

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes
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QUOTE OF THE WEEK

“Do not be overcome by evil, but overcome evil with good.” --- Romans 12:21 cited by President George W. Bush in his address to the Virginia Tech convocation

AROUND THE STATE

*****In Memorium*****

The tragedy at Virginia Tech last week has caused a great deal of reflection around the nation. It is normal to ponder the meaning of life when such a senseless and horrible loss of innocent life has occurred. It is also natural to turn to spiritual matters for such meaning and comfort. I find both in the passage from Romans, above. I find it motivating to concentrate on what each of us can do to reach out to those who are mourning, to seek out those who are troubled and in need of assistance, to spread good—with our attitudes and our actions.

The VT massacre provides an example of that: Professor Liviu Librescu. You have heard about his noble sacrifice, blocking the door to his classroom, giving his young students a few key moments to escape through windows while the gunman blasted away at him through the door. Librescu, a Holocaust survivor, exemplified more good in those few moments than Cho Seung-Hui or any homicide bomber or murdering terrorist could ever demonstrate in evil. There are more Prof. Librescus in this world than there are people who would do evil. We may not know even in our own hearts and minds whether we have the capacity to be a Prof. Librescu. I suspect he may not have known himself beforehand, but in the moment when it really mattered, he acted. And in his act, the rest of us can find the meaning in life that escape the likes of evildoers.

*****Zero Tolerance....for Rude Officials*****

Jennifer Nelson over at the Flashreport Blog posted a memo that had been issued from the presiding judge of the workers comp appeals board in Sacramento. A scanned version of the extraordinary communiqué can be found here:

<http://www.flashreport.org/files/2007040314471592.pdf>

Let me summarize the March 29 memo:

To: ALL PERSONS DOING BUSINESS AT DWC/WCAB SACRAMENTO.

From: J. HARTER, Associate Chief Judge/Presiding Judge

Subject: HOLE-PUNCHED DOCUMENTS.

“WCAB (workers’ comp appeals board) Rule 10392 requires that all documents filed with the WCAB by any party or lien claimant shall be on 8 1/2 X 11 inch paper with two holes punched at the top and centered to fit the WCAB file. We have been receiving many documents without holes punched..... This is not taken lightly. Violation of Rule 10392 will no longer be tolerated.”

The reason given in the memo is that they want to protect staff from hand and wrist injuries. While this sounds like a reasonable concern, the utter rudeness of the messenger is notable, as well is the attitude that people who do business with the workers’ comp appeals board are not like customers, nor constituents, but like cattle. For those in the business of government, this is exhibit A how not to treat the public.

To the so-called presiding judge who sent this memo -- instead of making up absurd internal rules on this, perhaps a better approach is to adopt a system, or get some kind of machine, that makes your office work for the staff AND the public – do not forget these, they are your customers. If this is something you do not understand, maybe public service is not your calling.

ISSUE FOCUS

*****New Europe Improves Wages with Flat Taxes*****

There is a terrific little article in the March 19 National Review about flat taxes in the Baltic countries in Northern Europe. Under a flat tax system, the tax rate is the same for everybody. We instead have a progressive structure where wealthier people pay a higher rate. Under either system people with higher incomes pay more taxes, but our system is so progressive that the top 10 percent on the income scale pay more than 50% of all federal taxes.

One advantage of a flat tax system is predictability. The IRS has six rates ranging from 10% to 35%. But because of the Alternative Minimum Tax, Americans can no longer predict their tax liability based on the official rates. Under a flat tax system like Estonia’s, the tax rate is the same for everybody – 22% (down to 20% in 2009). Estonia exempts income up to a certain level so the very poor pay no taxes, and allows very few deductions. Such a simple and predictable tax structure has great merit – one being there is no need in Estonia for a tax code that spends 100 pages defining ‘income’.

