

LAUSD Public Education Revenue Task Force

Primer on Revenue Generation Ideas

Education Policy Proposals

Proposal	Explanation	Path to Enactment
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
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
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 measure
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

Statewide Taxation Policy Proposals

Proposal	Description	State Revenue Raised	Path to Enactment
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	\$1-4 billion annually	Legislation

	1790 was introduced this session to close the loophole. Read more here .		
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	Legislation
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	Legislation
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	Legislation
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	Legislation
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	Legislation or ballot measure
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	Legislation or ballot measure

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	Legislation or ballot measure
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	Legislation or ballot measure
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	Legislation or ballot measure
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	Legislation or ballot measure
Prop. 30/55 extension	Prop. 30 temporarily added higher personal income tax rates for the highest-income Californians. These tax rates were extended by Prop. 55 but are set to expire in 2030.	\$5-15 billion annually	Ballot measure

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	Ballot measure
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	Ballot measure
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 in the billions annually (if statewide)	Ballot measure

Further reading:

- [Getting Down to Facts III: California Schools' Revenue Sources and Constraints](#)
- [Legislative Analyst's Office: Comparing Options to Raise and Lower Taxes](#)
- [Ed100: More Money for Education: What Are the Options?](#)