallocation of funds. Clearly, there is much to be said for using a portion of special fund revenues for highway construction. Moreover, to the extent of mass transit, for example, the use of gas tax funds for the partial financing of a system would help to reduce further upward pressure on property taxes.

(5) Changing the Sales Tax Allocation Formula. This year California cities will receive as their share of retail sales, cigarette, and motor vehicle license tax revenues in lieu taxes about $500 million; this is nearly 90 percent of the amount they will raise in property taxes. Widespread variations in local property tax wealth and expenditure needs, however, mean that those cities most in need do not receive an adequate share of this revenue.

Clearly, the residents of some cities pay much more in property taxes, for example, because of higher welfare or police protection costs, than the residents of other cities. Yet the state, in the case of the sales tax returns revenue, relies on a point of sale basis. This method of distribution of sales tax revenue favors those cities with large industrial sales tax bases and few people or problems.

Oakland and San Jose, for instance, are nearly the same size in population and differ but slightly in total assessed valuation, but the cost of govern-

(Continued on Page Seven)
ment varies greatly. Oakland’s police department costs twice that of San Jose’s and its fire department 60 percent more. Reflecting these costs, Oakland’s city tax rate was $3.16 compared to only $1.70 in San Jose. Yet the two cities received almost identical shares of state-collected motor vehicle registration fees and almost Oakland’s share of state-collected local sales taxes; these funds did not compensate for its much higher police and fire protection costs.

To change this the state should adopt a different means of aiding municipali-
ties. Instead of its ambitious proposals for building of schools. To adopt the one percent locally-imposed, state-collected sales tax should be replaced by state collection and distribution of the tax on the basis of need.

The proposals for changing California’s tax structure receiving the most attention in 1969 were made by the Governor. In April the state adminis-
tration proposed that the sales tax be extended to newspapers, milk cartons and the like, such a tax would apply. The benefits of such a proposal are unclear at best. The advantages of mandatory withholding—catching tax-evaders and in-
creased elasticity—would not apply. Moreover, a voluntary system would produce numerous administrative problems for employers. Clearly, such a proposal, whatever its true objective, is a poor substitute for the type of withholding system in operation in all states having a personal income tax but California an 2.35 percent of taxable gross premiums. The tax cannot be charged except by a two-thirds vote of both houses of the legislature and a vote of the people. In the words of the Flourney Commission:

There is no unique basis for so favoring a particular industry or tax, the legislative purpose underlying the tax must be re-appraised. Such a tax should be repealed and re-enacted as statutory provisions.

Also, insurance companies benefit from what is called the “home office” discount. The 75 percent allocated to insurance companies is added on to their state property taxes paid on their principal office. This Constitutional provi-
sion should be repealed so that insurance companies must pay property taxes at their principal offices.

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### Recipe For A Holiday Disaster

You know the feeling. The Christmas tree has been up for a couple of weeks or more. The pile of packages under it has been growing larger, along with the anticipation and excitement of the children, and then it happens. Christmas morning and the gifts have all been opened, and you start through a period of time, appropriately called the post-Christmas doldrums. This is caused by everyone in the family suffering a great big letdown together.

Well, if you are looking for some sort of activity, or excitement to pick up the family's morale, follow these ingredients closely:

**First** you take a toy pistol that has a small plastic bullet stuck in the barrel. You mix generously with a boy, preferably of the 7 1/2-year "gunsmith" variety, and Bingo, you have a finished product! And if it hadn't been for your quick thinking on the part of this lad's father, it would have been a finished and sad Holiday Season, along with many more to come.

Following is an account of a near-fatal accident for young Ronnie Owen. Ronnie is the son of Orville and Lois Owen. Orv is a Business Representative for this Local Union, in San Jose Division.

It was about 6:10 p.m. on December 29, 1969. The family had finished dinner and the children had left the table. Ronnie went upstairs to his bedroom to play with a toy pistol that had been a Christmas gift. The problem arose when one of the plastic bullets became lodged in the barrel. Ronnie figured if he placed the end of the barrel in his mouth and sucked on it the bullet would slide out and he could catch it with his teeth. IT DID AND HE MISSED. The end result was the bullet was now stuck in his throat near the entry to his lungs.

