

New Millionaires Tax Introduced by the Legislature

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When the Legislature returned from its summer recess last week, 15 Assembly Democrats introduced Assembly Bill (AB) 1253 (Santiago, D-Los Angeles), which would impose an additional tax for those Californians who make over \$1 million per year. Specifically, the new tax increases would be structured in the following way:

Income Over	But Not Over	Additional Tax
\$1 million	\$2 million	1% over the amount over \$1 million
\$2 million	\$5 million	2% over the amount over \$2 million
\$5 million	—	3.5% over the amount over \$5 million

The tax hikes in AB 1253 would be permanent and the rates would be applied to all filing types for taxable years beginning on or after January 1, 2020. The bill is projected to raise an additional \$6.8 billion annually and would boost education funding and other governmental services but will face an uphill battle in the Legislature despite the Democratic stronghold.

Since AB 1253 is a tax measure, it needs to clear a supermajority threshold (a two-thirds vote of members) in both houses of the Legislature. While the Democrats have the votes required to raise taxes, many moderate Democrats will likely be uneasy supporting a tax increase after Senator Josh Newman was recalled by voters in 2018 for his support of Senate Bill 1 (Chapter 5/2017), which raised the state's gas and diesel taxes. However, since this tax proposal would only apply to the state's millionaires, while the gas tax affected all Californians regardless of income, moderate Democrats may be more inclined to support the measure than if it was another regressive tax proposal.

The bill had a unique hearing in the Senate Governance and Finance Committee on Monday, August 3, 2020, in which witnesses provided testimony in support and opposition, but no vote was taken by the committee members. This is likely because the tenets of the bill are still being debated by members behind the scenes to see if there is an appetite to push this significant tax increase forward this year. We will continue to keep you apprised of these discussions and whether or not the bill is able to progress before the end of the legislative session.