

COMMENT LETTER

June 23, 2020

Coalition Letter Opposing California "Headcount" Tax Proposal (pdf)

The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers. 1215 K Street, Suite 1250 • Sacramento, CA 95814 • (916) 441-0490 • www.caltax.org

The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers. 1215 K Street, Suite 1250 • Sacramento, CA 95814 • (916) 441-0490 • www.caltax.org

June 23, 2020 The Honorable Kansen Chu California State Assembly State Capitol, Room 3126 Sacramento, CA 95814 Subject: Opposition to AB 398 (Chu), as amended on June 17, 2020 Dear Assembly Member Chu, The California Taxpayers Association and the organizations listed in this letter oppose AB 398, which would create a statewide tax on jobs by imposing a new "headcount" tax on California employers who have more than 500 employees. The tax rate would be \$275 per employee. Jobs are vital for individual California workers and to our state economy – especially in light of the COVID-19 pandemic. Every new job created in California provides income for the worker and provides increased revenue to the state through its existing tax structure. As California begins to recover from the current economic downturn, it is imperative that employers begin to rehire workers. Any disincentive to hiring will impede the state's recovery. The Legislative Analyst's Office projects that the unemployment rate will range from 9.4 percent to 11.5 percent in 2020 while the administration projects unemployment will peak at 25 percent in June. Depending on the economic scenario, many individuals could remain out of the workplace for some time. AB 398 would only exacerbate this crisis by slowing hiring and delaying the ability of California workers to return to work. The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers. 1215 K Street, Suite 1250 • Sacramento, CA 95814 • (916) 441-0490 • www.caltax.org

CalTax and the coalition oppose this legislation for the following reasons: Increases Costs for Californians. Increasing the cost of doing business in California will lead to higher costs for Californians as the tax is passed to the consumer, making everyday products and services more expensive. Additionally, this bill taxes many of California's hospitals leading to higher medical costs in the middle of the COVID-19 pandemic. With millions of Californians unemployed, this bill will harm the most vulnerable in our communities. Punishes Businesses for Hiring Employees. Under AB 398, employers who hire more California workers, regardless of the company's location, would be penalized with higher taxes. This creates an incentive for

employers to consider moving non-essential California-based employees to states that do not impose a headcount tax. There would be an even greater disincentive for businesses close to the employee threshold to hire additional employees, since adding even one employee could trigger a massive tax increase. Under this bill, if a taxpayer with 499 employees adds an employee, that employee would add \$137,500 in taxes, in addition to salary and benefits. With the new independent contractor classification law going into effect, this bill would significantly harm Californians. As many former independent contractors in the state now are classified as employees, this tax would provide a strong disincentive to hire in California. Taxpayers would have a new incentive to hire independent contractors in other states or countries, as doing so would lower their employee count and the associated tax levy. This bill runs directly counter to the efforts to increase job growth within the state – by creating a new disincentive for hiring employees, and Californians in particular, this bill increases the risk of California workers losing their jobs as businesses shift to other states. It is common for policymakers to pursue taxes on products or activities they would like to see less of. For example, a higher tax on cigarettes was imposed to attempt to reduce the number of smokers. A tax on electronic cigarettes was proposed this year by the governor with the stated goal of decreasing vaping. Tax increases on soda have been proposed based on the argument they would reduce consumption of sweetened beverages. Following the same rationale, taxing jobs will result in fewer jobs, especially for those whose jobs are viewed as most expendable. Imposes an Unnecessary Tax. This bill imposes a new tax at a time when California businesses already are paying some of the highest taxes in the country. According to the Washington, D.C.-based Tax Foundation, California's business tax climate already ranks third- worst in the United States. AB 398 would exacerbate the problem. For these and other reasons, CalTax and the organizations listed below strongly oppose AB 398. California Taxpayers Association Advanced Medical Technology Association (AdvaMed) Agricultural Council of California Alliance for Automotive Innovation American Council of Engineering Companies, California Associated General Contractors Association of California Life and Health Insurance Companies Bay Area Council Biocom Brea Chamber of Commerce Building Owners and Managers Association of California The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers. 1215 K Street, Suite 1250 • Sacramento, CA 95814 • (916) 441-0490 • www.caltax.org California Apartment Association California Association of Licensed Security Agencies, Guards & Associates The California Association of Sheet Metal and Air Conditioning Contractors National Association California Attractions and Parks Association California Bankers Association California Beer and Beverage Distributors California Building Industry Association California Business Properties Association California Business Roundtable California Cable & Telecommunications Association California Chamber of Commerce California Fuels and Convenience Alliance California Grocers Association California Hospital Association California Hotel & Lodging Association California Land Title Association California League of Food Producers California Legislative Conference of the Plumbing, Heating and Piping Industry California Life Sciences Association California Manufacturers and Technology Association California Railroads California Retailers Association California Restaurant Association Central Valley Business Federation Commercial Real Estate Development Association of California (NAIOP) Computing Technology Industry Association (CompTIA) Contra Costa Taxpayers Association Council On State Taxation Dairy Institute of California El Centro Chamber of Commerce Electronic Transactions Association Family Business Association of California Folsom Chamber of Commerce Fontana Chamber of Commerce Fountain Valley Chamber of Commerce Global Business Alliance Greater Conejo Valley Chamber of Commerce Greater Riverside

Chambers of Commerce Healthcare Distribution Alliance Hesperia Chamber of Commerce Humboldt Redwood Company and Mendocino Redwood Company Insights Association International Bottled Water Association International Council of Shopping Centers Investment Company Institute Kern County Taxpayers Association Lancaster Chamber of Commerce Long Beach Area Chamber of Commerce Los Angeles Area Chamber of Commerce Los Angeles County Business Federation National Electrical Contractors Association National Federation of Independent Business North Orange County Chamber of Commerce The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers. 1215 K Street, Suite 1250 • Sacramento, CA 95814 • (916) 441-0490 • www.caltax.org North San Diego Business Chamber Northern California Allied Trades Oceanside Chamber of Commerce Official Police Garage Association of Los Angeles Orange County Business Council Orange County Taxpayers Association Oxnard Chamber of Commerce Pacific Merchant Shipping Association Pacific Water Quality Association San Gabriel Valley Economic Partnership San Diego Taxpayers Association San Diego Regional Chamber of Commerce Santa Ana Chamber of Commerce Santa Maria Valley Chamber of Commerce Securities Industry and Financial Markets Association Service Corporation International Silicon Valley Leadership Group Simi Valley Chamber of Commerce Solano County Taxpayers Association Southern California Glass Management Association Southwest California Legislative Council Sutter County Taxpayers Association TechNet The Silicon Valley Organization Torrance Area Chamber of Commerce United Contractors United Hospital Association Victor Valley Chamber of Commerce Wall and Ceiling Alliance West Coast Lumber and Building Material Association Western Growers Association Western States Petroleum Association Western Wall and Ceiling Contractors Association Wine Institute

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.