

From: James Farrell
Sent: Thursday, October 01, 2009 4:59 PM
To: comment, cotce
Subject:

Thanks for all the work and energy that went in to the report. I think it goes a long way to achieving the objectives you set out to achieve

One major flaw that stuck out in the report --- on the BNRT --- your example of the landscaper could be a problem --- at least from a marketing or presentation point of view

The business makes 400,000 per year. Assuming that it is a sub-chapter S corp --- under the present system, the person would owe less than 35k in annual taxes (before deductions). The business or its customers would likely pay sales tax on \$1.5 m of goods purchased -- \$75k in sales taxes (assuming we pay sales taxes on plants, grass and trees and soil)

Your proposal charges him or her \$112,000 of taxes and they would still owe taxes individually --- \$400k minus \$112k = 288 --- so probably 14,000 in additional taxes for personal income tax return.

That is more than a \$90,000 increase in taxes to the business owner --- more than a 350% increase in taxes

Now maybe their purchases of \$1.5 million (supplies and materials) when sold to the consumer or when used within the business would include sales tax under present system. By lowering the sales tax rate by 5% --- if all \$1.5 mm paid sales taxes, that is \$75k --- owner would need to charge customer more so the example leaves the business owner with \$18,500 in higher taxes

If the owner personally spends money on \$100,000 of items that pay sales taxes --- then he would also save \$5,000 personally

Still this individual is seeing an increase in taxes versus the current system --- some portion may come back thru lower federal taxes (maybe 5,500 comes back from lower federal taxes) After netting all the savings against higher taxes, isn't that about a 25% increase in state taxes on this business even after accounting for lower sales taxes on owner's personal consumption and benefit of lower federal taxes?

To get close to a neutral position, the owner of the business would have to raise prices by \$8,000 plus collect the \$75,000 in state sales taxes that the consumer wants to save

Or you have to provide a \$10,000 deduction of exemption --- the business owner doesn't owe the first 10,000 of the new business tax

So if consumer pays the same price with sales taxes for his/her landscaping ---- the owner pays 1/4 more in total taxes than he/she pays today if no deduction/exemption

My guess is small businesses will strongly resist this segment of your plan --- particularly businesses with high compensation levels.....

Under your plan, compensation is in essence taxed twice by the state --- once at 4% inside the business and once at the personal level at the individual's tax rate

While a modest 0.2% increase in price on the \$5 m base offsets the higher taxes, your political opponents will have a field day with you are increasing taxes on the owner by 25%

Also, if the business only make \$175,000 instead of \$400,000 – that tax increase, net, is closer to 12,000 and 106% of his/her current state income taxes

Also, a business that is mostly labor w.o items that have sales tax will need a much larger price increase to pay the new tax

The sales tax doesn't really go away --- it just gets shifted to being included in the price and is paid for

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