Moreover, higher progressive tax rates impede economic activity, not just for rich people, but for everybody. When an economy starts to slide, it is the poorer among us who feel the brunt most severely. Thus, those who advocate “soaking” the rich through higher taxes could well be sabotaging the progressive outcome they claim to be seeking. To illustrate this, the NR article

looked at six “New Europe” countries that have opted to replace their Communist systems with flat tax, entrepreneurial systems. The countries are Estonia, Lithuania, Latvia, Slovak Republic, and Ukraine. Before adopting a flat tax, Estonians’ monthly wage average was about \$85 a month. Five years after adopting a flat tax, average wages are up 265% -- \$308 per month. There are other factors that contributed to this rise. However, wages in neighboring non flat tax countries like Armenia, Azerbaijan, Belarus, Bulgaria, Croatia have seen wages rise only 8% in the same period.

*****The Carpool Lane Debate Heats Up*****

I have written recently about my problems with carpool lanes. Then I noticed that Senator Abel Maldonado has a bill (SB 889) to create a tip line for frustrated drivers who want to report a driver using the lanes without other passengers. Of course, only law enforcement officers can write tickets, but the calls and emails would allow the state to generate warning letters to solo drivers abusing the lanes. What is fascinating about the bill and news coverage of it is the intensity of people’s responses. People are using this bill to express their outrage about the lack of efficiency of carpool lanes, their desire to see more transportation dollars spent building new freeways, and the high costs associated with making commutes easier for just a small percentage of drivers. To see the level of outrage, check out the reader posts to this story about the Maldonado bill:

http://www.nctimes.com/articles/2007/04/02/news/top_stories/4107212023.txt

TAX TIPS

*****Another Reason to E-File*****

Given that you just filed your income taxes, the last thing you want to think about is the next tax year. However, I learned something last week that makes me want to spend the next year encouraging everyone to electronically file their tax returns. A friend of mine sent her tax returns with a “return receipt requested” from the Post Office. She became concerned when her Federal IRS receipt was returned but after a few weeks she still had not received a receipt from the State FTB. I inquired of the FTB and was told that not only had her return been received, but it was already being processed and her refund check being cut. She has now received the check, but still no return receipt. I cannot point a finger at either the FTB or the post office for the missing return receipt, but I can point out that if you e-file you can check on-line to make sure your return has been accepted.

*****Primer on State Taxes*****

Just in time for Tax Day, the state’s Legislative Analyst Office has published a Primer on California’s Tax System. While I have to deal with more than 34 taxes and fees as part of my job every day, you may only give a thought to the state’s tax system on this day, when you are writing a check to the FTB. The LAO booklet, available at the link below, walks you through

the development of the state's current tax system, which was established in the 1920s and 1930s. Among the tax tid-bits you can pick up in this booklet:

- California's personal income tax burden is \$3.07 per \$100 of income. That is more than the average of \$2.40 for all other states; the average of \$2.61 for all industrial states; and the average of \$2.57 for western states.
- California has the highest combined rate for sales and use tax, but because it also has many exemptions (e.g., food) the actual revenue collected from the taxes is right around the national average.
- There are more than 600,000 businesses who file under the state's corporation tax. Of those, only 55% report a profit. The remainder still must pay the state's minimum corporate tax even though they report losses.
- To understand the size of most corporations in the state, know that in 2004, 97% of corporations had taxable income of less than \$500,000. The remaining 3% of corporations accounted for 87% of the corporate tax liability.

To see the full report, check out this link:

http://www.lao.ca.gov/2007/tax_primer/tax_primer_040907.pdf

*****Death and Taxes*****

A Leonard Letter reader pointed me to an article that linked to this site

< <http://thebudgetgraph.com/> >

that shows (and sells) a terrific poster that you will enjoy studying. The poster is titled "Death and Taxes: A Visual Guide to Where Your Federal Tax Dollars Go" and shows where discretionary federal spending happens. It shows military and non-military spending by agency in a graphically pleasing manner. One of the most interesting aspects of the poster is that the circle representing the national debt is too large to fit in the box containing the rest of the information. The poster will make a conversation-starting addition to any workplace or classroom (with an education discount), but any taxpayer may appreciate just looking at the website as the federal income tax deadline approaches. Fair warning: the poster is very detailed so you may experience long download times.

