



LAUSD
UNIFIED

Public Education Revenue Task Force

October 15, 2026

Agenda

Welcome

Legislative and Electoral Updates

Sign-On Letter to Governor-Elect

LAUSD-Adopted California Education Policy Agenda

Local Control Funding Formula Reform Options

Next Steps

Public Comment

Legislative and Electoral Updates

2026 State Legislation

- **AB 1204 (Alvarez)** – Proposes changes to the Local Control Funding Formula to increase funding for districts, including establishing a regional COLA and new LCFF funding targets.
 - **Status:** Died in legislature.
- **AB 1790 (Connolly)** – Increases funding for public schools by closing the Water's Edge tax loophole used by multinational corporations.
 - **Status:** Died in legislature.
- **SB 1349 (Gonzalez)** – Directs the Legislative Analyst's Office to evaluate the costs and benefits of existing major state tax expenditures.
 - **Status:** Chaptered.
- **AB 2526 (Muratsuchi)** – Adds students who qualify for the California Alternative Assessment as eligible recipients of funding for the low-incidence disability SELPA funding plan.
 - **Status:** Vetoed.

November 2026 Ballot Measures

Berkley IGS Poll Conducted September 15–20

Proposition 3: Provides permanent funding for schools and health care by extending an existing tax on high incomes.

Yes	54
No	34
Undecided	13

Proposition 41: Prohibits new state taxes that exclude revenues from state spending limit.

Yes	37
No	33
Undecided	30

Proposition 4: Repeals prohibition against public funding of election campaigns.

Yes	35
No	35
Undecided	30

Proposition 42: Prohibits new personal property taxes and certain retroactive state taxes passed after January 2026.

Yes	43
No	34
Undecided	23

Proposition 39: Prohibits citizens from voting unless they present government-issued identification.

Yes	39
No	52
Undecided	9

Proposition 43: Limits voters' ability to raise revenues for local government by increasing vote threshold needed to approve local special taxes.

Yes	31
No	40
Undecided	29

Proposition 40: Imposes one-time tax on certain taxpayers with assets over \$1 billion.

Yes	45
No	42
Undecided	13

Sign-On Letter to Governor-Elect

Letter to California Governor-Elect



Dear Governor-Elect,

On behalf of the undersigned coalition of education stakeholders, thank you for your ongoing commitment and service to the people of California. As you prepare to take on the position of Governor, we respectfully urge you and the State Legislature to consider supporting options to raise state revenue that will support a more just and balanced tax system and improve the ability of school districts and state and local governments to provide critical services to constituents.

Our education system stands at an inflection point. Despite improvements in the State of California's education funding over the past decade, school districts throughout the state are experiencing severe ongoing fiscal pressures. Rising costs for special education, transportation, employee benefits and retirement, health care, insurance, and other operational costs continue to outpace the funding schools receive to address students' needs. And despite increased funding for education, recent actions by state lawmakers have resulted in the withholding of \$3.9 billion in Proposition 98 funding in the 2026-27 fiscal year with a convoluted repayment formula written in statute that could result in years of delayed funding for schools who need these dollars to fund services for students and staff.

These issues are exacerbated by the state tax system's reliance on volatile stock market performance, which contributes to uncertain state funding and stymies school districts' ability to engage in long-term fiscal planning.

In recent years, school districts across California have been forced to make difficult reductions in student supports and staff to remain fiscally solvent. This instability and potential reduction in school services comes at a time when the communities we serve are already struggling with the rising cost of living and the social safety net cuts instituted by H.R.1.

The impact of these conditions is real. According to the Annie E. Casey Foundation's 2026 KIDS COUNT Data Book, California ranks 33rd in the nation in the well-being of its children and 34th in education.

We understand the State of California has experienced its own budget constraints. However, given California's role as the fourth-largest economy in the world and the home to some of the nation's most wealthy individuals and most profitable corporations, we believe it is appropriate for the next Governor and its legislative partners to look closely at opportunities for growing state revenues. We believe this can be achieved first and foremost by evaluating the fairness and effectiveness of the State's current tax system and addressing fiscal policies that give preferential treatment to wealthy individuals and corporations at the expense of public services.

