

MEMO# 23762

September 4, 2009

Draft Letter To California Commission Urging RIC Exemption To Proposed Business Net Receipts Tax; Comments Requested By Sept. 9

[23762]

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TO: TAX COMMITTEE No. 24-09 RE: DRAFT LETTER TO CALIFORNIA COMMISSION URGING RIC EXEMPTION TO PROPOSED BUSINESS NET RECEIPTS TAX; COMMENTS REQUESTED BY SEPT. 9

The Commission on the 21st Century Economy, [\[1\]](#) created to review California's tax laws and suggest proposals for modernizing them, is considering a business net receipts tax ("BNRT"). Among the benefits that the Commission believes would flow from the BNRT, which is a form of value added tax, is improved tax competitiveness for California businesses.

The Commission's preliminary overview of the BNRT [\[2\]](#) provides only some details of its application. Taxable net receipts would be defined as gross receipts less purchases from other businesses. Different rules would be needed, the overview notes, for non-financial businesses and for financial businesses in the applicable definitions of gross receipts and purchases. The overview does not indicate whether any exemptions to the BNRT, such as one for investment companies, would be provided.

The attached draft Institute letter urges that the Commission expressly provide an exemption from the BNRT for investment companies. Without this exemption, the returns

of California-based funds would be reduced relative to returns of funds based outside of California. Likewise, managers of California-based funds would be placed at a distinct competitive disadvantage relative to fund managers located throughout the rest of the United States. Because the BNRT would not be limited to the receipts of California-based firms with respect to their California-resident investors, the BNRT effectively would be paid by all shareholders in a California-based fund.

To ensure that the Institute's comments are received by the Commission before their next public meeting, please provide any comments on this draft to the undersigned (at 202/326-5832 or lawson@ici.org) by Wednesday, September 9.

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[Attachment \(in .pdf format\)](#)

endnotes

[1] <http://www.cotce.ca.gov/>.

[2]
<http://www.cotce.ca.gov/meetings/documents/FINAL%20-%208%2021%2009%20-%205%2000PM%20-%20BNRT%20Des9.pdf>

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