MISCELLANY

*****A Good Read*****

When you see his photo on the cover of his book, you recognize author Joseph C. Phillips even if you cannot place him immediately. After reading a bit of "He Talk Like a White Boy: Reflections on Faith, Family, Politics and Authenticity" you realize that you have seen him in television shows and films over the years. He writes about his acting experiences, anxieties, etc. but the most interesting parts of his book are not the Hollywood tales but the human stories. His description of his mother's suicide and his tender relating of his father's death will bring a tear to your eyes. His observations of fatherhood, marriage and faith will lift your spirit. His retelling of his junior high school experiences will remind you of your own and the perspective you have gained in the years since. And if any of those wonderful essays does not appeal to you, then you

will enjoy his explanation of being a conservative and a black, of trying to make sense of the liberals who curse at him in personal anger rather than disputing his policy positions, and his love of country and the role he believes patriotism ought to play in daily life.

His political commentary is poignant and will add to your understanding of how political correctness and racial sensitivities have affected our policy debates. Consider just this passage from his introduction and you will have a small idea of the depth of subjects and opinions he handles in this enjoyable book: “I’ve grown tired of the one dimensional portrayal of black life in our cultural discourse— the pessimism, nihilism, and hedonism. I have grown frustrated by the limits imposed on black individuality by white liberals and I have grown impatient with the limits that are just as often imposed by the black community.”

BOE AND LEGISLATIVE DATES

April 24-25, 2007 --- Board of Equalization meets in Sacramento.

April 27, 2007 --- Last day for policy committees to hear and report fiscal bills for referral to fiscal committees (J.R. 61(a)(2)).

May 28, 2007 --- Memorial Day observed

May 31, 2007 --- Board of Equalization meets in Sacramento.

June 1, 2007 --- Board of Equalization meets in Sacramento.

June 8, 2007 --- Last day to pass bills out of house of origin (J.R. 61(a)(8)).

June 15, 2007 --- Budget Bill must be passed by midnight (Art. IV, Sec. 12(c)).

June 19-21, 2007 --- Board of Equalization meets in Culver City.

July 4, 2007 --- Independence Day.

July 13, 2007 --- Last day for policy committees to hear and report bills (J.R. 61(a)(10)).

July 17-18, 2007 --- Board of Equalization meets in Sacramento.

July 20, 2007 --- Summer Recess begins on adjournment, provided Budget Bill has been passed (J.R. 51(a)(3)).

NOTABLE DATES/ HISTORY

April 23, 1789 --- U.S. President George Washington and his wife, Martha, moved into the first executive mansion, the Franklin House in New York.

April 23, 1896 --- At a theater in New York City, a motion picture was shown to an audience for the first time.

April 23, 1969 --- Sirhan Sirhan was sentenced to death for the 1968 assassination of Senator Robert F. Kennedy. The sentence was later reduced to life in prison.

April 24, 1800 --- The U.S. Library of Congress was established in the U.S. Capitol. It relocated to its own building across the street in 1897.

April 24, 1898 --- Spain declared war on the United States.

April 24, 1981 --- IBM introduced its first personal computer.

April 25, 1945 --- Delegates from 50 nations met in San Francisco and organized the United Nations.

April 26, 1607 --- A group of English colonists, including Captain John Smith, landed at Cape Henry, Virginia, and went on to establish the first permanent English settlement in the New World.

April 26, 1986 --- A steam explosion in a reactor at the Chernobyl nuclear power plant led to additional explosions and nuclear meltdown. Regarded as the worst nuclear power accident ever, it caused the evacuation of more than 336,000 people and sent a radioactive plume over Russia, Ukraine, Belarus and Europe.

April 27, 1937 --- The first U.S. Social Security checks were distributed.

April 28, 1758 --- James Monroe, the fifth president of the U.S. (1817-25), was born in Westmoreland County, Virginia.

April 29, 1992 --- A jury acquitted four L.A. police officers of beating black motorist Rodney King. News of the acquittal led to one of the worst riots in U.S. history.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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