March 22, 2018

The Honorable Anthony Rendon
Speaker of the Assembly
State Capitol, Room 219
Sacramento, CA 95814

The Honorable Brian Dahle
Minority Leader
State Capitol, Suite 3104
Sacramento, CA 94249

The Honorable Ian Calderon
Majority Leader
State Capitol
Sacramento, CA 94249

Dear Speaker Rendon, Majority Leader Calderon, Minority Leader Dahle and members of the General Assembly:

On behalf of National Taxpayers Union (NTU) and our members in California and across the country, I write in vigorous opposition to ACA-22, the Middle Class Fiscal Relief Act. Although the title of this constitutional amendment may claim to deliver relief to the middle class, in reality, this proposal would bring severe negative consequences to California's middle class, businesses, and taxpayers.

This proposal, introduced by Assembly members McCarty (D-7th District) and Ting (D-19th District) would more than double the state's corporate income tax rate to 18.84 percent, up from 8.84 percent. A corporate tax rate of 18.84 percent would only be about 2 points shy of matching the federal corporate tax rate. The combined federal, state, and local tax rate for some businesses could easily surpass 40 percent, depending on the area where the business is located.

While California is home to the most Fortune 500 companies of any U.S. state, they already suffer from the highest corporate tax rate west of the Rocky Mountains and a significantly higher rate than neighboring states. Coupled with burdensome regulatory policies, the government of California has fostered an environment that harms the competitiveness of their businesses. It is not surprising that California consistently ranks as one of the most expensive states in which to do business. As a result, between 2008 and 2015 more than 10,000 businesses have opted to leave the state for lower-taxed jurisdictions, notably Texas (no corporate rate), Nevada (no corporate rate) and Arizona (4.9 percent corporate rate), according to data. NTU contends that a higher rate will only exacerbate the flow of outbound businesses and hamper economic growth.

This legislation comes in response to comprehensive federal tax reform which lowered the corporate rate from 35 percent, one of highest in the industrialized world, down to 21 percent. Since this new rate took effect, many California-based companies such as Apple, Walt Disney World, and various independent businesses like wineries and others have announced employee bonuses, wage increases, or new investment within the state or around the country. Hundreds of thousands of employees in California have joined the more than four million American workers who have received bonuses from hundreds of companies because of federal tax reform.

A low corporate tax rate spurs business activity and attracts capital investment from around the world. This can lead businesses to expand job opportunities, improve productivity, and boost take home pay for workers from all income levels. So while it may be politically expedient for some to threaten higher taxes, such an economically irresponsible action could cause uncertainty in the market and effectively place a ceiling on growth.

California has a vibrant, diverse, and growing economy in spite of its high taxes. The state continuously outperforms U.S. GDP growth due to exceedingly high human capital of their workers. However, to shed California's image of being unfriendly to business, lawmakers must reject ACA-22 and instead work to adopt meaningful reforms to the state's tax and regulatory system. California should build upon the progress made at the federal level and become a state that is synonymous with pro-growth policies.

Sincerely,

Thomas Aiello
Policy and Government Affairs Associate