

1-3-1996

Flat Income Tax. Other Taxes. Repeal.

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ELECTIONS DIVISION
(916) 657-2166
1500 - 11th STREET
SACRAMENTO, CA 95814
Voter Registration Hotline
1-800-345-VOTE
For Hearing and Speech Impaired Only
1-800-833-8683
e-mail: comments@ss.ca.gov

BILL JONES

Secretary of State
State of California

June 14, 1996

#698

TO: ALL COUNTY CLERKS/REGISTRARS OF VOTERS AND
PROPONENT (96210)

FROM:

A handwritten signature in cursive script, appearing to read "Cathy Mitchell", written over a horizontal line.

CATHY MITCHELL
Initiative Coordinator

Pursuant to Elections Code section 9030(b), you are hereby notified that the total number of signatures to the hereinafter named proposed INITIATIVE CONSTITUTIONAL AMENDMENT filed with all county elections officials is less than 100 percent of the number of qualified voters required to find the petition sufficient; therefore, the petition has failed.

TITLE: FLAT INCOME TAX. OTHER TAXES. REPEAL.
INITIATIVE CONSTITUTIONAL AMENDMENT.

SUMMARY DATE: January 3, 1996

PROPONENT: Arthur Betz Laffer
Victor Antonio Canto
Howard Kaloogian

"Ensuring the integrity of California's election process"

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1)

1



Bill Jones
Secretary of State

1500 - 11th Street
Sacramento, CA 95814

Elections Division
(916) 657-2166
For Hearing and Speech
Impaired Only: (800) 833-8683

#698

January 5, 1996

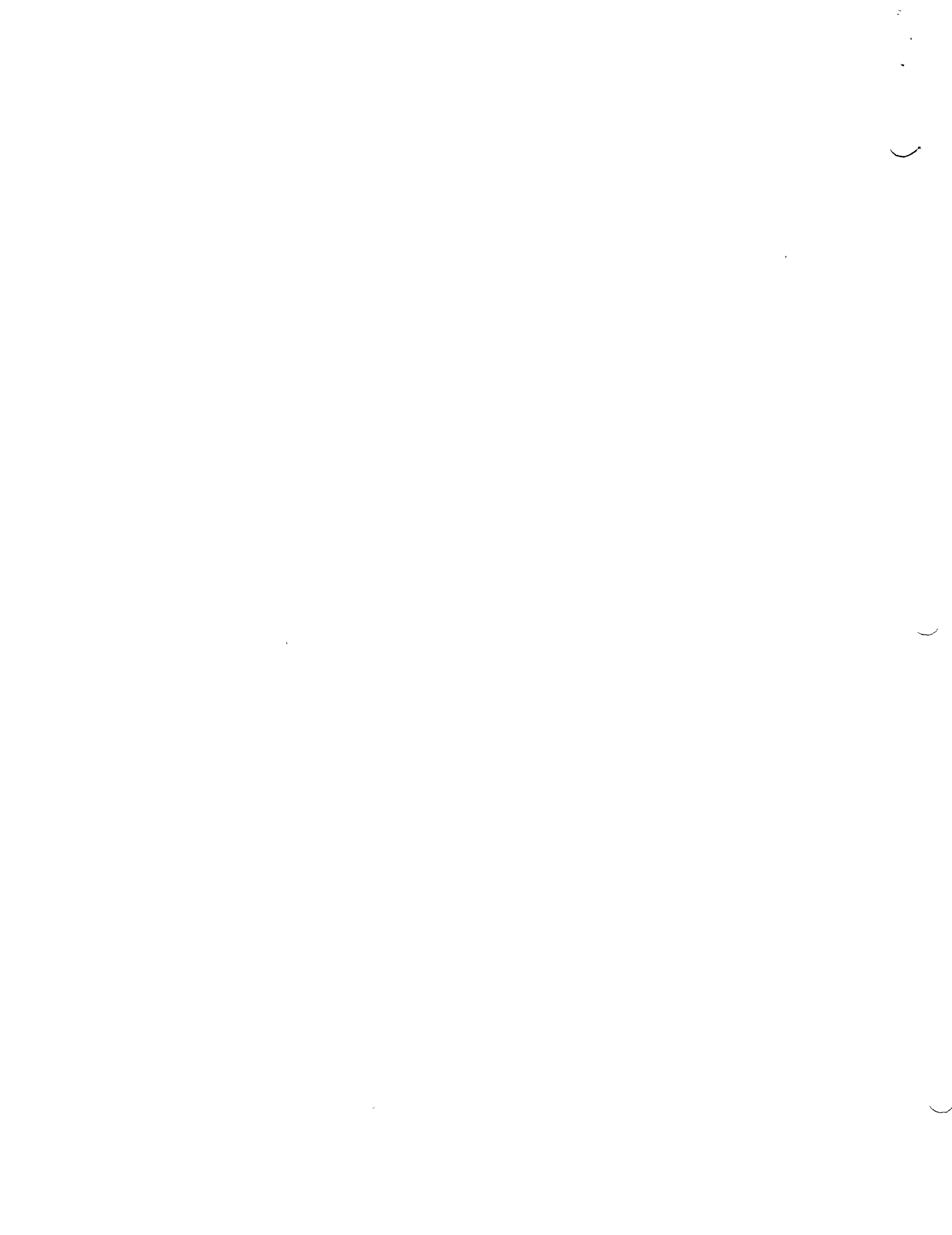
TO: All County Clerks/Registrars of Voters (96021)

FROM: Cathy Mitchell
Cathy Mitchell
Initiative Coordinator

SUBJECT: **FLAT INCOME TAX. OTHER TAXES. REPEAL. INITIATIVE
CONSTITUTIONAL AMENDMENT**

Please be advised that the Attorney General's office has sent us a corrected version of the title and summary for the above measure. We are not reissuing the initiative; however, I would appreciate it if you would insert the corrected page into the materials you have received from our office.

