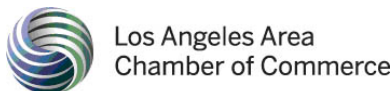


FLOOR ALERT



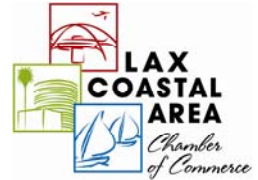
CALIFORNIA
FARM BUREAU
FEDERATION



INDEPENDENT ENERGY PRODUCERS



Motion Picture Association of America, Inc.



CHAMBER OF COMMERCE



REGIONAL CHAMBER ALLIANCE representing businesses from the La Mirada, Norwalk, Pico Rivera, Santa Fe Springs and Whittier Chambers of Commerce



June 1, 2011

To: Members, California State Senate

From: Above-Named Organizations and Companies

Subject: OPPOSITION to SB 653, as amended May 31, 2011

Dear Senator,

The California Taxpayers Association, along with the above-listed organizations and companies, respectfully opposes SB 653, which seeks to dramatically alter California's tax structure by extending new taxing authority to counties, community college districts, and county offices of education. California has reserved personal income taxing powers for state government, while allowing local governments to tax sales, property, utilities and to impose hotel charges, subject to voter approval. SB 653 would change this fundamental structure. SB 653 would create long-term economic and compliance challenges as businesses are forced to comply with up to 58 different county tax jurisdictions, up to 58 county offices of education tax jurisdictions, and up to 72 community college districts tax jurisdictions,. We have many concerns about this bill.

SB 653 Limits Long-Term Economic Growth. SB 653 would lift decades-old restrictions that prohibit counties, community college districts, and county offices of education from proposing local personal income taxes, local transactions (sales) and use taxes above the current limits, excise taxes and new local car taxes. SB 653 represents not only a major shift of power from state to local government, but the shift would have major implications for the state's long-term economic growth. SB 653 would effectively eliminate the ability for a business to plan long-term costs, since the business would be forced to reckon with a significant number of tax jurisdictions, each of which may impose one or more different types of taxes that have different applications, regulations, and rates.

Excise Taxes Are a Regressive and Inequitable Form of Taxation. SB 653 incentivizes a regressive tax structure by allowing counties, community college districts, and county offices of education to impose excise taxes on virtually all products and services – anything from haircuts to toys – sold in the county, community college district, and county offices of education district. An excise tax is a tax on commodities or services. Generally, excise taxes are imposed under the guise of mitigating a cost that society must pay for (such as a tanning tax for health care services), or as a funding source for a specific purpose (such as fuel taxes for highway construction). The equity of a tax can be measured by whether the responsibility of paying for a tax is shared by all taxpayers, and by a tax's progressivity and proportionality. Excise taxes generally are regressive, and have a greater burden on lower- and middle-income taxpayers.

The Assembly's Major Tax Study from 1965 concluded that excise taxes are "an extremely inequitable, if not the most inequitable, type of taxation." The report continued: "This taxation bears most heavily upon the lower income groups. It takes proportionately more of their income and as a consequence, it reduces their ability to purchase other needed commodities." By opening the door for local governments to impose excise taxes, California would be promoting a structure of taxation that obstructs opportunity for low- and middle-income taxpayers.

Creates Barriers for Disadvantaged Communities. SB 653 is intended to help fund a government that is closer to the people, which, in turn, would create a reliance on local taxes to fund local government. Section 7(b) of Article 1 of the California Constitution provides that

citizens or class of citizens may not be granted privileges or immunities not granted on the same terms to all citizens. How would SB 653 protect citizens, especially those in disadvantaged communities? Many lower-income areas throughout California have a smaller tax base, meaning they would not be able to obtain as much revenue from higher taxes as would communities with a higher-income tax base. Because SB 653 would allow counties and county boards of education to increase taxes to fund local government and school districts, lower-income regions of the state would not be able to provide the same quantity or quality of services as communities with a higher tax base.

Compliance Problems With Local Income Taxes. Personal income taxes imposed by counties, community college districts, and county offices of education would place a significant burden on employers, who would be obligated to withhold and remit personal income taxes. An employer's failure to withhold may lead to an employee underpaying his or her personal income taxes, thus subjecting an employee to failure-to-pay penalties upon the filing of his or her state income tax return.

Employers may find it difficult to comply with the rules in each tax jurisdiction where employees may live. This is especially true since each county, community college district, and county office of education may impose a different rate, up to 1 percent of state taxable income, and impose the tax on one or more of the personal income tax brackets. Businesses also would be responsible for complying with income tax reporting deadlines and would be responsible for tax information required by each county, community college district, and county office of education. This adds a new reporting and compliance burden on employers with penalties should record-keeping problems arise.

Allows Counties, Community College Districts and County Office of Education to Exceed Existing Transactions (Sales) and Use Tax Rate Limits. SB 653 would authorize counties, community college districts, and county offices of education to impose transactions (sales) and use taxes beyond the 2 percent local rate limitation currently authorized by law. Counties, community college districts and county offices of education could exceed the existing tax rate limit, thus recreating a problem that the Legislature fixed after cities began imposing different tax rates in the 1940s. In order to create tax rate and tax base consistency, the Legislature passed the Bradley-Burns Uniform Local Sales Tax Act – SB 653 would take the state backward.