Under Proposition 98, approximately 40 percent of every dollar in state tax revenue is dedicated to public education for students in [Kindergarten](#) through community college. Policies that expand state tax revenues will directly increase the support available to schools. Below are examples of revenue solutions you may wish to explore, many of which have received analysis from the Legislative Analyst's Office, the California Budget and Policy Center, and the Policy Analysis for California Education through its 2026 Getting Down to Facts III studies. This list is not intended to be an exhaustive list, but rather several key examples that warrant further exploration and analysis to determine the appropriate path for enactment.

Improving Tax Expenditure Accountability

According to an analysis by the California Budget and Policy Center, California spends six times more on corporate tax breaks than tax credits for low-income families. We encourage thoughtful, periodic review of tax expenditures, including business tax credits, to assess whether they are achieving their objectives and serving as the best use of the State's limited resources. The recent enactment of Senate Bill 1349 (Gonzalez), which directs the Legislative Analyst's Office to evaluate the costs and benefits of existing major state tax expenditures, was a positive step in this direction; however, further work is needed to ensure California's tax expenditures are effective and aligned with public benefit rather than corporate interests.

Closing Corporate Tax Loopholes

We support closing corporate tax loopholes that divert resources away from California's public schools and allow highly profitable companies to avoid paying their fair share. One such example is the "Water's Edge" election, which allows multinational corporations with significant offshore profits to avoid state taxes by shifting profits to foreign jurisdictions with low tax rates; Assembly Bill 1790 (Connolly) was introduced in the 2025-26 legislative session to address this issue but did not ultimately move forward.

Establishing a Graduated Corporate Tax Rate

California's corporate tax lacks graduated tax rates even though a small share of highly profitable corporations account for a majority of profits. Over a dozen other states have addressed similar inequities by establishing graduated corporate tax rates that increase at specific income levels.

Modernizing the Property Tax System

Commercial properties in California are currently taxed based on their purchase price rather than market value. Reassessing high-value commercial and industrial properties to market value would provide schools and local governments with a more stable and equitable source of funding while incentivizing the development of more housing on vacant or underutilized commercial real estate. This effort is not intended to impact the property taxes for residential properties or homes.

Updating Taxation for the 21st Century

As California's economy has grown increasingly digital and service-based, the State's sales and use tax and fees have remained largely based on tangible goods. A digital excise tax, such as a levy on corporations' use of personal data for profit, could bring taxation more in line with California's modern economic landscape. States such as Maryland and Washington have explored efforts in these areas in recent years that may provide valuable insights into how such policies can be implemented in California.

Public investment in education has proven economic and societal benefits, including improved employment rates, economic growth, socioeconomic mobility, and reduced crime rates. This impact is magnified in California, where the role of schools has increasingly evolved into more than just purely academic institutions. In addition to traditional academics, arts, and athletics, schools are often the only places that our children receive mental and physical health services, consistent and nutritious meals, and other critical resources.

We believe [these tax](#) policies have the potential to promote more sustainable and equitable school funding, improve student outcomes, and strengthen California's investment in its future workforce and the next generation of contributing members of society. We respectfully encourage you to work with state lawmakers and other stakeholders to assess these and other state revenue solutions that are deemed appropriate to provide adequate, sustainable funding to support the needs of students and families.

We also urge you to commit to fully funding Proposition 98 every year, starting by repaying the \$3.9 billion withholding that is owed in the 2026-27 budget. These Proposition 98 withholdings are not consistent with the clear standards laid out in the Constitution and are counter to the will of the voters. Furthermore, predictable, sufficient, and timely funding is vital for schools to sustain and expand student support and services, hire and retain staff, and meet our long-term obligations to serve students. The State's budget should not be balanced on the backs of students, teachers, and other school personnel.

Thank you for your consideration of this important issue. We look forward to working with you to [advance](#) a California in which everyone [has the opportunity to](#) succeed and thrive.

Sincerely,

Los Angeles Unified School District

[Other Public Education Revenue Task Force members]

The letter is available here: <https://bit.ly/3TNZIRT>.

Letter to California Governor-Elect

Presenting the Problem



Fiscal Pressures

School districts statewide are experiencing severe, ongoing fiscal pressures. This crisis is driven by uncertain state funding exacerbated by Prop. 98 withholdings and a tax system reliant on volatile stock market performance.



Economic Opportunities

California is the fourth-largest economy in the world and the home to some of the nation's most wealthy individuals and most profitable corporations.