Please feel free to contact me or Deirdre Avent if you have any questions.



DANIEL E. LUNGREN
Attorney General

State of California
DEPARTMENT OF JUSTICE



1300 I STREET, SUITE 125
P.O. BOX 944255
SACRAMENTO, CA 94244-2550
(916) 445-9555

FACSIMILE: (916) 324-8835
(916) 324-5390


January 4, 1996

Arthur Betz Laffer, Victor Antonio Canto, Howard Kaloogian
c/o: Richard D. Martland
Nielsen, Merksamer, Parrinello, Mueller & Naylor
770 L Street, Suite 800
Sacramento, California 95814

FILED
In the office of the Secretary of State
of the State of California

JAN 5 1996

RE: FLAT INCOME TAX. OTHER TAXES. REPEAL.
INITIATIVE CONSTITUTIONAL AMENDMENT.
Our File No.: SA95RF0042 -- (CORRECTED)

BILL JONES, Secretary of State
By 
Deputy Secretary of State

Dear Messrs. Laffer, Canto, and Kaloogian:

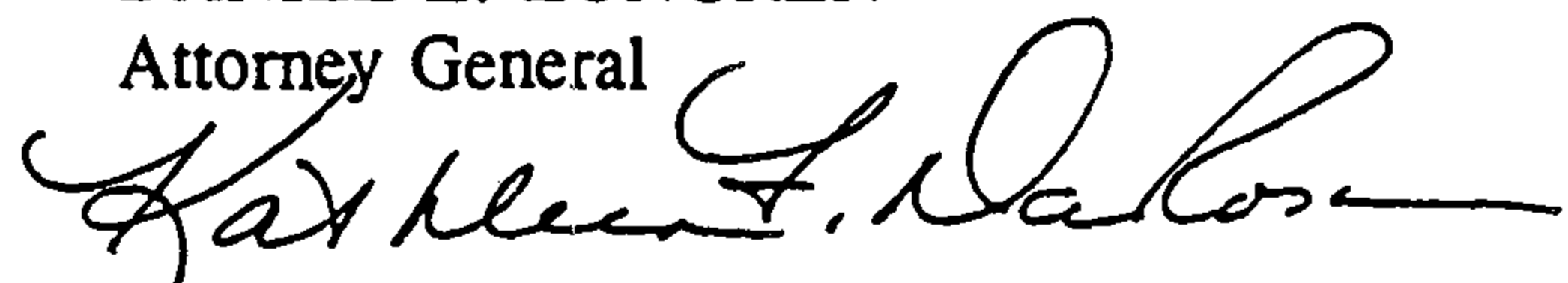
Pursuant to a January 4, 1996 telephone call from your legal counsel, Mr. Richard Martland, there is an inadvertent typographical error in the last line of the above-referenced title and summary that was issued by this office on January 3, 1996. Pursuant to Mr. Martland's request, we are issuing a corrected version of the title and summary. A copy of the corrected version is attached, and it will be transmitted to the Secretary of State's Office.

Please be advised that the correction that has been made is nonsubstantive in nature, and the issuance of a corrected title and summary will not generate a new official summary date for circulation purposes. Please accept my personal apologies for this inadvertent mistake and any inconvenience that it may have caused you.

Thank you for your patience and understanding in this matter.

Sincerely,

DANIEL E. LUNGREN
Attorney General



KATHLEEN F. DaROSA
Initiative Coordinator

KFD/Encl.

Date: January 3, 1996
File No: SA95RF0042
(CORRECTED VERSION)

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

FLAT INCOME TAX. OTHER TAXES. REPEAL. INITIATIVE

CONSTITUTIONAL AMENDMENT. Replaces existing income taxes with a flat tax on personal and business income at a single percentage rate set by Legislature.

Prohibits other taxes except property tax, gross premiums tax, unemployment insurance tax, inheritance tax, and excise taxes on alcoholic beverages, cigarettes and tobacco products and horse racing. Limits local taxes to property tax and surtax on state flat tax. Authorizes limited deductions from income subject to flat taxes. Two-thirds of Legislature may adjust flat tax rate. Requires approval of local surtax by 2/3 of governing agency and 2/3 of voters. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local governments: The overall impact could be ongoing losses of several billion dollars to state and/or local governments, largely due to the measure's elimination of many taxes. However, the actual impact would depend on actions taken by the Legislature and the voters to offset these losses, principally the level of new flat tax and surtax rates.



