CalChamber
CALIFORNIA CHAMBER OF COMMERCE

April 7, 2021

The Honorable Alex Lee
California State Assembly
State Capitol, Room 2170
Sacramento, CA 94814

The Honorable Wendy Carrillo
California State Assembly
State Capitol, Room 4167
Sacramento, CA 95814

The Honorable Lorena Gonzalez
California State Assembly
State Capitol, Room 2114
Sacramento, CA 95814

The Honorable Miguel Santiago
California State Assembly
State Capitol, Room 6027
Sacramento, CA 95814

SUBJECT: ACA 8 (LEE, CARRILLO, GONZALEZ, SANTIAGO) WEALTH TAX: APPROPRIATION LIMITS - OPPOSE/JOB KILLER – AS INTRODUCED MARCH 22, 2021
AND
AB 310 (LEE, SANTIAGO, GONZALEZ) WEALTH TAX - OPPOSE/JOB KILLER – AS AMENDED APRIL 5, 2021

Dear Assemblymembers Lee, Carrillo, Gonzalez, and Santiago:

The California Chamber of Commerce is **OPPOSED** to **ACA 8 (Lee, Carrillo, Gonzalez, Santiago)**, as introduced on March 22, 2021 and **AB 310 (Lee, Santiago, Gonzalez)**, as amended on April 5, 2021 as **JOB KILLERS**. Both proposals seek to raise taxes on the highest net worth earners in California, which will further encourage them to leave for states with less punitive tax systems. Additionally, **ACA 8** proposes to eliminate the two-thirds vote requirement for classifying personal property for tax purposes by the Legislature, thus clearing the way for higher taxes in the future. As Governor Newsom aptly put it at the end of the 2020 legislative session, "In a global, mobile economy, now is not the time for the kind of state tax increases on income we saw proposed at the end of this legislative session and I will not sign such proposals into law."

These measures implicitly acknowledge that rates for existing California taxes have reached their practical or political maximums, and proponents now propose to devise an entirely new tax never before considered for our state. Not only is this proposed tax audacious in the amount of new revenue to be raised, it targets individuals who may have only a fleeting connection with the state – reaching across time and space to seize revenues from successful entrepreneurs and business owners who have been the very engine of California's budget growth and who provided the shock absorbing revenue surpluses in the teeth of the pandemic recession.

ACA 8 is a resolution that proposes the people of the State of California amend the Constitution and authorize the Legislature to impose a tax upon all forms of personal property or wealth, whether tangible or intangible. The new tax would be administered and collected by the Franchise Tax Board and the Office of the Attorney General. **ACA 8** also in effect repeals the State Appropriations Limit law, which applies some discipline to legislative spending and keeps taxes within some reasonable bounds.

AB 310 would impose an annual tax of 1% upon the worldwide net worth of every resident in this state in excess of $25 million (for married taxpayers filing separately) or $50 million for all other taxpayers. Worldwide net worth would not include any real property directly held by the taxpayer (but would include indirectly held real property). There would be an additional .5% surtax upon worldwide net worth in excess of $500 million for married taxpayers filing separately and $1 billion for all other taxpayers. Worldwide net worth would be calculated in the manner set forth for calculating the federal estate tax under the Internal Revenue Code and would be the value of all worldwide property owned by the taxpayer on December 31 of each year. The FTB would be authorized to adopt regulation to prevent the avoidance of evasion of the wealth tax.

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Furthermore, **AB 310** will facilitate nuisance lawsuits under the guise of tax enforcement, create conflicts with existing tax law, and lead to double jeopardy for taxpayers. Importantly, we do not condone tax fraud, nor do we oppose this bill in order to defend such bad faith actions by individuals or businesses. Our opposition stems from serious concerns about the drastic changes that **AB 310** would bring to California by introducing conflicting standards into tax law and allowing private attorneys to bring tax lawsuits against taxpayers. It will create conflicts with existing tax law – exposing even good faith taxpayers to concerns when filing their taxes.

California ranks 49th on the Tax Foundation's 2021 State Business Tax Climate Index. California already has the highest income tax rate in the country while Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not impose any income tax. In 2016, the top 1% of California income earners paid 46% of the total personal income tax (PIT) revenue, and the top 5% accounted for 66.6% of the total revenue. The taxpayers who makeup this bracket will likely have a long, thoughtful pause as to where they intend to reside and conduct business should **ACA 8** and **AB 310** become the law. Losing any of these taxpayers and the revenue they contribute to the state could harm California's General Fund.

California's inhospitable business and tax climate would be further degraded if it became the only state in the country to administer a wealth tax. In addition to having the country's highest personal income tax rate, California also has the highest sales tax rate and gas tax rate in the United States. If **ACA 8** and **AB 310** were seen to completion, California's highest earners would have to pay an additional tax on top of the 13.3% income tax they are already paying. California's business and resident exodus is real, and the mere introduction of this bill will likely drive away those who contribute the largest amounts to our state's General Fund. Thus, these bills will plausibly achieve the exact opposite of their stated intent and drive the state's money away rather than redistributing it.

Additionally, the state's administration for these bills is impractical at best, but more realistically, impossible. The FTB and AG's office would have to track, follow, and itemize the wealth of each high net worth resident to determine whether they are subject to the tax and what their obligation would be. This, in turn, lends itself to a slew of issues such as how to calculate the fair market value of certain holdings in addition to the state incidentally creating a tax avoidance industry for those looking to escape the obligation.

California has an approximate $15 billion surplus and $26 billion in federal aid from the recently enacted federal relief package. According to the Department of Finance, tax revenues from employers, entrepreneurs and workers may even trigger the State Appropriations Limit, which could require the state to return to taxpayers a portion of the revenue in excess of the limit. There is simply no need to raise taxes at this time.

For these reasons, we respectfully **OPPOSE ACA 8** and **AB 310** as **JOB KILLERS.**

Sincerely,

Preston Young
Policy Advocate

cc: Legislative Affairs, Office of the Governor

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