

California budget: Tax increases and a few benefits

Early this morning, the California legislature finally passed a budget package, after removing some tax increases and adding some goodies. The budget package, which covers the state's 2008-09 and 2009-10 fiscal years, is awaiting the Governor's signature. The Governor is expected to sign it, after he line-item vetoes about \$600 million of various expenditures.

The tax changes include:

- Sales and use tax rate increase by 1%, starting April 1, 2009;
- Increase in the personal income tax rates by 0.25% or 0.125% depending on federal stimulus revenue;
- Dependent exemption credit decrease to the same amount as the personal exemption credit, for the 2009 and 2010 taxable years;
- Vehicle license fee increase by 1% and vehicle registration fee increase by 0.15%, starting May 19, 2009;
- New homebuyer credit;
- Tax credits for the entertainment industry;
- Tax credit for small businesses (under 20 employees) hiring new employees; and
- Single sales apportionment factor.

Missing from the final package is:

- Gas tax increase (originally included in the assembly version but removed in the final version);
- 5% surtax (originally included in the assembly version but removed in the final version);
- Sales tax on services (discussed and included in earlier versions of the bill); and
- Withholding on independent contractors (which had been under serious consideration).

On the federal side, the President signed a \$787-billion stimulus package (the American Recovery and Reinvestment Act of 2009, H.R. 1) on February 13, 2009.