



August 21, 2009

Sent By Regular Mail and E-Mail  
 comment@cotce.ca.gov

Mr. Gerald Parsky, Chair  
 Commission on the 21st Century Economy  
 c/o State of California Department of Finance  
 915 L Street, 8th Floor  
 Sacramento, California 95814

**SUBJECT: PENDING TAX PACKAGE OF THE COMMISSION ON THE 21<sup>ST</sup> CENTURY ECONOMY**

Dear Chairman Parsky:

We, the below-listed business and employer organizations, appreciate the time and hard work the Commission on the 21<sup>st</sup> Century Economy has devoted over recent months to hearing and considering various issues concerning California's tax structure. We must, however, respectfully express our strong concern and opposition to several of the items included as part of the latest "Tax Package" (dated 8-3-09) being considered by the Commission. Specifically, we request that the Commission decline to include in your recommendations to the Governor and Legislature any of the following proposals:

1. a **split roll property tax for non-residential property;**
2. an **energy tax, proposed as a "pollution tax,"** that raises the price of gasoline and California-produced crude oil; and
3. a **business net receipts tax and related changes to the existing tax structure** that are not comprehensively analyzed for their consequences on employers and the economy, and fully vetted with the business community and economic experts.

The California business community has consistently stated that the solution to California's revenue problems will only come from robust economic growth and job creation. We believe the proposed split roll property tax and the energy tax would be extremely detrimental to California's economy. As for the business net receipts tax, we believe it is risky and inappropriate to move forward with dramatic changes to the tax structure without first fully vetting their impact on California jobs and the economy. Below, we further delineate our reasons for opposition:

**1. The Split Roll Property Tax Would Increase Taxes on Employers and Be Detrimental To Investments and the Economy.**

According to the Board of Equalization, a split roll property tax would have generated up to \$7.5 billion in additional revenues in 2008-09, meaning a \$7.5 billion tax increase on employers, and the economic consequences would run far deeper. A split roll tax would result in higher rents, the burden of which would fall most heavily on lower-income Californians and small businesses. Moreover, a split roll would reduce the after-tax returns from investment, reducing investment in rental housing and business plants and equipment within California. Less investment means fewer jobs.

**2. The Energy Tax Would Drive Up Gas Pump Prices and Kill Jobs.**

Based upon our initial review of the proposed energy tax, it appears that had the tax been in effect over the past year, California motorists would have paid billions more in additional gasoline taxes and millions more in new taxes on domestically-produced crude oil. Fuel-dependent industries such as transportation and aviation also would have seen significant fuel tax increases. Finally, the proposed refundable income tax credit would likely make our state's income tax system even more dependent on high-income earners, which would further increase revenue volatility.

**3. The Business Net Receipts Tax (BNRT) Should Not Be Advanced, Absent a Specific Proposal, a Full Analysis of the Economic and Operational Impacts, and Thorough Deliberations with Affected Economic Sectors.**

The Commission should refrain from moving forward with any proposal like the BNRT (and related changes to the personal income tax, the corporate tax, and the state portion of the sales tax) until there is a specific proposal that is fully vetted with potentially affected businesses and economic experts to determine its ramifications.

While we appreciate the Commission's plan to hold workshops next week on the BNRT issue, we believe these can only serve as a starting point. No informed response or analysis by California's economic sectors is possible until the Commission has: 1) provided a clear, specific, written proposal; 2) provided an analysis of the policy, operational, and transitional implications, including those outlined in the attached initial list of questions that we have developed; and 3) given an opportunity for California businesses and economic experts to respond to the proposal and analysis.

For example, we believe that these threshold questions should serve as guideposts in the Commission's consideration of the policy implications of the BNRT:

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- How will this tax affect specific economic sectors – which industries will see their liabilities increase (relative to proposed tax cuts) and which will pay less? How will these changes affect these industries' inclinations to do business in California?
- How will the BNRT proposal affect California job creation and retention, since, in effect, it appears to be a tax on employees? Will the BNRT provide an incentive for businesses to reduce California payrolls, including for California headquarters, in favor of outsourcing or relocation?
- How will the BNRT will affect California's competitiveness, specifically with respect to domestically-produced goods and services exported at a new higher price and with respect to those same goods and services offered at lower prices by other states and countries?
- Will the BNRT result in increased costs of doing business in California as it pushes up the cost of goods and services for vital California industries?

We strongly urge the Commission to set as top priorities the restoration of jobs and the economy, and the strengthening of California's competitiveness, when considering these and any other tax changes. For these and other reasons, we respectfully urge the Commission to reject the proposed split roll and energy taxes and not to move forward with any business net receipts tax recommendation until there has been full vetting of a detailed proposal.

Sincerely,

California Chamber of Commerce  
Air Transport Association of America, Inc.  
American Council of Engineering Companies of California  
Apartment Association, California Southern Cities, Inc.  
Association of California Life and Health Insurance Companies  
California Aerospace Technology Association  
California Apartment Association  
California Automotive Wholesalers' Association  
California Bankers Association  
California Beer and Beverage Distributors  
California Business Property Association  
California Cable & Telecommunications Association  
California Cattlemen's Association  
California Farm Bureau Federation  
California Forestry Association  
California Grocers Association  
California Hotel and Lodging Association  
California Manufacturers and Technology Association  
California Mortgage Bankers Association  
California Retailers Association  
California Taxpayers Association  
Long Beach Area Chamber of Commerce  
Milpitas Chamber of Commerce  
Motion Picture Association of America

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National Federation of Independent Business  
Personal Insurance Federation of California  
Redondo Beach Chamber of Commerce & Visitors Bureau  
Santa Clara Chamber of Commerce and Convention-Visitors Bureau  
Securities Industry and Financial Markets Association  
TechAmerica  
Western Electrical Contractors Association  
Western Growers Association  
Western Manufactured Housing Communities Association  
Western States Petroleum Association

Encl.

cc: Commissioners, Commission on the 21st Century Economy  
The Honorable Arnold Schwarzenegger  
The Honorable Darrell Steinberg  
The Honorable Karen Bass  
The Honorable Dennis Hollingsworth  
The Honorable Sam Blakeslee  
Members, California State Legislature