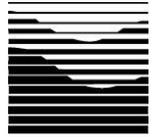


SB 8- OPPOSE



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THE CALIFORNIA RAILROAD INDUSTRY



SB 8- OPPOSE

April 23, 2015

The Honorable Robert M. Hertzberg
California State Senate
State Capitol, Room 4038
Sacramento, CA 95814

Subject: SB 8 - Economic Impact of a Sales Tax on Services

Dear Senator Hertzberg:

The listed organizations are writing to express our concerns with SB 8, which proposes to expand the state's retail sales tax to services. As California employers and business enterprises, we share your desire to strengthen the state's economy and to improve our chances for future prosperity. We find that a diverse workforce supported by thriving industries in a business-friendly environment is primary to achieving those objectives. A tax increase of more than \$100 billion a year on Californians and their employers, at a time when many remain unemployed, would prove harmful to our economy due to the following:

- **Puts California businesses at a competitive disadvantage.** A sales tax on services, in addition to California's already high cost of doing business, would make it even harder for California companies to compete. Not only would California's service industries be placed at a competitive disadvantage relative to those in other states, but California companies that use taxable services would be affected, as the tax would dramatically increase operational costs and make California-produced goods more expensive.
- **Reduces jobs and investment in the state.** Higher prices often lead to reduced demand, often forcing businesses to cut costs through layoffs and reduced investments. Other businesses may be forced to move their operations to lower-cost states to remain competitive. Both scenarios reduce opportunities for jobs and economic growth in California.
- **Puts small businesses at risk, potentially drives them underground.** Higher taxes on certain services could lead to a do-it-yourself approach (i.e., lawn service). This could put many small businesses and their employees out of work. Additionally, it could drive others to move their operations into the underground economy, putting law-abiding service businesses at an unfair disadvantage. Both of these situations would reduce tax revenue to the state's general fund.
- **Discriminates against small businesses.** Larger businesses with in-house employees would not be subject to the service tax, whereas smaller businesses that must contract for these services would. This results in higher costs on small businesses.
- **Hurts working families and disadvantaged communities.** 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.
- **Increases costs to government.** Government entities, including school districts, are huge consumers of services, and would incur cost increases of 7.5 percent to 10 percent on taxed services. As government is a huge seller of services of everything from

SB 8- OPPOSE

education (colleges and universities) to housing (low-income housing authorities) to medical care (public hospitals), taxing services shifts a significant portion of the sales tax burden to government, thereby increasing the cost of government for taxpayers and those who consume services sold by the government.

- **Creates costly and extensive administrative problems.** Imposing a sales tax on services would lead to extensive tax administration problems, including registration, determination of situs, and audit. A State Board of Equalization estimate of administrative costs for a sales tax on a select number of services was in the neighborhood of \$900 million in the first year and more than \$600 million annually thereafter.

While we appreciate the intent to change the tax system to improve our state's economy, the listed organizations do not believe that a tax increase of more than \$100 billion a year will achieve this goal. We oppose expanding California's retail sales tax to services for these and other reasons, and look forward to discussing with you other approaches for improving our economy.

Sincerely,

Air Logistics Corporation
American Construction Inspectors Association
American Council of Engineering Companies – California
American Institute of Architects – California Council
American Society of Landscape Architects – California Council
Anschutz Entertainment Group
Apartment Association, California Southern Cities
Apartment Association of Greater Los Angeles
Apartment Association of Orange County
Associated Builders and Contractors of California
Associated General Contractors
Building Owners and Managers Association of California
California Alliance of Taxpayer Advocates
California Apartment Association
California Asian Chamber of Commerce
California Association of Health Underwriters
California Association of Joint Powers Authority
California Association of Realtors
California Attractions and Parks Association
California Bankers Association
California Business Properties Association
California Cable and Telecommunications Association
California Geotechnical Engineering Association
California Land Surveyors Association
California League of Food Processors
California Manufacturers and Technology Association
California Mortgage Bankers Association
California Railroad Industry
California Ski Industry Association
California Society of Enrolled Agents
California State Club Association
California Tank Lines Inc.

SB 8- OPPOSE

California Taxpayers Association
California Travel Association
California Veterinary Medical Association
Chemical Transfer Co.
Direct Marketing Association
East Bay Rental Housing Association
Family Business Association
Financial Services Institute
Howard Jarvis Taxpayers Association
International Council of Shopping Centers
General Growth Properties
Grant Thornton LLP
Greater California Livery Association
Kern County Taxpayers Association
NAIOP of California, the Commercial Real Estate Development Association
National Federation of Independent Business
Nor Cal Rental Property Association
North Valley Property Owners Association
Orange County Taxpayers Association
Pacific Association of Building Services Contractors
Pacific Life Insurance
Paul Hastings LLP
San Diego County Apartment Association
San Jose Silicon Valley Chamber of Commerce
Santa Barbara Rental Property Association
Satellite Broadcast and Communications Association
Securities Industry and Financial Markets Association
Society of California Accountants
Spidell Publishing, Inc.
Superior Tank Wash Inc.
TechAmerica
TechNet
West Coast Leasing, LLC
West Coast Lumber & Building Material Association
Western Carwash Association