



# Long-Term Care Insurance Financing Options and Considerations

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A PRESENTATION TO: LONG TERM CARE  
INSURANCE TASK FORCE

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# Presentation Preview

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- General considerations
- Payroll taxes
- Personal income taxes
- Corporate taxes
- Sales/excise taxes
- Estate/inheritance taxes



# General Considerations – Vote Requirements

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- Two routes to raising state tax revenue:
  - Legislative: tax increases require 2/3 vote of both houses
  - Ballot measures: tax increases can be approved by a majority of voters
- Some charges are not considered taxes subject to 2/3 vote requirement, including charges for specific benefits received only by those subject to the charge, where charge doesn't exceed costs of providing benefit (CA Const. Article XIII A, Sec. 3)



# General Considerations – Gann Limit

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- State Appropriations Limit (Gann Limit) restricts policymakers' ability to raise new tax revenues
  - Tax revenues in excess of limit over 2-year period must be split between taxpayer refunds and K-14 education
  - Some types of revenue are not counted toward this limit, including user charges and fees that don't exceed the costs of providing the services (State Disability Fund contributions are not counted toward limit)



# General Considerations – Tax Fairness

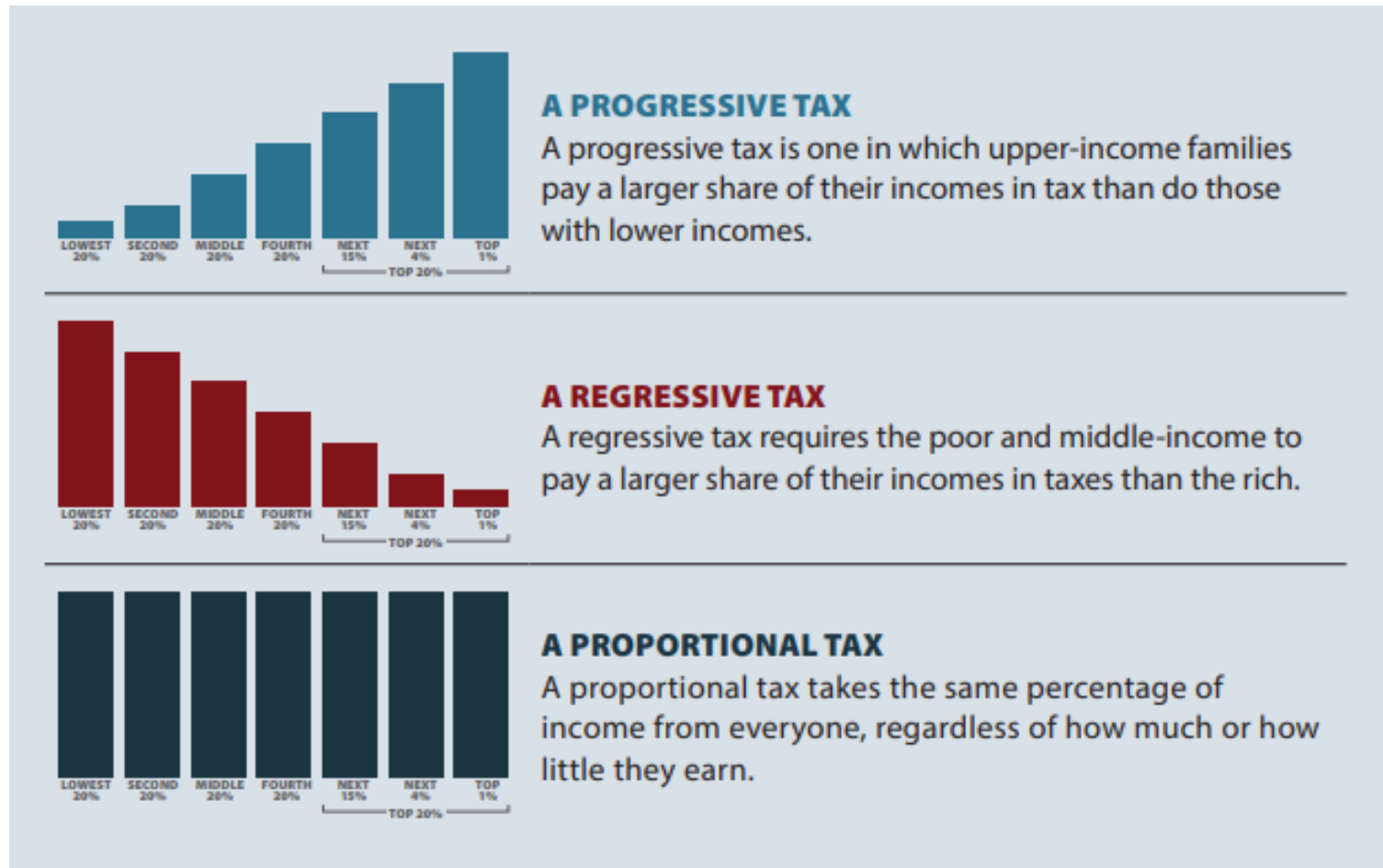


Image source: Institute on Taxation and Economic Policy



# Payroll Taxes – Structure & Revenue Potential

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## Structure

- Generally a set percentage of a worker's wages
- Can be paid by employee, employer, or both
- Can be applied only to wages above or below a certain threshold

