

An Open Letter to California Business Leaders and Organizations

Re: Business Support for Tax Increases

Dear Business Leader:

We all agree that California faces fundamental problems. These include a \$15 billion budget deficit, \$500 billion in unfunded pension liabilities, a tax and regulatory climate that drives businesses away, wasteful and ineffective use of our tax dollars and a political system unduly influenced by special interests – most notably the public employee labor organizations. The mismanagement of this state and the pursuit of harmful policies have led to the following:

1. California has the 3rd highest income tax in the nation. Even worse, the 9.3% tax bracket starts at \$46,349 for people filing as individuals. We also have a punishing 10.3% tax rate on income over \$1,000,000.
2. Our state sales tax rate (7.25%) is the highest in the nation. And this doesn't even include the local levies which can push the sales taxes in some communities close to 10%.
3. California's corporate income tax rate (8.84%) is the highest west of the Mississippi putting us at a disadvantage in our region. We are ranked 8th highest nationwide.
4. California's 2011 Business Tax Climate ranks 2nd worst in the nation.
5. We have the fourth highest capital gains tax at 9.3%.
6. California has the second highest gasoline tax (averaging 65 cents/gallon) in the nation.
7. California is ranked 14th highest in per capita property taxes (including commercial) – the only major tax where we are not in the worst ten states
8. We have a very high state vehicle license tax at 0.65% which, despite a recent decrease, is still well above the national average.
9. We have the second highest unemployment rate.
10. In 2009, 24 states raised their taxes at least 1% to collect \$28.6 billion. California's taxes went up about \$11 billion – thus we were responsible for about 38.5% of all state tax increases in the nation. (The good news is that voters rejected an extension of those taxes which, in part, has helped spur a modest recovery).

These are just ten facts about California that are deeply disturbing. Added to the high tax burden is California's harsh regulatory environment, the toughest in the nation. Between high taxes and excessive regulation, it is not wonder that our state is consistently ranked last as a place to do business.

Which brings us to the point of this letter. Simply stated, it is difficult to understand why, given California's heavy tax burden, any private sector entity doing business in California would support even higher taxes. Though the idea of a "tax on the wealthy" may have a populist appeal, we should remember that small business owners will be hit especially hard since many of them file taxes as individuals. These are the job creators who should be protected. In fact, two thirds of all jobs being created right now are by small businesses. Likewise, a higher sales tax will needlessly inflict even more harm on California consumers who are also the employees and customers of the business community.

We know that Governor Brown, just through the power of his office alone, can cajole and perhaps even threaten vulnerable businesses. It is therefore not lost on us that, under certain circumstances, modest support to help the Governor place his measure on the ballot might be viewed a lesser of two evils or, more likely, as an insurance payment.

However, on behalf of citizen taxpayers and the small business community, we appeal to your sense of doing what is right for *all* of California. We doubt that business owners believe that a heavier tax load will help California's economic recovery. This is especially true given that there are no assurances that the reforms that California so desperately needs will be pursued in a meaningful way. Last year, Republican legislators put several proposals on the table including pension reform, a spending cap and regulatory relief but were rebuffed by Governor Brown.

Although our two organizations, HJTA and NFIB, represent homeowners and small businesses, we have fought hard against amending Proposition 13 in any way that would hurt *any* property owners, large or small, residential or commercial. Likewise, we have opposed both broad based and targeted tax increases because we realize that a higher tax on *any* segment of California is bad for *all* of California. The reason for this is simply that we take a broader view: A California with a reasonable tax burden and a regulatory environment that is not unduly restrictive will benefit all citizens and businesses in the state. Indeed, we would argue that such a California would generate more than sufficient revenue to satisfy the tax receiver interests as well.

We also would like to reiterate our belief that when citizen taxpayer groups, small business interests and major corporations stand together for the common good, we constitute a formidable force to prevent a further erosion of California's tax and regulatory climate.

Therefore, representing citizen taxpayers and small businesses in California, we appeal to you and your members to do the right thing and oppose any and all proposed tax increases. As Benjamin Franklin once noted, we must hang together in order to avoid hanging separately.

Sincerely,



Jon Coupal, President
Howard Jarvis Taxpayers Association

Sincerely,



John Kabateck, Executive Director
National Federation of Independent Business/California