Bill Jones
Secretary of State

1500 - 11th Street
Sacramento, CA 95814

Elections Division
(916) 657-2166
For Hearing and Speech
Impaired Only: (800) 833-8683

#698

January 3, 1996

TO ALL REGISTRARS OF VOTERS, OR COUNTY CLERKS, AND PROPONENT (96012)

Pursuant to Section 336 of the Elections Code, we transmit herewith a copy of the Title and Summary prepared by the Attorney General on a proposed Initiative Measure entitled:

**FLAT INCOME TAX. OTHER TAXES. REPEAL.
INITIATIVE CONSTITUTIONAL AMENDMENT.**

Circulating and Filing Schedule

- 1. Minimum number of signatures required 693,230
Cal. Const., Art. II, Sec. 8(b).
- 2. Official Summary Date Wednesday, 01/03/96
Elec. C., Sec. 336.
- 3. Petition Sections:
 - a. First day Proponents can circulate Sections for
signatures Wednesday, 01/03/96
Elec. C., Sec. 336.
 - b. Last day Proponents can circulate and file with
the county. All sections are to be filed at
the same time within each county Friday, 05/31/96
Elec. C., Secs. 336, 9030(a)
 - c. Last day for county to determine total number of
signatures affixed to petition and to transmit total
to the Secretary of State Wednesday, 06/12/96
Elec. C., Sec. 9030(b)

(If the Proponents file the petition with the county on a date prior to 05/31/96, the county has eight working days from the filing of the petition to determine the total number of signatures affixed to the petition and to transmit the total to the Secretary of State.) Elec. C., Sec. 9030(b).

d. Secretary of State determines whether the total number of signatures filed with all county clerks meets the minimum number of required signatures, and notifies the counties Friday, 06/21/96*
Elec. C., Sec. 9030(c)

e. Last day for county to determine total number of qualified voters who signed the petition, and to transmit certificate with a blank copy of the petition to the Secretary of State Monday, 08/05/96
Elec. C., Sec. 9030(d)

(If the Secretary of State notifies the county to determine the number of qualified voters who signed the petition on a date other than 06/21/96, the last day is no later than the thirtieth day after the county's receipt of notification.)
Elec. C., Sec. 9030(d), (e).

f. If the signature count is more than 762,553 or less than 658,569 then the Secretary of State certifies the petition has qualified or failed, and notifies the counties. If the signature count is between 658,569 and 762,553 inclusive, then the Secretary of State notifies the counties using the random sampling technique to determine the validity of all signatures Thursday, 08/15/96*
Elec. C., Secs. 9030(f), (g); 9031(a)

g. Last day for county to determine actual number of all qualified voters who signed the petition, and to transmit certificate with a blank copy of the petition to the Secretary of State Monday, 09/30/96
Elec. C., Sec. 9031(b), (c)

(If the Secretary of State notifies the county to determine the number of qualified voters who have signed the petition on a date other than 08/15/96, the last day is no later than the thirtieth working day after county's receipt of notification.)
Elec. C., Sec. 9031(b), (c).

h. Secretary of State certifies whether the petition has been signed by the number of qualified voters required to declare the petition sufficient Friday, 10/04/96*
Elec. C., Sec. 9031(d), 9033

* Date varies based on receipt of county certification.

**FLAT INCOME TAX. OTHER TAXES. REPEAL.
INITIATIVE CONSTITUTIONAL AMENDMENT.**

January 3, 1996

Page 3

4. The Proponents of the above-named measure are:

Arthur Betz Laffer, Victor Antonio Canto, Howard Kaloogian
c/o: Richard D. Martland
Nielsen, Merksamer, Parrinello, Mueller & Naylor
770 L Street, Suite 800
Sacramento, CA 95814
(916) 446-6752
(916) 446-6106

5. Important Points:

- (a) California law prohibits the use of signatures, names and addresses gathered on initiative petitions for any purpose other than to qualify the initiative measure for the ballot. This means that the petitions cannot be used to create or add to mailing lists or similar lists for any purpose, including fund raising or requests for support. Any such misuse constitutes a crime under California law. Elections Code section 18650; Bilofsky v. Deukmejian (1981) 123 Cal.App. 3d 825, 177 Cal.Rptr. 621; 63 Ops. Cal.Atty.Gen. 37 (1980).
- (b) Please refer to Elections Code sections 100, 101, 104, 9001, 9008, 9009, 9021, and 9022 for appropriate format and type consideration in printing, typing, and otherwise preparing your initiative petition for circulation and signatures. Please send a copy of the petition after you have it printed. This copy is not for our review or approval, but to supplement our file.
- (c) Your attention is directed to the campaign disclosure requirements of the Political Reform Act of 1974, Government Code section 81000 et seq.
- (d) When writing or calling state or county elections officials, provide the official title of the initiative which was prepared by the Attorney General. Use of this title will assist elections officials in referencing the proper file.
- (e) When a petition is presented to the county elections official for filing by someone other than the proponent, the required authorization shall include the name or names of the persons filing the petition.
- (f) When filing the petition with the county elections official, please provide a blank petition for elections official use.

NOTE TO PROPONENTS WHO WISH TO QUALIFY FOR THE NOVEMBER 5, 1996 GENERAL ELECTION: This initiative must be certified for the ballot 131 days before the election (June 27, 1996). Please remember to time your submissions accordingly. For example, in order to allow the maximum time permitted by law for the random sample verification process, it is suggested that proponents file their petitions to county elections officials by April 19, 1996. If a 100% check of signatures is necessary, it is advised that the petitions be filed by February 28, 1996.