## Revenue Potential

- Total wages and salaries in the state have ranged from about \$1 trillion to \$1.5 trillion since 2015



# Payroll Taxes – Considerations

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## Advantages

- Social insurance benefits generally financed with payroll taxes, and this structure helps with buy-in and long-term support

## Concerns

- Somewhat regressive since they only apply to wage income
  - Can be made more progressive by applying only to wages above a certain level
- Business groups will likely oppose a payroll tax on employers



# Personal Income Taxes – Structure & Revenue Potential

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## Structure

- Current rates range from 1% to 13.3%
- Can be across-the-board increase or surtax on high incomes
- Can collect more revenue by pairing rate increases with reductions in tax expenditures (credits, deductions, exemptions)

## Revenue Potential

- Large variation, dependent on structure
- 2019 taxable income of California tax filers was \$1.4 trillion
- Estimates for various tax increases on high-income households range from \$4 billion to \$10 billion





# Personal Income Taxes – Considerations

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## Advantages

- Can be very progressive, asking the most from those with the highest ability to pay
- Even during the COVID crisis, income tax revenues have been strong since people with high incomes have done well
- Apply to types of income not covered by payroll taxes, like investment and business income

## Concerns

- May be politically difficult: already a lot of concern about California's personal income tax rates, revenue volatility, and fears about people leaving the state



# Corporate Income Taxes – Structure & Revenue Potential

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## Structure

- Current rate for general corporations is 8.84%
- Can be an across-the-board increase, or a surtax on corporate income above certain levels
- Can collect additional revenue by pairing rate increases with reductions in corporate tax expenditures

## Revenue Potential

- 2019 California taxable income of corporations was about \$284 billion
- Estimates of raising corporate rates by a few percentage points range from about \$1 billion to \$3 billion, depending on structure



# Corporate Income Taxes – Considerations

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## Advantages

- Somewhat progressive because significant share paid by wealthy shareholders
- Many big corporations have continued to see increased profits during the pandemic

## Concerns

- Politically difficult: business community can be expected to mobilize against tax rate increases or limitations on existing tax benefits
- Relatively limited revenue potential



# Sales or Excise Taxes – Structure & Revenue Potential

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## Structure

- Sales tax = tax on the sale or use of tangible goods (doesn't apply to most services)
  - Current statewide rate is 7.25%, localities have option to approve additional increments
- Excise tax = tax on the sale of a specific good, e.g. gasoline, tobacco

## Revenue Potential

- Total of California taxable sales in 2019 was about \$733 billion
- Applying the sales tax to some services could produce additional revenue



# Sales or Excise Taxes – Considerations

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## Advantages

- Relatively large tax base for sales taxes, especially if expanded to include some services

## Concerns

- Both types of taxes are regressive, falling disproportionately on households with low incomes
- Excise taxes are generally levied on products that have adverse societal consequences, and revenues often used for mitigating those consequences or related purposes



# Estate or Inheritance Tax – Structure & Revenue Potential

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## Structure

- An estate tax applies to the value of a decedent's estate (assets minus liabilities)
  - Generally only applies to high-value estates
- An inheritance tax applies to portion of the estate inherited by each heir
  - Alternatively, heirs could be taxed on inheritances through income tax system
- California currently has neither type of tax

## Revenue Potential

- Varies depending on exemption level and rate
- Estimates for various proposals range from \$300M to \$3B



# Estate or Inheritance Tax – Considerations

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## Advantages

- Progressive, especially if targeted to high-value estates
- Can help to narrow wealth inequality in the state

## Concerns

- Need voter approval since voters previously approved a prohibition on these types of taxes
- Relatively limited revenue potential



# Funding out of General Revenues – Considerations

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## Advantages

- Gives policymakers flexibility to respond to changing circumstances

## Concerns

- Competition with other funding priorities
- Potential instability
  - Legislative changes
  - Insufficient general revenues
- If long-term care is guaranteed benefit, could crowd out funding for other essential services







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