Letter to California Governor-Elect

Our Asks



Prop. 98

Fully fund Proposition 98 every year, beginning by repaying the \$3.9 billion withholding.



Evaluate Tax System

Explore long-term revenue solutions by evaluating the fairness and effectiveness of the State's current tax system.

Letter to California Governor-Elect

Possible Revenue Solutions



Tax Expenditure Accountability

Conduct thoughtful, periodic reviews of tax expenditures, including business tax credits, to assess objective achievement and ensure the best return on limited State resources.



Closing Corporate Loopholes

End the "Water's Edge" election, preventing multinational corporations from avoiding state taxes by shifting immense profits to low-tax foreign jurisdictions.



Graduated Corporate Tax Rate

Establish graduated rates that increase at specific income levels, ensuring the small share of highly profitable corporations that account for the majority of profits pay their fair share.



Modernizing Property Tax

Shift commercial and industrial properties from purchase-price taxation to market-value reassessment. This provides stable funding while incentivizing housing development on underutilized real estate.



21st Century Taxation

Address the shift toward a digital economy by implementing a digital excise tax—such as a levy on corporations' use of personal data for profit—to modernize revenue beyond tangible goods.

Feedback?

LAUSD-Adopted California Education Policy Agenda

California Education Policy Agenda



Los Angeles Unified
School District

CALIFORNIA EDUCATION POLICY AGENDA

October 2026

WWW.LAUSD.ORG

Executive Summary

Academics – California continues to experience stubborn achievement gaps between student groups and lower performance overall compared to other states and countries. Supporting the early learning system, making kindergarten mandatory, undertaking a holistic review of California's curriculum and graduation requirements, instituting effective college and career pathways, and taking steps to improve teacher preparation would support better student outcomes.

Accountability – California administrators spend an enormous amount of time meeting administrative reporting requirements that do not result in data or information that systemically changes action or policy. Los Angeles Unified urges the State to revise California's accountability standards into systems that are coherent and aligned with state priorities, less burdensome to schools, and provide higher-quality information.

Adequacy of Funding – Recent increases in state spending on education have been outmatched by rising costs for school districts. Acting to contain healthcare and pension costs, fully funding Proposition 98, updating the local control funding formula, including a consideration of enrollment-based funding and need-based investments in special education, and implementing tax policies that increase state revenues will promote more equitable and sustainable school funding.

Artificial Intelligence and Technology – AI is a rapidly evolving technology with the potential to reshape how we work, learn, and solve problems. Yet the risks of prolonged chatbot interactions by children may pose real harms to the physical and mental health of our students. Los Angeles Unified supports policy guardrails to ensure the dangers of these powerful tools are reined in.

Emergencies – When natural disasters strike, schools must respond immediately to the situations on the ground. Passing state laws or regulations that automatically trigger local flexibility in times of emergency would improve the local response and eliminate delays caused by State administrative action.

School Facilities – Existing state review processes for school facilities projects regularly delay construction by up to nine months, depriving students of quality school environments and increasing project costs. With additional staffing at the Division of the State Architect for concurrent or milestone-based review processes, K-12 schools could benefit from the same tools currently available for community college projects.

Student Homelessness – Hundreds of thousands of TK-12 students experience homelessness. Strengthening coordination and collaboration between state agencies, local governments, and school districts would improve the systems of support available to housing-insecure young people, as well as providing dedicated funding through the Local Control Funding Formula.

Whole Child Wellness – Schools' roles have evolved over time, taking on responsibilities of student health and wellness, including addressing mental health needs of youth. Continued investment into the services that schools provide through the CYBHI, LEA BOP, and SMAA will help close these gaps. Additionally, prioritizing directing funds from the \$2.1 billion Meta settlement to schools to address negative impacts of social media will reinforce schools as the front line of defense against social media harms.

California Education Policy Agenda

- On October 6, LAUSD adopted a California Education Policy Agenda establishing a multi-year framework to guide the District's advocacy on state policies and investments.
- The policy agenda is grounded in the District's core beliefs of equity, collaboration and excellence and leverages research, policy and practice to inform these priorities over the next several years.
- It is intended to provide a coordinated framework for engagement with the next Governor, State Superintendent of Public Instruction and state legislators and other policymakers.
- The full policy agenda is available here: <https://bit.ly/4i6E7gJ>.



