



March 28, 2012

The Honorable Mike Gatto
California State Assembly
State Capitol, Room 4140
Sacramento, CA 95814

Subject: OPPOSITION TO AB 2540 (Gatto), as amended on March 7, 2012

Dear Assembly Member Gatto:

We are writing in OPPOSITION to AB 2540, which expands the sales and use tax base to include 27 specified categories of services. This new tax on services, used by Californians of all walks of life, would have adverse impacts on California's working families, small businesses and their employees, and the state's overall business climate. The bill's exclusion of up to \$10,000 from personal business income would not negate the economic damage that would be inflicted by a tax on services.

- Puts Small Businesses Out of Work or Drives Them Underground.** Higher taxes on certain services could lead to a do-it-yourself approach for many taxpayers. For example, AB 2540 would impose higher taxes on shoe-shining and pool cleaning services. Because of the higher cost, some taxpayers may no longer want to pay someone to perform these services. This could put some small businesses and their employees out of work, or it could drive others to move their operations into the underground economy. Both of these situations would reduce income tax revenues to the General Fund.

- **Worsens California's Business Climate.** While AB 2540 currently taxes only a specified number of services, this bill would open the door to a major shift in state tax policy. By setting the precedent of taxing services, AB 2540 would make many other key services vulnerable to a sales tax. Such a proposal could threaten many of California's critical industries, including the film and music industries, high-tech research and development, the financial sector, legal services, and advertising. The Tax Foundation ranks California as the third worst business climate in the nation due to the state's high taxes, high energy costs, restrictive labor laws, and onerous regulations. A sales tax on services would further negatively impact our business climate.
- **Hurts Working Families and Disadvantaged Communities.** Studies have shown that expanding the sales and use tax to services creates a more regressive tax base, because the tax requires working families and disadvantaged communities to pay a larger portion of their income than higher-income taxpayers for service-related taxes. While this bill appears to try to target the new tax to services primarily used by higher-income earners, some of the taxed services (i.e., shoe repair, watch repair, furniture repair, etc.) would negatively impact middle-and lower-income families.
- **Picks Winners and Losers.** By taxing some services and not others, AB 2540 puts some service industries at a competitive disadvantage, and creates winners and losers. Government ought not to impose tax policies that benefit one industry to the detriment of another.
- **Creates Extensive Administrative Problems.** Imposing a sales tax on services would lead to extensive administrative problems. The Board of Equalization would have to identify and register myriad new businesses, many of which are unfamiliar with sales and use tax reporting and remittance requirements. In addition, auditing a service-oriented business would be difficult and disruptive, because the Board would have to determine where a particular service was performed (if such a determination is even possible). A sales and use tax on services would place many law-abiding taxpayers in a no-win situation.

For the foregoing reasons, the following organizations respectfully oppose this legislation.

Sincerely,



Therese Twomey
Fiscal Policy Director

Also on behalf of:

California Taxpayers Association
American Council of Engineering Companies of California
American Massage Therapy Association
Building Owners and Managers Association of California
California Alliance for Golf
California Bankers Association

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California Building Industry Association
California Business Properties Association
California Chamber of Commerce
California Manufacturers and Technology Association
California Retailers Association
California Society of Enrolled Agents
California State Club Association
California Yacht Brokers Association
Financial Services Institute
Howard Jarvis Taxpayers Association
Independent Maintenance Contractors Association
International Council of Shopping Centers
Marina Recreation Association
NAIOP of California, the Commercial Real Estate Development Association
Pacific Association of Building Service Contractors
Securities Industry and Financial Markets Association
Tech America

cc: Members, Assembly Revenue and Taxation Committee