

SB 220 – OPPOSE



Date: June 7, 2023
To: Members, Senate Budget and Fiscal Review Committee
From: Rob Gutierrez, President & CEO
Subject: **OPPOSITION to SB 220 (Senate Budget and Fiscal Review Committee), as amended on May 25, 2023**

The California Taxpayers Association and the organizations listed below are opposed to SB 220, which would create a competitive disadvantage for California employers. Companies with an annual net income of \$1.5 million or more that are subject to corporate income and franchise taxes in California would be subject to a 10.99 percent corporate tax under the bill – the highest rate in the nation beginning January 1, 2024.¹ We oppose the proposed changes for the following reasons:

Worsens a Competitive Disadvantage for California Employers. SB 220 would subject C corporations to a 10.99 percent corporate income tax, and banks and financial corporations would be subject to a 12.99 percent corporate tax rate. High corporate tax rates put many California companies at a tremendous competitive disadvantage. The 49 other states would benefit from California's decision to make itself less attractive to employers. A thriving economy is the best source of growing revenue for important government programs, and chasing jobs away would hurt the state's bottom line rather than help.

The United States recognized that its corporate tax rates were among the highest in the developed world, outpacing rates in the European Union and elsewhere, and acted to reduce rates to enhance the competitiveness of companies operating in this country and grow the nation's GDP. Similarly, many states have reduced corporate tax rates to increase their competitiveness and attract additional investment. Since 2018, 13 states have reduced their corporate tax rate, with several states reducing the rate multiple times during this period. California is competing globally to attract and retain investment and employers. Increasing the corporate tax rate when the rest of the world, and many states in the United States, are reducing rates is counterproductive and fails to recognize this trend in taxation, putting California out of step with the economies that are looking to lure California investors and jobs.

A 2021 study by the Washington, D.C.-based Tax Foundation found that the corporate tax falls predominately on labor, which it estimates bears at least 69 percent, if not all, of the burden. Additionally, the study found that for every increase in the corporate tax rate, retail prices increased. A tax increase on business impacts individuals through less economic growth, lower wages, higher prices, fewer jobs, and decreased returns in retirement accounts.

Harms Businesses Headquartered or Operating in California. Unfortunately, California's tax rules already incentivize corporations to relocate their operations outside of California to reduce corporate taxes, and the higher tax rates proposed in SB 220 would greatly exacerbate this problem. Proponents of SB 220 acknowledge that corporate taxes are based on the extent of a corporation's business activity in California, but they assert that businesses with headquarters

¹ Fritts, Janelle. "State Corporate Income Tax Rates and Brackets for 2023." *Tax Foundation*, January 24, 2023. <https://taxfoundation.org/publications/state-corporate-income-tax-rates-and-brackets/>.

and other operations in California would not face higher tax liabilities than businesses headquartered or operating outside the state. This is not true, for multiple reasons.

- One, taxpayers in several industries, including extractive, agricultural, and financial industries, are required to use a three-factor formula that takes into account their proportion of property, payroll, and sales in California to calculate their tax liability. Businesses required to use a three-factor apportionment formula thus pay higher taxes in California to the extent they increase their proportion of payroll or property in the state.
- Two, California's tax rules provide that corporations engaged in long-term contracts, including companies that manufacture high-tech, complex equipment, have increased California income tax liabilities to the extent they conduct their operations in California as opposed to other states.
- Three, corporations that generate income from selling patents, copyrights, and other intangible property generally have a higher portion of income taxed in California to the extent they use the intangible property in California – including conducting research and development – as opposed to using the intangible property in other states.
- Four, corporations that manufacture equipment and other items for sale to the U.S. government, including defense contractors, have increased California income tax liabilities to the extent they manufacture the goods in California as opposed to other states.
- Five, in many cases, corporations receiving dividends or gains from selling interests in companies they own have a higher portion of income taxed in California to the extent the companies they own have increased levels of payroll or property in California.
- Six, many corporations with gains from long-term investments, royalties, interest, and similar income are taxed in California to the extent they are commercially domiciled in the state, putting additional burdens on maintaining headquarters operations in California.

For these reasons, the California Taxpayers Association and signatories to this letter must oppose this bill.

On behalf of...

California Taxpayers Association
Acclamation Insurance Management
Services
Allied Managed Care
Anaheim Chamber of Commerce
Association of California Egg Farmers
Beaumont Chamber of Commerce
Brea Chamber of Commerce
California Association of Licensed Security
Guards
California Association of Wheat Growers
California Association of Winegrape
Growers
California Beer and Beverage Distributors
California Building Industry Association
California Business Properties Association

California Chamber of Commerce
California Class I Railroads
California Grain & Feed Association
California Hotel and Lodging Association
California Independent Petroleum
Association
California Life Sciences Association
California Manufacturers and Technology
Association
California New Car Dealers Association
California Restaurant Association
California Retailers Association
California Seed Association
California Warehouse Association
Chino Valley Chamber of Commerce

Coalition of California Chambers – Orange County
Coalition of Sensible Taxpayers
Coalition of Small and Disabled Veteran Businesses
Dana Point Chamber of Commerce
Family Business Association
Flasher Barricade Association
Fountain Valley Chamber of Commerce
Fremont Chamber of Commerce
Greater Coachella Valley Chamber of Commerce
Greater Riverside Chambers of Commerce
Greater San Fernando Valley Chamber of Commerce
Huntington Beach Chamber of Commerce
Kern County Taxpayers Association
La Canada Flintridge Chamber of Commerce
Laguna Niguel Chamber of Commerce
Lake Elsinore Valley Chamber of Commerce
Long Beach Area Chamber of Commerce
Los Angeles Area Chamber of Commerce
Manhattan Beach Chamber of Commerce
Murrieta/Wildomar Chamber of Commerce

National Seating & Mobility
Newport Beach Chamber of Commerce
Orange County Business Council
Pacific Egg & Poultry Association
Rancho Cordova Area Chamber of Commerce
Reliable Medical
Roseville Area Chamber of Commerce
San Juan Capistrano Chamber of Commerce
Santa Maria Valley Chamber of Commerce
Santee Chamber of Commerce
Security Industry and Financial Markets Association
Silicon Valley Leadership Group
Solano County Taxpayers Association
Torrance Area Chamber of Commerce
Tulare Chamber of Commerce
Vernon Chamber of Commerce
West Coast Lumber and Building Materials Association
West Ventura County Business Alliance
Western Electrical Contractors Association
Western States Petroleum Association
Wine Institute