Policy Agenda Priorities

The agenda brings together key policy priorities across academics, accountability, education funding, school facilities, student homelessness and other key areas.



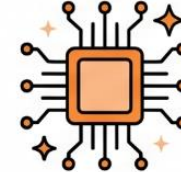
Academics



Accountability



Adequacy of
Funding



Artificial Intelligence
and Technology



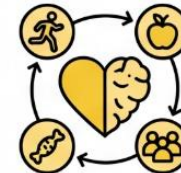
Emergencies



School Facilities



Student
Homelessness



Whole Child
Wellness

California Education Policy Agenda

Adequacy of Funding

Key suggestions for how the State can address the adequacy of education funding include:



**Protect
Proposition
98**



**Update the
Local Control
Funding
Formula**



**Enrollment-
Based
Funding**



**Strengthen
Special
Education
Funding
Reimbursements**



**Reduce
Healthcare
and Pension
Costs**



**Identify State
Revenue
Solutions**

Adequacy of Funding

Protect Proposition 98



We call upon the new Administration to commit to fully funding Proposition 98 every year, starting by repaying the \$3.9 billion withholding that is owed in the 2026–27 budget.



We ask the State to permanently reject the practice of balancing the General Fund on the backs of students, teachers, and other school personnel, and fully fund Proposition 98 entitlement in the year it is allocated.

Adequacy of Funding

State Revenue Solutions

Below is a non-exhaustive list of examples of revenue solutions the State has been urged to explore.



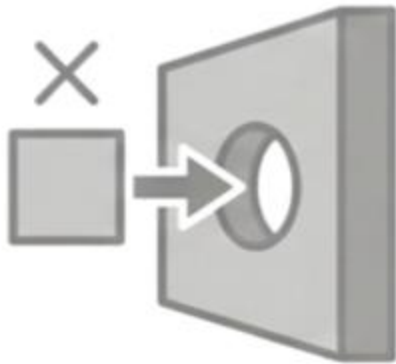
While this is only a short list of proposals, we urge the next Administration, state lawmakers, and other stakeholders to assess other revenue solutions that are deemed appropriate to augment funding to support the needs of students.

Adequacy of Funding

Special Education



We urge the State to increase its investments in special education funding to more adequately reimburse school districts for the costs associated with serving the needs of students with moderate to severe disabilities.



One-Size-Fits-All



Needs-Based Formula

More broadly, we advise California to reassess its funding formula philosophy and shift from a one-size-fits-all model to a needs-based formula.

Adequacy of Funding

Funding Healthcare and Pension Costs

Healthcare and pension costs for educators and other school personnel have risen far above the rate of inflation over the past several decades and greatly outstrip the increase in teacher salaries.

The State is in a unique position to contain these costs. Potential solutions include:



Providing a state-level health insurance plan for public entities.



Ensuring that large corporations provide adequate healthcare to employees.



Carefully considering any legislative proposals that would increase pension costs.



Considering using surplus state revenues to pay pension obligations.

Adequacy of Funding

Updating the Local Control Funding Formula

Some ideas proposed in the reports that Los Angeles Unified believes hold particular promise include:



Increasing the supplemental grants.



Providing additional funding “weight” within the supplemental grant to students with multiple needs. This proposal may be combined with adding additional risk factors to consider in the “unduplicated” formula.



Changing the current funding formula to enrollment-based funding.



Instituting a regional cost adjustment.



Establishing a minimum cost of living adjustment or revising the cost-of-living adjustment formula.



Raising the base rate to provide increased funding for all districts, with augmented funding for the districts serving students with the most needs.

Adequacy of Funding

Enrollment-Based Funding



California is one of only six states nationwide to fund schools based on average daily attendance.

A 2022 report from the *Policy Analysis of California Education* found that switching from attendance to enrollment could:



Help schools achieve fiscal stability.



Redistribute resources to schools with the greater student needs.



Provide more flexibility on how to serve students instructionally.

Questions or comments?

Local Control Funding Formula Reform Options

History of LCFF

- New school funding formula enacted in 2013 that collapsed over 40 different categorical/earmarks.
- Core principles of local control, accountability and equity.
- The LCFF distributes roughly \$4 out of every \$5 that K-12 schools receive from the state budget and local property tax revenue.

