



Date: April XX, 2019

To: Members, Senate Governance and Finance Committee

From: Therese Twomey, CalTax Director of State Tax Affairs

Subject: **OPPOSITION to SB 468 (Jackson), as amended on March 25, 2019**

The listed organizations strongly oppose SB 468, which would repeal major employer and business tax incentives on December 31, 2023, if certain conditions are not met, and result in one of the largest tax increases in recent years.

Targets Working-Class Jobs. SB 468 would disproportionately punish those industries that provide some of the highest paying wages in California. Among others, this measure would repeal the state's R&D tax credit, which primarily affects technology and manufacturing sectors.

The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers.

Manufacturing jobs pay \$83,000 a year on average, and are a critical engine to growing the state's middle class and creating new high-wage jobs. Every manufacturing job supports at least 2.5 additional jobs in the economy due to a multiplier effect.

A 2017 study by the Washington, D.C.-based Tax Foundation found that a tax on businesses falls predominately on labor, which it estimates bears at least 70 percent, if not all, of the burden. A tax increase on business impacts individuals through less economic growth, lower wages, higher prices, fewer jobs or decreased returns in retirement accounts.

Additionally, a measure that impedes investment in jobs and infrastructure adversely impacts tax revenue generated from business income, business properties, personal wages, homeownership, purchase of goods, etc., which all contribute to funding schools, roads, healthcare and other critical public services.

Higher Taxes Are Unnecessary. The Legislative Analyst's Office stated in its review of the governor's proposed 2019-20 budget: "After many consecutive years of economic growth, California's budget continues to be on strong footing. The nearly \$21 billion surplus available in the Governor's January budget proposal reflects the strong fiscal position of the state. By historical standards, this surplus is very significant." Also, "Our November Fiscal Outlook estimated the General Fund would have \$14.8 billion in available discretionary resources to allocate in the 2019-20 budget process. Based on the administration's January proposals, we estimated the Governor's available surplus was \$20.6 billion. ...By historical standards, these surplus estimates are extraordinary."

With this level of surplus revenue, it simply is unnecessary to impose one of the largest tax increases in California history, targeted directly at companies that employ California workers and fuel the state's economy.

Tax Uncertainty Discourages Investment. While it is meritorious for the state to consider the effectiveness of tax policies and programmatic expenditures, this measure would create significant uncertainty with respect to the future of the state's tax structure.

When businesses choose to locate in a state, factors such as the availability of a skilled workforce, infrastructure, regulatory environment, and tax structure all play a significant role, and businesses evaluate whether they can rely on these factors to remain relatively stable and consistent in the long term. Furthermore, for capital intensive industries like manufacturing and research and development, investment decisions are made many years into the future. The ability for corporate decision-makers in these industries to plan anticipated costs over a span of many years is an important factor when determining locations for these investments.

For the foregoing reasons, we must respectfully oppose this legislation.

Sincerely,

California Taxpayers Association
Advanced Medical Technology Association (AdvaMed)
Biocom
Building Owners and Managers Association of California
California Business Properties Association
California Business Roundtable

California Cable & Telecommunications Association
California Farm Bureau Federation
California Hotel & Lodging Association
California Independent Petroleum Association
California League of Food Producers
California Life Sciences Association
California Retailers Association
California Trucking Association
Camarillo Chamber of Commerce
Chambers of Commerce Alliance of Ventura & Santa Barbara Counties
CompTIA
Contra Costa County Taxpayers Association
Council on State Taxation
Family Business Association of California
International Council of Shopping Centers
Kern County Taxpayers Association
NAIOP of California
North Orange County Chamber
Orange County Business Council
Oxnard Chamber of Commerce
San Gabriel Valley Economic Partnership
Santa Maria Valley Chamber of Commerce
Valley Industry and Commerce Association
West Coast Lumber & Building Material Association
Western States Petroleum Association

cc: The Honorable Hannah-Beth Jackson, California State Senate
Mr. Che Salinas, Chief Deputy Legislative Secretary, Office of Governor Gavin Newsom

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