

Impact of Proposition 30 Passage on DissoMaster

In the aftermath of the General Election of November 6, 2012, California voters passed Proposition 30, which was the sales and income tax increase proposition spearheaded by Governor Jerry Brown. Proposition 30 created four high-income tax brackets for taxpayers with taxable incomes exceeding \$250,000, \$300,000, \$500,000 and \$1,000,000.

Bracket 1 - Imposes a 10.3% tax rate on taxable income over \$250,000 but less than \$300,000.

Bracket 2 - Imposes an 11.3% tax rate on taxable income over \$300,000 but less than \$500,000.

Bracket 3 - Imposes a 12.3% tax rate on taxable income over \$500,000 up to \$1,000,000.

Bracket 4 - Imposes a 13.3% tax rate on taxable income over \$1,000,000.

This increased tax will be in effect for 7 years. With its passage, Proposition 30 modified income tax rates and are applied retroactively to all income earned or received since the first of the year (January 1, 2012).

The current DissoMaster program, version 2012-1, incorporates California state income tax rates that were in effect prior to the passage of Proposition 30. However, because of the retroactivity aspect of the measure, the current DissoMaster version will incorrectly calculate state income taxes for individuals with taxable income in excess of \$250,000. Until an updated version of DissoMaster becomes available, the user must manually calculate the impact of the increased state income tax rates and apply the appropriate adjustment to the State Tax Adjustment Factor in order to calculate the correct guideline support.

The following is an example that can be used to calculate the appropriate State Tax Adjustment Factor:

Description	Annual Amount	Prop. 30 Incremental Tax	Monthly Adjusted Tax	State Tax
1 State Tax per Dissomaster Calculation (No State Tax Factor Adj. - 1.0)				\$ 7,261
2 Annual Taxable Income (Per CF report)	1,546,252			
3 Baseline Income per Proposition 30	250,000			
4 Income Subject to Proposition 30 Adjustment	1,296,252			
5 1% Increase Level (Max of \$50,000)	50,000	500	42	
6 2% Increase Level (Max of \$200,000)	200,000	4,000	333	
7 3% Increase Level (Max of \$500,000)	500,000	15,000	1,250	
8 4% Increase Level (No limitation)	546,252	21,850	1,821	
9 Incremental State Tax				3,446
10 Adjusted State Tax				\$ 10,707
11 State Tax Factor (line 10 ÷ line 1)				1.475

In the above example, a State Tax Adjustment Factor of 1.475 should be entered in the tax tab of the DissoMaster program. This will correctly account for the increased state income tax rates and provide the correct guideline support numbers. The applicable State Tax Adjustment Factor will depend on the Annual Taxable Income in each case, causing the factor to change.

The ramifications of the passage of this proposition extend to previous calculations of support that were made for 2012 prior to November 6, 2012. Such previous calculations used the state income tax rates for 2012 that are no longer applicable. Consequently there may be a need to recalculate support amounts in order to amend prior orders.

Please feel free to contact White, Zuckerman, Warsavsky, Luna & Hunt LLP at 818-981-4226 should you need assistance regarding this adjustment.