Key Components

- LCFF provides:
 - **Base funds** for all students
 - **Supplemental** funds (20%) for unduplicated students
 - **Concentration** funds (50% grant for students over 55% UPP threshold)
 - **Equity Multiplier** funds (15% more for students over 55% UPP threshold)
 - **K-3 Grade Span Adjustment:** 10.4%
 - **9-12 Grade Span Adjustment:** 2.6%
- UPP = unduplicated pupil percentage.
 - “Unduplicated pupils” include students who are low-income (determined by Free/Reduced Price Meal status), English Learner, or Foster Youth.
 - They are referred to as “unduplicated” students as they cannot be counted multiple times.

Declining Enrollment Will Offer Funding Opportunities

- Public Policy Institute of California estimates \$7.5 billion in "excess" Proposition 98 funds by 2030.
- PPIC Report: [Updating California's School Funding Formula – Assessing Alternatives and Trade Offs](#)

Key LCFF Reform Options

- Enrollment-based funding.
 - *Alternative – funding excused absences.*
- Increase the Supplemental Grant from 20% of base grant to a higher percentage.
- Allow duplication of high-need pupils.
 - Captures funding we miss when a student is both low-income and an English learner.
- Increase LCFF base grants.

Additional LCFF Reform Options

- Regional cost adjustment.
 - Allocated through base rate.
 - Reflects higher costs in some regions but revenue to LA may be less than anticipated.
- Minimum annual Cost of Living Adjustment (COLA).
- Expand eligibility for “unduplicated” status for homeless, newcomer, and/or migrant students.
- Modernize poverty metrics.
 - Free and reduced price lunch is based on federal poverty level, which greatly understates need in California.

Discussion

Does your organization already have a position on these ideas?

What ideas seem most promising to you?

What next steps could be taken to help move these ideas forward?

Next Steps

Tentative Next Meeting Date

- Thursday, December 3, 2026, 2:00 PM–4:00 PM

Thank You!

Appendix

November 2026 Ballot Measures

November 2026 Ballot Measures

Proposition 2 – ACA 20 (Gabriel) Save for California's Future Act.

This measure, put forward by Governor and legislative leaders, would allow the state to deposit up to 20% of its general fund tax revenue into its rainy day fund each year, instead of the current 10%, to protect against future economic downturns.

- **Supporters:** Governor Gavin Newsom and Democratic state lawmakers.
- **Opponents:** Republican state lawmakers.

Proposition 3 – Provides permanent funding for schools and healthcare by extending existing tax on high incomes.

This measure would make permanent the existing 2012 voter-approved tax rates for high-income Californians (Prop. 30, which was temporarily extended by Prop. 55 in 2016), currently set to expire in 2031. The measure would maintain \$5–15 billion of annual state income taxes, with 89% of tax revenues allocated to K–12 schools and 11% allocated to community colleges.

- **Impact to LAUSD:** This measure would have a positive budgetary impact on LAUSD. Failure to pass this measure would reduce the Prop. 98 funding base.
- **Supporters:** California Teachers Association, California Federation of Teachers, and California School Employees Association.
- **Opponents:** California Taxpayers Association.

November 2026 Ballot Measures

Proposition 40 – Imposes one-time tax on certain individuals and trusts. (aka “Billionaire Tax”)

This measure would institute a one-time tax of up to 5% on taxpayers and trusts with covered assets valued over \$1 billion. The measure exempts such tax revenues from the Prop. 98 minimum funding guarantee: 90% of the tax revenues would be allocated to health care, and up to 10% for food assistance or education-related programs. The Legislative Analyst’s Office estimates the measure would create tens of billions of dollars in state revenues spread over several years, with likely ongoing decreases in state revenues of hundreds of millions of dollars or more per year.

- **Impact to LAUSD:** This measure may result in a reduced tax base for Prop. 98. It also could result in, but does not guarantee, funding increases to education-related programs.
- **Supporters:** California Democratic Party, Service Employees International Union–United Healthcare Workers West, independent U.S. Senator Bernie Sanders, California Democratic Socialists of America, UNITE HERE Local 11, Teamsters California, and AFSCME California.
- **Opponents:** Governor Gavin Newsom, the California Teachers Association, prominent billionaires including Google co-founder Sergey Brin and Ripple Labs co-founder Chris Larsen, State Building and Construction Trades Council of California, California Primary Care Association, California Medical Association, and Planned Parenthood Affiliates of California.

