

Business Net Receipts Tax

Comprehensive Analysis of Economic Impacts Needed

Summary

Background

In October 2008, Governor Arnold Schwarzenegger and Assembly Speaker Karen Bass (D-Los Angeles) established a bipartisan tax commission, the Commission on the 21st Century Economy, with the stated purpose of modernizing and decreasing the volatility in the state's tax system.

In September 2009, after close to a dozen public hearings, the commission released its final report, which recommended a new business net receipts tax (BNRT) to offset revenue losses from flattening the personal income tax and eliminating the corporate income tax and state portion of the sales tax.

Current

Following receipt of the BNRT proposal by the Governor and Legislature, the Governor called a special legislative session to address the state tax system. The BNRT proposal is currently pending in the Legislature.

Impact

In October 2009, a California Chamber of Commerce-led coalition of more than 50 business and employer groups wrote to the Legislature, outlining fundamental questions and concerns about the BNRT that should be addressed, including:

- **Rate and deductions unknown.** No tax rate or rate cap is specified and many questions remain about deductions.
- **No modeling of proposed BNRT rate.** Without this, it is unknown whether further BNRT rate increases would be needed.
- **No better than current taxes.** There is insufficient data the BNRT will stem volatility any better than the current tax structure.
- **Creates winners and losers.** BNRT appears to shift more tax burden onto small businesses, startups and businesses in a loss position.
- **Tax on employees.** It appears BNRT would not allow deductions for the cost of employees, effectively making it a tax on jobs.
- **Competitive disadvantage.** California services and goods may become some of the highest-priced nationally and globally.
- **Imposes new services tax.** Consumers would be subject to a nearly 4 percent price jump on services such as dry-cleaning and auto repair.

CalChamber Position

The BNRT proposal should not be advanced until the Legislature has conducted a detailed, comprehensive analysis of its impacts on California jobs and the economy and provided businesses and other impacted sectors with the opportunity to review and respond to the analysis.

Reasons for Position

- The economy/jobs should be top priorities in evaluating the tax system.
- Replacing our current tax system with an unprecedented new tax, absent a full understanding of its impacts, could have harmful consequences.

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