

April 7, 2009

Sent By E-Mail

Mr. Gerald Parsky
Chair
Commission on the 21st Century Economy

Dear Chairman Parsky:

Thank you for your invitation to submit additional recommendations for affirmatively altering the structure of the state's tax system. Attached is a white paper prepared by the California Foundation for Commerce and Education, a think tank affiliated with the California Chamber of Commerce. Please deem the white paper a statement of affirmative recommendations by the California Chamber of Commerce. The following excerpt is a summary of those recommendations:

Summary of conclusions

California has been generally well-served by broad-based, balanced tax sources levied on income, consumption and wealth. To the extent major changes are contemplated, they should aim to reduce the burden on job-creating income and investment.

California's tax system is very responsive to the state's economy, and sometimes produces highly volatile revenues. But the solution to this volatility is in a mandatory reserve and revenue smoothing mechanism – such as Proposition 1A on the May special election ballot – not by changing the mix of state taxes.

California has very high tax rates that undermine our state's economic competitiveness. The most effective reforms to the tax system would be to reduce and rationalize taxes to maximize our competitive position:

- California's corporate income tax is the highest in the West; it should be reduced. Nearby competitor states, like Texas, Nevada and Washington, have no corporate income tax. We should also leverage California's high-value innovation industry by gradually conforming the state's research and development tax credit to the federal credit. Finally, we should repeal the recently adopted, punitive understatement penalty.
- California has the highest personal income tax rate in the nation; the tax is also one of the most progressive. We should also consider reducing this tax rate since several of our strongest competitor states for economic development have no income tax, such as Texas, Florida and Washington. Many taxpayers in the top PIT bracket are small businesses, and recruiters of highly skilled employees must consider the state's tax climate.

- The sales tax rate is also among the highest in the country, and applies to business inputs as well as consumer purchases. The sales tax should be rationalized by gradually eliminating the tax on business investments in tangible property. Few states, other than California, allow the taxation of business inputs.
- A new sales tax on services is unnecessary, fiscally imprudent and would discourage job creation.
- A split roll property tax would have harmful consequences on rental property, open space, jobs and the economy.

While the first three bullets are affirmative recommendations that would improve the economy, as noted in our February 12, 2009 testimony before the Commission, it is also critically important that there be no Commission recommendations that would harm the economy. Among others, we believe a new sales tax on services and a split roll tax would be especially detrimental. Increasing taxes on selected services would be unfair, discriminatory and economically harmful, and in any form, a services tax would increase the cost of labor, which is the wrong signal when the economy needs to produce jobs.

Likewise, a split roll tax would have very harmful consequences – resulting in higher rents, the burden of which will tend to fall most heavily on lower-income Californians and small businesses. Moreover, a split-roll would reduce the after-tax returns from investment, causing a reduction in the volume of investment in rental housing and business plants and equipment within California. Less investment means fewer jobs.

We appreciate the time and consideration the Commission has devoted to evaluation of California's tax structure. We strongly urge the Commission to undertake any recommendations regarding changes to the tax system primarily with the health of the economy in mind.

Please do not hesitate to contact us if you should have any questions or need any further information.

Sincerely,



Kyla Christoffersen
Policy Advocate

Encl.

cc: Mark Ibele, Staff Director, Commission on the 21st Century Economy
Loren Kaye, President, California Foundation for Commerce and Education

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