Jeanine, Lois and Orv's 13-year-old daughter was in the living room when a commotion was heard upstairs. She was up the stairs in a second to see what had happened to her brother. Orv and Lois, hearing all this going on, were just starting up when Jeanine and Ronnie, pale and gasping for air, were starting down. Orv, assuming Ronnie had swallowed something, grabbed him by the heels and shook him upside down, hoping whatever it was would come out. NOTHING HAPPENED.

Orv then scooped him up and they, along with Lois, departed for the hospital. (Orv says he may have exceeded the local speed limits once or twice during the trip.)

All the way to the hospital Orv kept telling Ronnie to scream. This aided Ronnie in keeping his throat open and also gave him something to concentrate on besides getting sick. Orv knew if he became nauseous and vomited it would be a sure thing that Ronnie would be lost.

Upon arrival at the hospital he was rushed into Emergency and after a half hour of probing the doctors came up with the bullet. All the while this was going on oxygen had to be administered to keep him alive. Although the whole operation by the doctors didn't take more than 30 minutes, Ronnie spent until the 31st in the hospital in an oxygen tent. The doctors feared he might develop pneumonia after their probing due to the area in which the bullet was lodged.

Orv was asked if he was worried about Ronnie going into shock prior to getting him to the hospital. He said, "No, Ronnie's a good little trooper," but added, "I was more concerned about his mother and myself going into shock."

And this is the main idea to get across. If you can keep your head in times of emergency, especially when the person involved is one you love dearly, then nine times out of ten, YOU'VE GOT IT MADE.

### DON'T GAMBLE WITH DEATH

Due to recent accidents involving workers in trenches, and the problem of cave-ins, we are printing here the rules governing correct shoring procedures for trenches that workers must enter, set down by the State of California, Division of Industrial Safety.

Keep in mind, California Construction Safety Orders give minimum requirements only, but distinctly specify that all trenches which present a hazard to the workman must be guarded against the hazard of moving ground.

Fourteen times as many workers die from caving ditches, than from other construction work (in proportion to the number of disabling injuries). * * *

Out of every 13 workers who receive a disabling injury from cave-ins, one dies.

Walls of earth may look quite harmless, but they are extremely dangerous unless held in place by adequate shoring and bracing. * * *

**Play safe! Don't bet lives on soil conditions! Provide adequate shoring and bracing.**

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### Trench Shoring Specifications

- **Hard Compact Ground**
  - Trenches 3 feet or more deep and over 8 feet long must be braced at intervals of 8 feet or less.
  - A strut brace is required for each 4-foot zone into which the trench depth can be divided, with at least two braces for each set of uprights.
  - Steel screw-type trench braces must have a foot or over 8 feet long.

- **Filled or Unstable Ground**
  - Shoring must be provided, and must be sufficient to hold the soil in place.
  - Longitudinal-stringer dimensions depend on the strength of the soil and stringer spacing and upon the degree of instability encountered.

### ALTERNATE TRENCH PROTECTION

- **Sloping**
  - Trench excavations walls must be sloped no less than 1 horizontal foot to 1 vertical foot or alternate means of protection.

- **Protective Shields**
  - Protective shields or welder's huts may be substituted for shoring systems to provide local protection for workers in trenches. Approval of their design and construction shall be secured from the Division of Industrial Safety by the employer before use.

### Design by Registered Engineer

A civil engineer, registered in California, may design and submit detailed data to the Division of Industrial Safety for alternate effective shoring systems. The design must include a soil investigation study, a slope stability study, and an estimate of forces to be resisted, together with plans and specifications of the materials and methods to be used.

Upon approval and testing by the Division, the design must meet the specifications of the alternate proposal or add such modifications as appear just and reasonable. See Plate C-34-a, b, Appendix. Construction Safety Orders, for engineering design alternate criteria.

### ACCESS

Trenches five feet or more deep, bored, or more than 15 feet below the true grade, or where means of getting in and out of the trench is impractical, must be provided with a ladder or protective huts.

### PIPE INSTALLATION

Length or diameter of pipe being installed does not affect the trenching requirements. Shoring protection is required within at least 4 feet of any works.