

Angelides, governor battle over loopholes

Rivals face off over the best way to fix the state's deficit.

By Jim Sanders -- Bee Capitol Bureau

Published 2:15 am PST Tuesday, January 25, 2005

In a new salvo involving potential rivals for the state's top job next year, state Treasurer Phil Angelides accused Gov. Arnold Schwarzenegger on Monday of not telling the truth about Democrats' position on closing tax loopholes.

The incident was sparked by a recent meeting between Schwarzenegger and The Bee's editorial board in which the Republican governor indicated that Democrats have been quick to criticize but slow to propose realistic alternatives for closing the state's \$9.1 billion budget gap.

Schwarzenegger suggested he received little response after calling on Democrats to back up their claims that essential public services can be saved by closing tax loopholes.

"We are still waiting on the loopholes," Schwarzenegger said.

Angelides fired back Monday, sending Schwarzenegger a letter in which he pointed to eight specific tax loopholes that he and various Democratic lawmakers proposed closing last year.

Only one of the money-saving proposals - involving yacht owners who avoided paying sales tax by taking possession of their craft offshore - ever was acted upon by Schwarzenegger, Angelides said.

"The governor's comment that he's still waiting to hear about loopholes is wholly untruthful," Angelides said.

H.D. Palmer, speaking on behalf of the Schwarzenegger administration, declined to discuss whether Angelides was playing politics with the issue.

But Palmer noted that the treasurer's eight measures would save \$386 million, representing less than 5 percent of the state's deficit.

"He's about 95 percent short of solving the entire problem," said Palmer, a spokesman for the state Finance Department.

Palmer noted that nearly every measure noted by Angelides died in the Legislature, not at the governor's desk.

The state's primary problem is spending, not taxes, according to Palmer.

"The problem we have to deal with is the structural spending problem, and that's what the governor is trying to fix," Palmer said.

The tax loopholes that Angelides and other Democrats unsuccessfully fought against last year ranged from a sales tax exemption for farm machinery to a crackdown on firms that avoid paying California taxes by relocating offshore - in name only - to Bermuda or the Cayman Islands.

Angelides and other Democrats also proposed that the governor's budget each year identify every tax loophole and provide data on whether it is fulfilling its objective.

"The fact is, I don't make the case that corporate tax loopholes, in and of themselves, will close the budget gap," Angelides said. "But neither will increasing tuition for working students at state colleges and universities, which he's willing to do."

Palmer said that if Democrats really want to dent the state's budget deficit by closing tax loopholes, they'd have to push for changes in Proposition 13 or raise taxes on small businesses.