

Accounting Changes May Hold Off State Tax Hike

By VINCENT THOMAS
 Assemblyman, 68th District
 The situation in our now recessed budget session with respect to the need for additional taxes to pay for the proposed \$4.6 billion spending program is bewildering to many. Before the session convened, both the state administration and leaders of the minority party were predicting that new or additional taxes amounting to \$250-\$300 million would be necessary to balance the budget.

The first surprise came when the Governor submitted his budget message. Instead of submitting a multi-pronged tax program to meet the anticipated deficit, his fiscal spokesmen came up with a double-barreled suggestion for closing the gap. First, it called for putting the state's revenues on an "accrual" rather than a cash basis so far as bookkeeping is concerned. Second, it proposed

changes in the personal income tax exemptions, expected to raise \$143 million per year in added revenue.

THE SENATE Revenue and Taxation Committee was informed that change to the accrual system for revenues would provide an additional \$114.5 million for one year and that this amount together with proceeds of the income tax change would balance the 1966-67 budget leaving a small surplus. It was pointed out that adoption of this procedure would benefit the taxpayers, because it would enable them to keep the \$114.5 million in their own pockets for another year.

It was reported to the group that for years accounting experts have recommended that governments go on a full accrual basis in accordance with established accounting principles. The Committee was told that if California

state government were a private business, the Internal Revenue Service would not permit it to keep its books on the present half-way basis.

NOW THE state reports income on a strict cash basis, while expenditures are accrued when obligated, even though years may pass before bills are submitted and actually paid. In effect, cash received this year is tied up to pay next year's bills. This means that the true assets of the state are being understated at any given time under the existing system.

The committee was also informed that until very recently, the state accounting offices were not equipped to deal efficiently with the accrual system. The shift to computer accounting, however, will enable production of the necessary information when it is required.

The Governor's proposal for transfer of revenue accounting to the accrual system did not include the personal income tax, or the bank and corporation franchise tax, because of anticipated legal and practical problems. However, the second major surprise came when four influential Senators recommended that transfer to accrual go all the way. They declared that this would eliminate any need for increasing taxes this year.

SOME CONCERN was expressed that this move might make the sale of state bonds more difficult. Discussion with large bond dealers indicated that there would be no problem in this area, however.

The political implications of going into an election year with no new taxes are obviously enormous. Legislative

reaction to the full accrual plan was at first mixed, but no one could deny that its adoption this year would be a great political expedient.

Seaman Ret. Richard J. Bugarin, son of Mrs. Adelina L. Bugarin of 513 E. 220th St., has completed seven weeks of basic training

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