Sincerely,



**CATHY MITCHELL
ELECTIONS SPECIALIST**

DANIEL E. LUNGREN
Attorney General

State of California
DEPARTMENT OF JUSTICE



1300 I STREET, SUITE 125
P.O. BOX 944255
SACRAMENTO, CA 94244-2550
(916) 445-9555

Facsimile: (916) 323-2137
(916) 324-5490

January 3, 1996

FILED
In the office of the Secretary of State
of the State of California

JAN 3 1996

Bill Jones
Secretary of State
1500 - 11th Street
Sacramento, CA 95814

BILL JONES, Secretary of State
By *W. Mitchell*
Deputy Secretary of State

Re: Initiative Title and Summary
Subject: FLAT INCOME TAX. OTHER TAXES. REPEAL.
INITIATIVE CONSTITUTIONAL AMENDMENT.
File No: SA 95 RF 0042

Dear Mr. Jones:

Pursuant to the provisions of sections 9004 and 336 of the Elections Code, you are hereby notified that on this day we mailed to the proponents of the above-identified proposed initiative our title and summary.

Enclosed is a copy of our transmittal letter to the proponents, a copy of our title and summary, a declaration of mailing thereof, and a copy of the proposed measure.

According to information available in our records, the names and address of the proponents are as stated on the declaration of mailing.

Sincerely,

DANIEL E. LUNGREN
Attorney General

A handwritten signature in cursive script, appearing to read "Kathleen F. DaRosa".

KATHLEEN F. DaROSA
Initiative Coordinator

KFD:ms
Enclosures

Date: January 3, 1996
File No: SA95RF0042

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

FLAT INCOME TAX. OTHER TAXES. REPEAL. INITIATIVE CONSTITUTIONAL AMENDMENT. Replaces existing income taxes with a flat tax on personal and business income at a single percentage rate set by Legislature. Prohibits other taxes except property tax, gross premiums tax, unemployment insurance tax, inheritance tax, and excise taxes on alcoholic beverages, cigarettes and tobacco products and horse racing. Limits local taxes to property tax and surtax on state flat tax. Authorizes limited deductions from income subject to flat taxes. Two-thirds of Legislature may adjust flat tax rate. Requires approval of local surtax by 2/3 of governing agency and 2/3 of voters. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local governments: The overall impact could be ongoing losses of several billion dollars to state and/or local governments, largely due to the measure's elimination of many taxes. However, the actual impact would depend on actions taken by the Legislature and the voters to offset these losses, principally the level of new flat tax and surtax rates.

November 3, 1995

RECEIVED
NOV. 6 1995

Office of the Attorney General
Department of Justice
1300 I Street
Sacramento, CA 95814

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Attention: Kathleen F. DaRosa, Initiative Coordinator

Re: Personal and Business Flat Tax Law

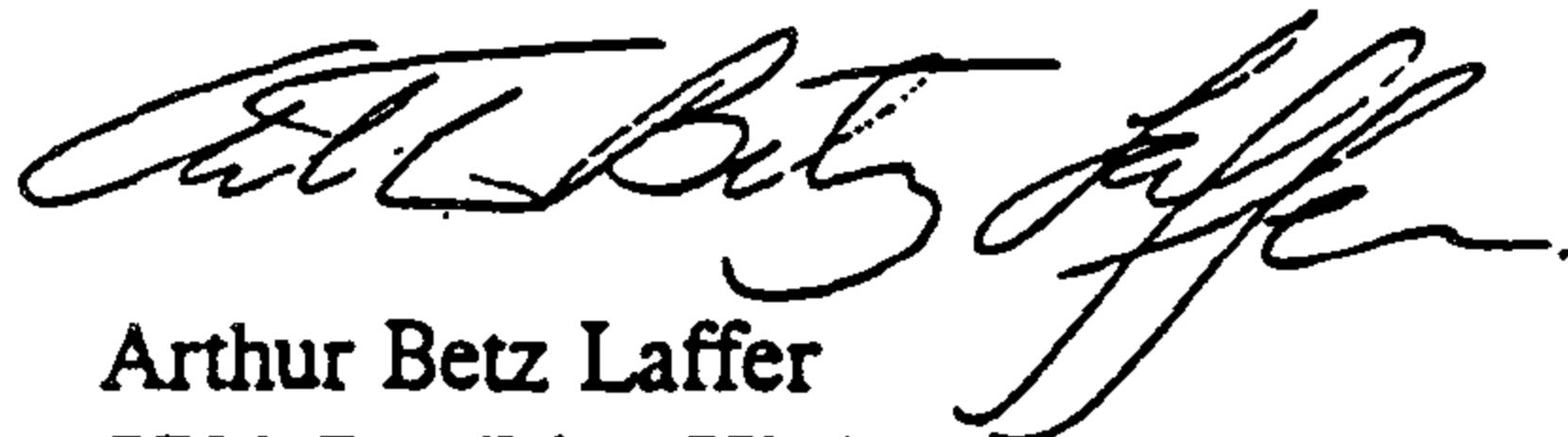
Dear Ms. DaRosa:

Pursuant to Elections Code section 9002, we request the Attorney General to prepare a title and summary of an initiative measure entitled "Personal and Business Flat Tax Law." The text of the measure, a check for \$200.00, and the addresses at which we are registered to vote are attached.