November 2026 Ballot Measures

Proposition 41 – Requires audits of programs funded by new state special taxes. Prohibits new state taxes that are excluded from existing voter-approved state spending limit.

This measure in response to the billionaire tax proposal would, for statewide special taxes, require (1) a pre-election audit of programs that would receive funding from a special tax proposed by voter initiative, and (2) recurring audits of programs funded by all special taxes enacted after January 1, 2026. The measure would also prohibit exempting special taxes from the Gann limit. The measure would overturn the Billionaire Tax if it receives more votes.

- **Impact to LAUSD:** This measure could have a negative budgetary impact on LAUSD by making it harder for voters to approve some new sources of state revenue.
- **Supporters:** Building a Better California, Reform California, and California Chamber of Commerce.
- **Opponents:** Proponents of the Billionaire Tax.

Proposition 42 – Prohibits new state personal property taxes and certain retroactive state taxes.

This measure in response to the billionaire tax proposal would prohibit new taxes on an individual's assets and holdings and prohibit some retroactive taxes. The measure will overturn the Billionaire Tax if it receives more votes.

- **Impact to LAUSD:** This measure could have a negative budgetary impact on LAUSD by making it harder for voters to approve some new sources of state revenue.
- **Supporters:** Building a Better California, Reform California, the State Building and Construction Trades Council of California, and California Chamber of Commerce.
- **Opponents:** Proponents of the Billionaire Tax.

November 2026 Ballot Measures

Proposition 43 – ACA 22 (Wicks) Local taxes: limitation.

This measure would increase the vote threshold needed to pass voter-proposed local special taxes from a simple majority (over 50%) to two-thirds (over 66.6%). The measure was put forward by the Governor and Legislature in exchange for the Howard Jarvis Taxpayers Association removing its ballot measure that would have made the threshold increase retroactive and would have capped real estate transfer taxes.

- **Impact to LAUSD:** This measure could have a negative budgetary impact to LAUSD as it would dramatically raise the threshold for voters to approve some new sources of funding, such as voter-proposed parcel taxes.
- **Supporters:** Howard Jarvis Taxpayers Association.
- **Opponents:** California Assemblymember Buffy Wicks (author of ACA 22).

Revenue-Generation Proposals

Education-Specific Policy Ideas

Proposal	Explanation	Path to Enactment	Impact to Public Education Revenue
LCFF reform	Public Policy Institute of California estimates \$7.5 billion in "excess" Prop. 98 funds by 2030 due to declining enrollment. Revisions to the Local Control Funding Formula (LCFF), such as establishing a regional COLA, could present a funding opportunity for LAUSD. Read more here .	Legislation	Restructure the pie
Enrollment-based funding	California schools are currently funded according to student attendance, while 45 other states are funded based on student enrollment. Switching to an enrollment-based system would increase K-12 funding by \$6 billion annually; the largest increases would go to districts with more higher need pupils. Read more here .	Legislation	Restructure the pie
Parcel tax threshold	In California, parcel taxes must be passed by two-thirds of voters (unless they are citizen-initiated). Changing the state constitution to reduce the passage threshold for parcel taxes to 55% would make it easier for school districts to win passage of this revenue source. Read more here .	Legislative bill first, then a ballot initiative	Increase the pie
Equalization formulas	One option to address the funding disparity caused by local property tax revenue surpassing LCFF entitlements in basic aid school districts would be to employ equalization formulas that recapture property tax revenue from school districts that receive local property taxes in excess of their LCFF entitlements and redistribute it to school districts with less property wealth. Read more here .	Legislation	Increase the pie

Statewide Taxation Policy Ideas



Path to Enactment: Ballot Measure*

Proposal	Description	Estimated State Revenue Raised
Split roll property tax	This option would increase the share of property tax revenues going toward schools by reforming Prop. 13 to tax commercial property on its market value instead of its assessed value. Note: Prop. 15 attempted this in 2020 and lost with 52% of voters opposed. Read more here .	\$7-13 billion annually
Statewide commercial property tax rate	An alternative to the split roll property tax is establishing a flat, a statewide property tax rate on the taxable value of all commercial and industrial property. This could be paired with addressing provisions in the tax code that allow commercial and industrial properties to avoid reassessment even after change of ownership.	\$9 billion for each 0.5% increment of property tax the state levies
Pied-à-terre tax	A pied-à-terre tax is a property tax on high-value homes not used as a primary residence. A new pied-à-terre tax on vacant luxury second homes in New York City is expected to raise \$500 million annually. Read more here .	Potentially billions annually (if statewide)