Currently, California has the highest sales and use tax in the country, with a state rate of 8.25 percent and the ability of local government to add up to 2 percent. Though the worst of the recession has passed, and California's economy is beginning to recover, excessive tax rates on sales and use of tangible property will put the state at a competitive disadvantage. Other markets – such as Asia, the European Union and even emerging economies like Brazil and India – can just as easily compete with California's industries in a global marketplace. SB 653 would hinder economic growth by allowing counties, community college districts, and county offices of education to increase California's sales tax to even higher, more excessive rates – with no limit in place.

Higher Vehicle License Fees Hurt the Economy. SB 653 would allow each of the 58 counties, 58 county offices of education, and the 72 community college districts to impose a new Vehicle License Fee up to 1.35 percent. The VLF is intended as an "in-lieu" property tax (to ease administration) and, therefore, should not exceed the 1 percent cap imposed for other property taxes. If the rate varies by jurisdiction, some counties community college districts, and county offices of education will charge different rates based on the use of the vehicles (commercial versus non-commercial use) or the type of vehicle (different rate based on emissions, cylinders, size, or weight).

These issues not only raise concerns for taxpayers subject to the tax, but raise costs to the state for administering potentially divergent rules county to county, community college district to community college district and county office of education to county office of education. In addition, a local VLF would directly impact the sales of vehicles. The auto industry has been hit particularly hard by the recession, and this proposal will substantially compound the industry's difficulties.

Higher Energy Costs Hurt Commuters. SB 653 would allow counties, community college districts, and county offices of education that have oil and petroleum reserves to impose an oil severance tax. Increased costs for oil production would be passed along to all of California's consumers at the pump, and the new taxes likely would reduce in-state oil production. Because gas prices will rise as a result of increased oil production costs, costs of doing business likewise will increase. As the general costs of doing business in California increase, business activity will slow, leading the state deeper into recession.

For the foregoing reasons, we strongly oppose SB 653.

Sincerely,



Gina Rodriguez, Vice President of State Tax Policy
California Taxpayers Association

Also on behalf of:

Air Logistics Corporation
Alliance of Contra Costa Taxpayers
American Council of Engineering
Companies
Anheuser-Busch Companies Inc.
Associated Builders and Contractors of
California
Association of California Life and Health
Insurance Companies
Brawley Chamber of Commerce
California Aerospace Technology
Association
California Apartment Association
California Association of Bed and Breakfast
Inns
California Attractions and Parks Association
California Bankers Association
California Beer and Beverage Distributors
California Business Properties Association
California Cable and Telecommunications
Association
California Chamber of Commerce
California Farm Bureau Federation
California Grocers Association
California Hotel and Lodging Association
California Independent Grocers Association

California Independent Petroleum
Association
California Manufacturers and Technology
Association
California/Nevada Soft Drink Association
California New Car Dealers Association
California Restaurant Association
California Retailers Association
California Society of Enrolled Agents
California Spa & Pool Industry Education
Council
Campbell's
Caterpillar
Contra Costa Taxpayers Association
Creative Wood Products, Inc.
Council on State Taxation (COST)
Direct Selling Association
Distilled Spirits Council of the United States
Dynegy
El Centro Chamber of Commerce
Family Winemakers of California
Fresno County Farm Bureau
Garden Grove Chamber of Commerce
Granite Construction Incorporated
Greater Fresno Area Chamber of Commerce
Greater Stockton Chamber of Commerce

Grocery Manufacturers Association
Howard Jarvis Taxpayers Association
Humboldt Taxpayer's League
Independent Energy Producers Association
Independent Oil Producers' Agency
Insurance Brokers & Agents of the West
Kern County Farm Bureau
Kern County Taxpayers Association
Lancaster Chamber of Commerce
LAX Coastal Area Chamber of Commerce
Los Angeles Area Chamber of Commerce
Los Angeles County Business Federation
Long Beach Area Chamber of Commerce
Madera County Farm Bureau
Miller/Coors
Monterey County Farm Bureau
Monterey County Hospitality Association
Motion Picture Association of America
National Association of Theatre Owners of
California/Nevada

National Federation of Independent Business
Orange County Taxpayers Association
Orinda Taxpayers Association
Oxnard Chamber of Commerce
Palm Desert Chamber of Commerce
Personal Insurance Federation of California
Rancho Cordova Chamber of Commerce
Regional Chamber Alliance
San Diego Tax Fighters
Santa Clara Chamber of Commerce
Scotts Valley Chamber of Commerce
Simi Valley Chamber of Commerce
Solar Turbine
Spidell Publishing Inc.
TechAmerica
Tulare Chamber of Commerce
Vulcan Materials Company
Waste Watchers, Inc.
Western Growers Association
Western States Petroleum Association
Wine Institute