



SACRAMENTO UPDATE

June 19, 2009
SU18-09

Budget Activities

The Budget Conference Committee closed out this week and plans are for a budget adjustment vote on the floor of the legislature next week. The Governor has said he will veto this plan if it reaches his desk because of increased taxes.

Major elements of the plan includes: (1) over \$10.4 billion in program reductions and savings; (2) approximately \$1 billion in reductions, primarily from the Medi-Cal program – that require federal action (this is consistent with the Governor's May Revise proposal); (3) revenue accelerations and fee increases of approximately \$5 billion; (4) fund shifts of about \$2.6 billion; (5) enhanced revenue enforcement collections of \$143 million; (6) rejection of borrowing \$2 billion (Proposition 1A) from local government; (7) increase taxes – primarily on cigarettes and oil severance – \$1.9 billion; and (8) other proposals of \$2.2 billion (which includes the sale of the State Compensation Insurance Fund [SCIF] as proposed by the administration). In total, after all actions are taken into account, the Budget Conference Committee provides for an approximately \$4 billion (\$3.8 billion) General Fund reserve for 2009-10.

Specific areas of interest to GSBE:

- **State Compensation Insurance Fund:** Adopts the Governor's proposal to sell a portion of the State Compensation Insurance Fund (SCIF) to a private entity for an estimated \$1 billion. The SCIF would remain the "insurer of last resort".
- No suspension of **Prop 42** gas tax road funds
- Adopts the Governor's proposal to redirect the **local gas tax** for General Fund relief, but limits the shift to two years instead of permanent. In 2009-10, the amount of the shift would be \$986 million, and in 2010-11, the shift would be about \$750 million.
- **Quarterly prepayments.** Accelerates \$610 million of Personal Income Tax and Corporation Tax revenues into 2009-10 by increasing the June (second) quarterly estimated payment from the current 30 percent of annual tax liability to 40 percent, beginning June 2010. The percentage due with the first quarterly estimated tax payment (due in April) is 30 percent, so the total amount due in the first half of the year would be 70 percent. However, the proposal would eliminate the third quarterly estimated payment (now 20 percent of annual liability) and increase the final quarterly payment (due in December) from the current 20 percent to 30 percent of annual tax liability.
- **Payroll Withholding.** Increase payroll withholding schedules by 10 percent, effective January 2010, to accelerate \$1.7 billion of Personal Income Tax revenue into 2009-10.
- **Contractor withholding:** Imposes withholding on independent contractors. Effective January 1, 2010, extends income tax withholding on payments to independent contractors. Requires businesses and government entities to withhold three percent of payments for goods or services to independent contractors that currently require the filing of a federal 1099-MISC.

- **License revocation:** Revocation of licenses for delinquent tax payments. Permits the state to suspend state occupational and professional licenses because of unpaid income tax liabilities. Allows taxpayers to avoid suspension by entering into an installment agreement with FTB.

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