**Due to Prop. 13's restrictions on property tax*

Statewide Taxation Policy Ideas



Path to Enactment: Legislation or Ballot Measure*

Proposal	Description	Estimated State Revenue Raised
Income tax increase for millionaires	This option creates an additional 1 percent surcharge on personal income over \$1 million. This would increase the tax rate on this income from 13.3% to 14.3%.	\$1-3 billion annually
Estate or inheritance taxes	California repealed its inheritance tax in 1982 and its estate tax in 2005. Sixteen states have either an inheritance or an estate tax, which typically include exemptions for properties below certain values. Read more here .	\$1-3 billion annually
Eliminate stepped-up basis rule for taxation of inherited property	As an alternative to estate taxes, California could eliminate the income tax exemption for inherited assets. Currently, in state and federal tax code, the capital gain on a sold inherited asset is calculated by comparing the sale price of the asset to its value when the heir received it, instead of the original purchase price.	\$1-3 billion annually

**Due to Prop. 13's two-thirds vote threshold for new taxes*

Statewide Taxation Policy Ideas



Path to Enactment: Legislation or Ballot Measure*

Proposal	Description	Estimated State Revenue Raised
Graduated corporate income tax	California's corporate tax lacks graduated tax rates even though a small share of highly profitable corporations accounts for a majority of profits. 12 other states have established graduated tax rates that increase at specific income levels. In 2023, the Senate proposed increasing the state's 8.84% tax rate for some C corporations to 10.99%, which they estimated would raise approximately \$6 billion annually. Read more here .	\$6 billion annually
Revenue recapture for personal income tax	California's graduated-rate income tax system requires taxpayers to pay increasing tax rates only on the portion of their income that falls within each tax bracket. Tax benefit recapture requires high-income earners to pay at the highest tax rate on all their income above the tax bracket for which their income falls. New York and Connecticut use this system.	Potentially in the billions annually
Sales tax on services	California's sales tax generally does not apply to services. Options to extend the sales tax include digital products and various services primarily purchased by households, such as maintenance, entertainment, recreation, and/or transportation. Read more here and here .	\$10–15 billion annually

**Due to Prop. 13's two-thirds vote threshold for new taxes*

Statewide Taxation Policy Ideas

Path to Enactment: Legislation

Proposal	Description	Estimated State Revenue Raised
Water's Edge tax loophole	The water's edge election allows multinational corporations with significant offshore profits to shift profits to foreign jurisdictions with low tax rates and avoid state taxes. AB 1790 was introduced this session to close the loophole. Read more here .	\$1-4 billion annually
Tax credit accountability	The legislature could require periodic review of tax expenditures to assess whether they are achieving their objectives and establish sunset dates for those that are not.	Up to \$9 billion annually
R&D tax credit limit	The Research and Development Tax Credit is by far the state's largest business tax credit, and its spending is highly concentrated among a relatively small number of large corporations. This credit could be reformed to receive more oversight and evaluation, limit annual credit claims, or make structural changes to how the program operates. Read more here .	Up to \$3.5 billion
Limitations on net operating loss (NOL) deductions	An NOL occurs when a business experienced losses in prior years. Those losses can be used to reduce the company's taxable income in future years. Temporary suspensions of NOL deductions for medium and large businesses have been instituted in prior years due to budget shortfalls; these limits could be made permanent. Read more here and here .	\$200 million - 2 billion annually
Replace some tax deductions with a credit	This option would replace an existing income tax deduction, for example charitable giving, with a smaller income tax credit for the same purpose. The credit would provide a smaller tax benefit but would be available to all taxpayers, not just those who itemize.	\$1-3 billion annually
Digital excise tax	A digital excise tax, such as a levy on corporations' use of personal data for profit, could bring taxation more in line with the state's increasingly digital economy.	Potentially billions annually