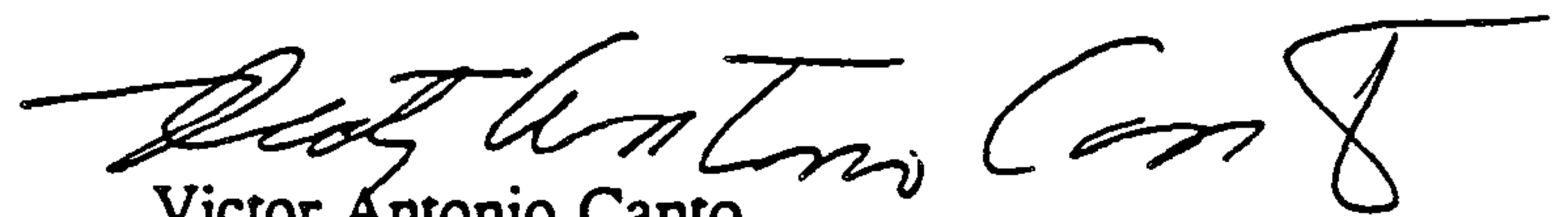
Please direct all correspondence and inquiries regarding this measure to my attorney:

Richard D. Martland
Nielsen, Merksamer, Parrinello,
Mueller & Naylor
770 L Street, Suite 800
Sacramento, CA 95814
(916) 446-6752
(916) 446-6106

Sincerely,



Arthur Betz Laffer
7722 Del Dios Highway
Rancho Santa Fe, CA 92067



Victor Antonio Canto
16715 Via de la Valle
Rancho Santa Fe, CA 92067

enclosure

November 3, 1995

Office of the Attorney General
Department of Justice
1300 I Street
Sacramento, CA 95814

Attention: Kathleen F. DaRosa, Initiative Coordinator

Re: Personal and Business Flat Tax Law

Dear Ms. DaRosa:

Pursuant to Elections Code section 9002, we request the Attorney General to prepare a title and summary of an initiative measure entitled "Personal and Business Flat Tax Law." The text of the measure, a check for \$ 200.00, and the addresses at which we are registered to vote are attached.

Please direct all correspondence and inquiries regarding this measure to my attorney:

Richard D. Martland
Nielsen, Merksamer, Parrinello,
Mueller & Naylor
770 L Street, Suite 800
Sacramento, CA 95814
916/446-6752
916/446-6106

Sincerely,



Howard Kalogian

3145 Calle Viento
Carlsbad, CA 92009

Initiative Measure to Be Submitted Directly to the Voters

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

To the Honorable Secretary of State of California

We, the undersigned, registered, qualified voters of California, residents of _____ County (or City and County), hereby propose amendments to the Constitution of California and petition the Secretary of State to submit the same to the voters of California for their adoption or rejection at the next succeeding general election or at any special statewide election held prior to that general election or otherwise provided by law. The proposed constitutional amendments read as follows:

PERSONAL AND BUSINESS FLAT TAX LAW

SECTION 1. The people of California do find and declare:

(a) This measure may be cited as the Personal and Business Flat Tax Law.

(b) California's taxation policies have become a detriment to both labor and business, contributing to high unemployment and a harsh business atmosphere. These taxation policies are often the reason given by many businesses when they leave the State.

(c) California's taxing laws have become so complex that it has become impossible for the average Californian or small business to prepare their own tax forms, thereby causing unnecessary costs.

(d) Because state and local governments change the tax law so frequently, it has become difficult for people and businesses to engage in long-range economic planning, resulting in a drag upon business and prosperity.

(e) The people of California have on several occasions in the last several years enacted constitutional amendments and initiative statutes to prohibit state and local governments from increasing taxes without a vote of the people.

SECTION 2. The people enact this measure to accomplish the following purposes:

(a) To replace the various complex systems of taxation in California with a system the average person can understand.

(b) To use the power of the purse to control the size of government and to encourage economic development.

(c) To reduce the cost of implementing the tax system and collecting taxes.

(d) To ensure that income taxes bear equally upon all persons, so as to give no person an advantage, nor put any person at a disadvantage.

(e) To increase the stability of the tax law over long periods of time to make it possible for people and businesses to engage in long-range economic planning.

(f) To assure the citizenry of California that total combined state and local taxes will be a constant percentage of California's personal income over time.

SECTION 3. Subdivision (a) of Section 9 of Article II of the California Constitution is amended to read:

SEC. 9. (a) The referendum is the power of the electors to approve or reject statutes or parts of statutes except urgency statutes, statutes calling elections, and statutes providing for ~~tax levies or~~ appropriations for the usual current expenses of the State.

SECTION 4. Section 26 of Article XIII of the California Constitution is repealed.

~~SEC. 26 (a) Taxes on or measured by income may be imposed on persons, corporations, or other entities as prescribed by law.~~

~~(b) Interest on bonds issued by the State or a local government in the State is exempt from taxes on income.~~

~~(c) Income of a nonprofit educational institution of collegiate grade within the State of California is exempt from taxes on or measured by income if both of the following conditions are met:~~

~~(1) The income is not unrelated business income as defined by the Legislature.~~

~~(2) The income is used exclusively for educational purposes.~~

~~(d) A nonprofit organization that is exempted from taxation by Chapter 4 (commencing with Section 23701) of Part 11 of Division 2 of the Revenue and Taxation Code or Subchapter F (commencing with Section 501) of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, or the successor of either, is exempt from any business license tax or fee measured by income or gross receipts that is levied by a county or city, whether charter or general law, a city and county, a school district, a special district, or any other local agency.~~

SECTION 5. Section 26 is added to Article XIII of the California Constitution, to read:

SEC. 26. (a) On and after January 1, 1997, no state tax shall be levied except for the following:

(1) A personal flat tax as described in subdivision (a) of Section 27.

(2) A business flat tax as described in subdivision (b) of Section 27.

(3) An ad valorem property tax as authorized by Section 1.

(4) A gross premiums tax as authorized by Section 28.

(5) An unemployment insurance tax.

