

OPPOSE – SB 993

Update #3 (Coalition Members Added)



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**PACIFIC COAST
RENDERING ASSOCIATION**



Date: May 14, 2018
To: Members, Senate Governance and Finance Committee
From: Therese Twomey, CalTax Director of State Fiscal Policy
Subject: **OPPOSITION to SB 993 (Hertzberg), as amended on May 9, 2018**

CalTax and the organizations listed in this letter oppose SB 993, which proposes the largest expansion of the sales/use tax in the state's history. SB 993 imposes a tax on all services purchased by businesses in California, with certain exceptions.

While the May 9 amendments attempt to mitigate some of the adverse effects of a 3 percent tax on services with a possible 2 percent reduction of the tax on the purchase of goods (subject to certain state revenue loss limitations), we are concerned that this proposal would result in a significant net tax increase. We oppose this policy for the following reasons:

- **Creates Competitive Disadvantages for California Employers.** State and local taxes represent a significant cost for employers, and consequently are a key factor in business planning decisions. Determinations of where to locate or expand operations are influenced by assessments of relative tax burdens across multiple states. Already, businesses pay nearly 40 percent of the sales and use tax in California. Targeting them with an additional tax on services would put California at a tremendous competitive disadvantage.

A "2017 Best and Worst States for Business" report by *Chief Executive Magazine* found that CEOs and employers at major businesses across the country ranked California as the worst state to do business six years in a row – and a significant part of that ranking was California's 1.98 out of 10 score for taxes and regulations. The 49 other states all would benefit from California's decision to make itself even less attractive to employers.

- **Imposes a Massive Tax Increase.** SB 993 taxes all manner of services used by businesses in their daily operations, including many services performed by skilled

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workers who specialize in particular trades. This sweeping expansion would result in a significant tax increase, potentially in the range of billions of dollars a year. Even with a potentially lower tax on the purchase of goods, this proposal would increase a tax burden that already is among the highest in the nation – chasing away jobs and investment from many of California's key employers, including high-tech and manufacturing companies.

- **Increases the Price of Everyday Goods.** By taxing business inputs at multiple stages during the production process, this layering approach (known as “tax pyramiding”) increases overall production costs for everyday goods such as milk, bread, non-prescription medicines, etc. The cost increases on these and other products (which are exempt from the sales and use tax and will not benefit from the proposed rate reduction) ultimately will be passed on to consumers in the form of higher prices.

This tax increase disproportionately hurts working families, as higher business taxes negatively impact economic growth, lower wages, and reduce jobs.

- **Costly Government Administration.** In analyzing previous proposals to impose a sales tax on services, the former State Board of Equalization (now California Department of Tax and Fee Administration) estimated that program administration costs ranged from approximately \$900 million in the first year to more than \$600 million every year thereafter. With the complex structure envisioned in this bill (i.e., varying tax rates, exemptions for certain services only for those engaged in certain lines of businesses, apportionment methodologies between services used in state and out of state, etc.) state administration costs likely will exceed the previous estimates.
- **Broad-Based Taxes on Services Have Failed in Other States.** Due to the tremendous competitive disadvantages and tax administration/auditing difficulties, many states have repealed their taxes on services shortly after implementation. And many more states have held off from enacting the tax.
- **Higher Taxes Are Unnecessary.** The Legislative Analyst’s Office stated in its review of the governor’s proposed 2018-19 budget: “Under our current revenue and spending estimates, and assuming the Legislature makes no additional budget commitments, the state would end the 2018-19 fiscal year with \$19.3 billion in total reserves” – adding that revenue is expected to be even higher when the budget is revised in May with updated revenue collection data and possible economic stimulus from federal tax changes.

When the state is bringing in surplus revenue, it simply is unnecessary to embark on the largest sales/use tax expansion in California history, targeted directly at businesses that employ California workers and fuel the state’s economy.

As California employers and business enterprises, we share in the desire to strengthen the state’s economy and to improve our chances for future prosperity. We find that a diverse workforce supported by thriving industries in a business-friendly environment is primary to achieving those objectives. A tax increase on California employers and businesses would prove harmful to California. We oppose taxes on services for these and other reasons, and look forward to discussing with you other approaches for improving our economy.

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Sincerely,



Therese Twomey

CalTax Director of State Fiscal Policy

Also:

California Taxpayers Association
Agricultural Council of California
Almond Alliance of California
American Council of Engineering
Companies
American Institute of Architects, California
Council
Anschutz Entertainment Group
Apartment Association, California Southern
Cities
Apartment Association of Orange County
Association of California Egg Farmers
Association of California Life and Health
Insurance Companies
Bay Area Council
Biocom
Building Owners and Managers Association
of California
Calaveras County Taxpayers Association
California Ambulance Association
California Apartment Association
California Asian Pacific Islander Chamber of
Commerce
California Association of Collectors
California Association of Health
Underwriters
California Association of Realtors
California Association of Wheat Growers
California Bankers Association
California Bean Shippers Association
California Beer and Beverage Distributor
California Business Properties Association
California Cable and Telecommunications
Association
California Chamber of Commerce
California Escrow Association
California Farm Bureau Federation
California Forestry Association
California Geotechnical Engineering
Association
California Grain and Feed Association
California Hotel and Lodging Association
California Land Title Association

California Life Sciences Association
California Manufacturers & Technology
Association
California Mortgage Association
California New Car Dealers Association
California News Publishers Association
California Pear Growers Association
California Pool and Spa Association
California Railroads
California Restaurant Association
California Retailers Association
California Seed Association
California Society of Enrolled Agents
California State Club Association
California State Floral Association
California Tank Lines Inc.
California Travel Association
California Trucking Association
California Veterinary Medical Association
California Warehouse Association
Camarillo Chamber of Commerce
Chamber of Commerce Alliance of Ventura
and Santa Barbara Counties
Chemical Transfer Co.
CompTIA
Council on State Taxation
East Bay Rental Housing Association
Family Business Association of California
Fullerton Association of Concerned
Taxpayers
Greater Conejo Valley Chamber of
Commerce
Greater Irvine Chamber of Commerce
Greater San Fernando Valley Chamber of
Commerce
Independent Insurance Agents and Brokers
of California
International Council of Shopping Centers
Investment Company Institute
Kern County Taxpayers Association
National Association for Industrial and
Office Parks

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National Association of Insurance and
Financial Advisors of California
National Federation of Independent
Business
National Notary Association
North Orange County Chamber of
Commerce
North Valley Property Owners Association
Orange County Business Council
Orange County Taxpayers Association
Pacific Coast Rendering Association
Pacific Egg & Poultry Association
Plumbing-Heating-Cooling Contractors
Association
Property Casualty Insurers Association of
America
Retail Industry Leaders Association
San Diego County Apartment Association
San Gabriel Valley Economic Partnership
Securities Industry and Financial Markets
Association

Silicon Valley Leadership Group
Silicon Valley Taxpayers Association
Solano County Taxpayers Association
Spidell Publishing, Inc.
Structural Engineers Association of
California
Superior Tank Wash Inc.
Sutter County Taxpayers Association
Taxicab Paratransit Association of California
Valley Industry & Commerce Association
West Coast Leasing, LLC
West Coast Lumber and Building Material
Association
Western Electrical Contractors Association
Inc.
Western Manufactured Housing
Communities Association
Western States Petroleum Association
Wine Institute