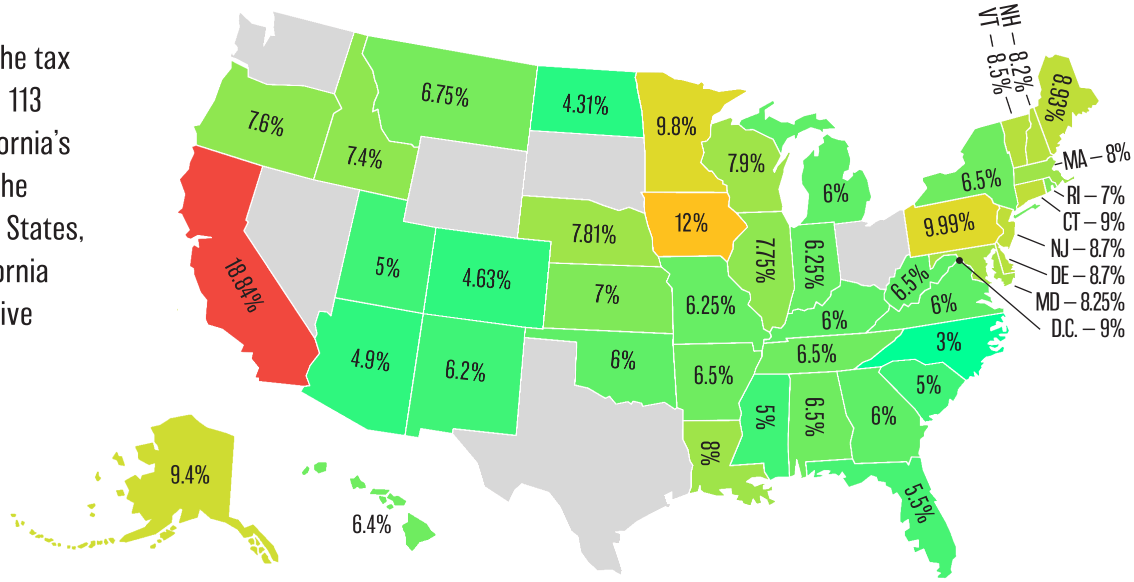
ACA 22 OF 2018

MASSIVE TAX ON BUSINESSES

ACA 22 proposes to increase the tax on corporations by more than 113 percent. At 8.84 percent, California's corporate income tax rate is the highest in the Western United States, but if ACA 22 is enacted, California would have the highest effective corporate tax rate.



Note: Nevada, Ohio, Texas and Washington do not have a "corporate income tax," but do have other types of taxes on corporate income which are not strictly comparable to corporate income tax rates. Delaware and Virginia also impose a gross receipts tax, in addition to levying corporate income taxes. South Dakota and Wyoming do not tax corporate income.

MAJOR PROVISIONS

- **Corporate Tax Add-On Rate.** In addition to all other corporate tax liabilities, ACA 22 imposes a 10 percent surtax on all corporations with a net annual income of more than $1 million (the additional rate would apply to all income).
- **Future Rate Increases Possible.** The Legislature may increase or decrease the rate of the surtax with a two-thirds vote.
- **Who Is Subject to Taxation?** "Qualified taxpayers" subject to the surtax include all taxpayers subject to corporate income and franchise taxes, including "S" corporations, "C" corporations, limited liability companies, and partnerships.
- **Spending Provisions.** The measure establishes the "Middle Class Fiscal Relief Fund" and appropriates funding, beginning in 2019-20, as follows:
  - 40 percent for K-14 schools and higher education.
  - 60 percent for supporting the Earned Income Tax Credit, expanded access to child care and early education, affordable health care, and higher education financial aid.

$14.4 BILLION PRICE TAG

ACA 22 will increase taxes by more than $14.4 billion annually, according to a CalTax analysis of the most current data available from the Franchise Tax Board. For the 2014 tax year, 14,989 corporate income tax returns were filed with taxpayers reporting net income of $1 million or more.

ACA 22 MASSIVE TAX ON BUSINESSES

HIGHEST TAX RATE IN THE UNITED STATES

California already has one of the highest corporate income tax rates in the nation at 8.84 percent. An additional 10 percent surtax effectively more than doubles the current rate and creates the highest state corporate income tax in the United States.

COMPETITIVE DISADVANTAGE

ACA 22 increases the cost of doing business in California, placing the state at a competitive disadvantage for attracting new jobs. Many companies would respond by reducing costs, minimizing operations, laying off workers, or expanding in states that have lower tax burdens.

MAJOR BUDGET SURPLUS

California expects to have more than $19.3 billion in total budget reserves by the end of the current fiscal year, with $7.5 billion in discretionary reserves. Increasing state revenues with a new tax on corporations is unnecessary when the state already plans to collect more revenue than needed.

BACKGROUND

In 2017, Congress passed and the president signed House Resolution 1 – commonly referred to as the Tax Cut and Jobs Act – which reduces the federal corporate income tax rate from 35 percent to 21 percent, beginning January 1, 2018, and temporarily reduces the rate applied to "old earnings" returned to the United States (15.5 percent for liquid assets, 8 percent for non-liquid assets).

In response to the tax rate reductions at the federal level, state lawmakers introduced ACA 22 to increase state taxes. The authors said they proposed the measure because HR 1 provides a "windfall" profit to some businesses, and their bill would tax these businesses to raise revenue to benefit the middle class.

In a column critical of the proposal, the editorial board of *The Sacramento Bee* wrote January 22: "There's plenty broken with California's tax structure. But its 8.84 percent corporate tax rate is already relatively high compared with other states. Bills that blindly seek to soak big business and the rich at a time of budget surplus solve nothing." The newspaper said the bill should be "withdrawn and buried, never to be heard from again."