(6) An inheritance or estate tax.

(7) An excise tax levied with respect to alcoholic beverages as authorized by Section 22 of Article XX.

(8) An excise tax levied with respect to cigarettes and tobacco products.

(9) A tax levied with respect to horseracing.

(b) The rate of a tax described in paragraphs (7), (8), or (9) of subdivision (a) shall not exceed the rate at which that tax was imposed as of November 1, 1996.

(c) (1) On or after January 1, 1997, an entity of state government shall levy a fee only if the amount of that fee is directly related to the cost of the services or improvements for which the fee is imposed. An entity of state government shall not establish, increase, or levy a fee unless that entity specifies both of the following:

(A) The purpose of the fee.

(B) The particular uses for which the revenues derived from the fee are to be expended.

(2) On or after January 1, 1997, revenues derived from a fee imposed by an entity of state government shall be expended only to fund the direct costs of those improvements or services for which the fee was imposed.

(3) For purposes of this subdivision, an "entity of state government" does not include a local governmental entity.

SECTION 6. Section 27 of Article XIII of the California Constitution is repealed.

~~SEC. 27. The Legislature, a majority of the membership of each house concurring, may tax corporations, including state and national banks, and their franchises by any method not prohibited by this Constitution or the Constitution or laws of~~

~~the United States. Unless otherwise provided by the Legislature, the tax on state and national banks shall be according to or measured by their net income and shall be in lieu of all other taxes and license fees upon banks or their shares, except taxes upon real property and vehicle registration and license fees.~~

SECTION 7. Section 27 is added to Article XIII of the California Constitution, to read:

SEC. 27. (a) For each year beginning on or after January 1, 1997, there is hereby imposed a flat tax on personal income at a rate to be set annually by the Legislature at a single percentage.

(b) For each year beginning on or after January 1, 1997, there is hereby imposed a flat tax on business income at a rate to be set annually by the Legislature at a single percentage. For purposes of this subdivision, "business income" means the income of a corporation, a sole proprietorship, a partnership, or an independent contractor.

(c) (1) (A) For each of the first three years for which this section is operative, the Legislature shall set the business flat tax rate described in subdivision (b) at a percentage that is estimated to generate an amount of revenues equal to no more than the business flat tax revenue limit calculated by the State Board of Equalization for the relevant year pursuant to paragraph (2) of subdivision (d).

(B) For any year for which this section is operative, the combined amount of revenue derived pursuant to the tax rates imposed in accordance with subdivision (a) shall not exceed the flat tax revenue limit calculated by the State Board of Equalization for that year pursuant to paragraph (1) of subdivision (d).

(2) On or before June 1 of each year, the Governor shall, in consultation with the Department of Finance, determine whether the relevant amounts of revenues actually collected for the immediately preceding year pursuant to the flat taxes imposed by subdivisions (a) and (b) are less than or exceed the revenue limits determined for those taxes by the State Board of Equalization for that year pursuant to subdivision (d).

(d) (1) For each year beginning on or after January 1, 1997, for purposes of subparagraph (B) of paragraph (1) of subdivision (c), the State Board of Equalization shall calculate the State's flat tax revenue limit in accordance with the following formula:

(A) For each of the 1991-92 to 1995-96 fiscal years, inclusive, determine the ratio of the total amount of all tax revenues derived during that fiscal year from those state taxes that were imposed during that fiscal year but are no longer

authorized as of January 1, 1997, to the amount of the State's gross domestic product, as estimated by the board for that fiscal year.

(B) Calculate the average of the ratios determined pursuant to subparagraph (A).

(C) On January 5 of each year, multiply the average ratio calculated pursuant to subparagraph (B) by the amount of the State's gross domestic product as estimated by the board for the year for which the revenue limit is being calculated.

(D) Add to the product determined pursuant to subparagraph (C) the amount of any shortfall of actual flat tax revenues, or subtract from that product the amount of any excess of actual flat tax revenues, as determined by the Governor for the preceding year pursuant to paragraph (2) of subdivision (c) relative to the State's flat tax revenue limit for that preceding year.

(2) For each year beginning on or after January 1, 1997, and before January 1, 2000, for purposes of subparagraph (A) of paragraph (1) of subdivision (c), the State Board of Equalization shall calculate the State's business flat tax revenue limit in accordance with the following formula:

(A) For each of the 1991-92 to 1995-96 fiscal years, inclusive, determine the ratio of the total amount of all tax revenues remitted by businesses, as described in subdivision (b) of Section 27, and derived during that fiscal year from those state taxes that were imposed during that fiscal year but are no longer authorized as of January 1, 1997, to the amount of the State's gross domestic product, as estimated by the board for that fiscal year. For purposes of this subparagraph, tax revenues are remitted by a business only if those revenues were ultimately collected from a business, regardless of whether the business was legally responsible for the payment of the relevant tax.

(B) Calculate the average of the ratios determined pursuant to subparagraph (A).

(C) On January 5 of each year, multiply the average ratio calculated pursuant to subparagraph (B) by the amount of the State's gross domestic product as estimated by the board for the year for which the revenue limit is being calculated.

(D) Add to the product determined pursuant to subparagraph (C) the amount of any shortfall of actual business flat tax revenues, or subtract from that product the amount of any excess of actual business flat tax revenues, as determined by the Governor for the preceding year pursuant to paragraph (2) of

subdivision (c) relative to the State's business flat tax revenue limit for that preceding year.

(e) The Legislature shall establish exemptions or deductions from the income that is subject to the personal flat tax imposed pursuant to subdivision (a) with respect to the following items only:

(1) The amount of interest paid by the taxpayer with respect to mortgage indebtedness incurred with respect to a principal residence.

(2) The amount paid by the taxpayer for the rental of a principal residence.

(3) The amount of social security benefits or other governmental benefits, defined by the Legislature as benefits designated for lower income taxpayers, that are received by the taxpayer or his or her dependents.

(4) The amount of taxpayer contributions to legitimate charitable organizations, as defined by the Legislature.

(5) The amount of any exemption or deduction from state income taxation that is required by federal law.

(6) The amount of interest received by a taxpayer with respect to indebtedness that was incurred by the State or a political subdivision thereof and for which bonds or other evidences of indebtedness were issued prior to December 31, 1996.

(f) The Legislature shall establish exemptions, credits, or deductions from the income that is subject to the business flat tax imposed pursuant to subdivision (b) with respect to the following items only:

(1) The amount of any exemption or deduction from state income taxation that is required by federal law.

(2) The amount of expenses that are incurred by a business, for the purpose of generating business income, with respect to the purchase, lease, or license of goods, services, or rights to tangible or intangible property.

(3) The amount of depreciation that is properly allocated to the taxpayer's capital assets that were acquired by the taxpayer prior to January 1, 1997. The Legislature shall not modify those statutory provisions, in effect as of the operative date of this section, that govern the allocation for purposes of taxation of depreciation to a capital asset described in the preceding sentence.

(4) Net operating losses that are sustained by the taxpayer on or after January 1, 1997. For purposes of this paragraph, "net operating loss" includes any amount paid by a taxpayer for the purchase of a capital asset. The Legislature shall allow any excess net operating losses to be carried forward and fully applied to taxes for successive future years until the amount of those losses is exhausted, and shall require that any net operating loss that is carried forward by a taxpayer pursuant to this paragraph be claimed as a deduction prior to that taxpayer claiming a deduction for any portion of a net operating loss sustained by that taxpayer prior to January 1, 1997.

(5) Net operating losses that are sustained by the taxpayer prior to January 1, 1997. The Legislature shall require a taxpayer to claim these losses as a deduction in seven annual and equal installments, and shall prohibit any excess amount of net operating loss as described in this paragraph from being carried forward and applied to taxes for future years.

(6) Passive losses that are sustained by the taxpayer prior to January 1, 1997. The Legislature shall require a taxpayer to claim these losses as a deduction in equal and annual installments over the first seven years for which this section is operative. The Legislature shall prohibit any excess amount of passive loss as described in this paragraph from being carried forward and applied to taxes for future years, except that those excess losses that have been incurred with respect to a given property and have not been deducted as of the date of the sale of that property may be added by the taxpayer to the tax basis of that property.

(7) Amounts of unemployment insurance taxes paid by a taxpayer determined on the basis of the tax rate that is applied by law to new employers. Tax relief shall be established pursuant to this paragraph only in the form of a tax credit.

(g) Notwithstanding any other provision of this Constitution, the Legislature may adjust those flat tax rates set pursuant to subdivisions (a) and (b), subject to the following conditions:

(1) The Legislature shall make any adjustment in rates pursuant to a statute that is approved by not less than two-thirds of the membership of each house of the Legislature.

(2) The Legislature shall not adopt any flat tax adjustment to increase either the combined total amount of state flat tax revenues for any year, or the total amount of state business flat tax revenues for that same year, beyond either the state flat tax revenue limit or the state business flat tax revenue limit, as applicable, as calculated for that year pursuant to subdivision (d).

SECTION 8. Section 28.5 is added to Article XIII of the California Constitution, to read:

SEC. 28.5. (a) Except as otherwise provided in this subdivision and subdivision (b), all revenues derived from the flat taxes imposed pursuant to subdivisions (a) and (b) of Section 27 shall annually be deposited in the General Fund for expenditure as provided by the Legislature. There shall be annually deposited into a trust fund for highway finance that portion of the total amount of revenues derived from the flat taxes that corresponds to the proportion of total state general and special fund revenues that consisted of highway trust fund moneys in the last full fiscal year prior to the effective date of this section. The revenues derived from any tax described in Section 26 other than a flat tax shall be allocated as provided by the Legislature. However, those revenues derived from excise taxes with respect to cigarettes and tobacco products and horseracing shall be deemed to be trust revenues that may be expended only for those purposes for which they were properly expended on the date immediately prior to the effective date of this section, and for any additional purposes that are consistent therewith. Those revenues derived from unemployment insurance taxes shall be deposited into the State's account in the federal Unemployment Trust Fund.

(b) For each of the first three years for which this section is operative, from those revenues derived from the flat taxes imposed by Section 27, there is hereby appropriated to each local agency, that imposed a tax pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law in the last full fiscal year prior to the operative date of this section, an amount of revenue that is equal to the amount of net local sales and use tax revenue so derived by that agency for that prior fiscal year.

SECTION 9. Section 34 of Article XIII of the California Constitution is repealed.

~~SEC. 34. Neither the State of California nor any of its political subdivisions shall levy or collect a sales or use tax on the sale of, or the storage, use or other consumption in this State of food products for human consumption except as provided by statute as of the effective date of this section.~~

SECTION 10. Section 34 is added to Article XIII of the California Constitution, to read:

SEC. 34. (a) On and after January 1, 1997, no local tax shall be levied by any local agency, including a charter city, except for the following:

(1) An ad valorem property tax or parcel tax levied in accordance with Article XIII A.

(2) A flat tax surcharge levied by a local agency in accordance with subdivision (c).

(b) (1) On and after January 1, 1997, a local fee or assessment shall be levied only if the amount of the fee or assessment is directly related to the costs of the improvements or services for which the local fee or assessment is imposed, and a local fee or assessment shall not be established, increased, or levied unless the levying entity specifies all of the following:

(A) The purpose of the fee or assessment.

(B) The particular uses for which the revenues derived from the fee or assessment are to be expended.

(2) On or after January 1, 1997, revenues derived from a local fee or assessment shall be expended only to fund the direct costs of those improvements or services for which the fee or assessment was imposed.

(c) (1) During the first six months during which this section is operative, the governing board of a local agency that imposed a transactions and use tax prior to the effective date of this section may, upon the adoption of a resolution approved by a majority of all of its members, impose within the jurisdiction of that agency surtaxes with respect to the personal and business flat taxes imposed by Section 27. For each year in which the surtaxes are levied, the ratio of the surtax on the business flat tax to the surtax on the personal flat tax shall be the same as the ratio for that year of the business flat tax to the personal flat tax. In no event shall the total amount of revenue derived in any year from these surtaxes exceed the surtax revenue limit. For purposes of this paragraph, the surtax revenue limit shall be calculated as follows:

(A) For each of the 1991-92 to 1995-96 fiscal years, inclusive, determine the ratio of the amount of revenue derived within the jurisdiction of the local agency from transactions and use taxes to the gross domestic product of the State, as determined by the State Board of Equalization.

(B) Calculate the average of those ratios determined pursuant to subparagraph (A) that are greater than zero.

(C) Multiply the average calculated pursuant to subparagraph (B) by the gross domestic product of the State, as estimated by the State Board of Equalization, for the year for which the surtax revenue limit is being calculated.

(2) On and after January 1, 1997, a local agency may levy a surtax with respect to any state tax imposed by Section 27 if that surtax is approved by both a two-thirds vote of the governing board of that agency and two-thirds of the voters within the jurisdiction of that agency voting on the surtax in an election on that issue. An agency may reduce or repeal any

surtax levied by that agency pursuant to this section by a majority vote of its governing board, without obtaining the approval of the voters.

SECTION 11. Section 35 of Article XIII of the California Constitution is repealed.

~~SEC. 35. (a) The people of the State of California find and declare all of the following:~~

~~(1) Public safety services are critically important to the security and well-being of the State's citizens and to the growth and revitalization of the State's economic base.~~

~~(2) The protection of the public safety is the first responsibility of local government and local officials have an obligation to give priority to the provision of adequate public safety services.~~

~~(3) In order to assist local government in maintaining a sufficient level of public safety services, the proceeds of the tax enacted pursuant to this section shall be designated exclusively for public safety.~~

~~(b) In addition to any sales and use taxes imposed by the Legislature, the following sales and use taxes are hereby imposed:~~

~~(1) For the privilege of selling tangible personal property at retail, a tax is hereby imposed upon all retailers at the rate of 1/2 percent of the gross receipts of any retailer from the sale of all tangible personal property sold at retail in this State on and after January 1, 1994.~~

~~(2) An excise tax is hereby imposed on the storage, use, or other consumption in this State of tangible personal property purchased from any retailer on and after January 1, 1994, for storage, use, or other consumption in this State at the rate of 1/2 percent of the sales price of the property.~~

~~(c) The Sales and Use Tax Law, including any amendments made thereto on or after the effective date of this section, shall be applicable to the taxes imposed by subdivision (b).~~

~~(d) (1) All revenues, less refunds, derived from the taxes imposed pursuant to subdivision (b) shall be transferred to the Local Public Safety Fund for allocation by the Legislature, as prescribed by statute, to counties in which either of the following occurs:~~

~~(A) The board of supervisors, by a majority vote of its membership, requests an allocation from the Local Public Safety Fund in a manner prescribed by statute.~~

~~(B) A majority of the county's voters voting thereon approve the addition of this section.~~

~~(2) Moneys in the Local Public Safety Fund shall be allocated for use exclusively for public safety services of local agencies.~~

~~(e) Revenues derived from the taxes imposed pursuant to subdivision (b) shall not be considered proceeds of taxes for purposes of Article XIII B or State General Fund proceeds of taxes within the meaning of Article XVI.~~

~~(f) Except for the provisions of Section 34, this section shall supersede any other provisions of this Constitution that are in conflict with the provisions of this section, including, but not limited to, Section 9 of Article II.~~

SECTION 12. Section 35 is added to Article XIII of the California Constitution, to read:

SEC. 35. A taxpayer may file with the State Board of Equalization an administrative action to determine the validity of any state or local tax. Any action that is so filed shall be accorded a greater priority by the board than any other type of administrative action before the board.

SECTION 13. Section 36 is added to Article XIII of the California Constitution, to read:

SEC. 36. The Legislature shall report to the Governor no later than January 10, 1998, with respect to the long-term fiscal condition of both the State and local governmental entities. Its report shall contain recommendations for statutory and constitutional measures to improve the fiscal stability of both the State and local governmental entities.

SECTION 14. If any provision of this measure, or the application thereof to any person or circumstances is held invalid, that invalidity shall not affect other provisions or applications of this measure that can be given effect without the invalid provision or application, and to this end the provisions of this measure are severable.