March 8, 2023

The Honorable Alex Lee
California State Assembly
1021 O Street, Suite 6630
Sacramento, CA 95814

SUBJECT: ACA 3 (LEE) WEALTH TAX: APPROPRIATIONS LIMITS – OPPOSE/JOB KILLER – AS INTRODUCED JANUARY 19, 2023
AND
AB 259 (LEE) WEALTH TAX: FALSE CLAIMS ACT - OPPOSE/JOB KILLER – AS INTRODUCED JANUARY 19, 2023

Dear Assemblymember Lee:

The California Chamber of Commerce is **OPPOSED** to **ACA 3 (Lee)** and **AB 259 (Lee)**, as introduced on January 19, 2023, 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, and discourage other entrepreneurs from investing in California innovation, jobs and our economy. Additionally, **ACA 3** proposes to eliminate the two-thirds vote requirement for classifying personal property for tax purposes by the Legislature, thus clearing the way for even higher taxes in the future.

These measures implicitly acknowledge that rates for existing California income taxes have reached their practical or political maximums, so 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, estimated by some at $21.6 billion a year, 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. These individuals have played a large role in driving California's budget growth and providing the shock absorbing revenue surpluses that the state will use to offset today's revenue shortfalls.

ACA 3 proposes that the people of the State of California amend the Constitution to 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 Department of Justice. **ACA 3** also in effect repeals the State Appropriations Limit law, which applies some discipline to legislative spending and has kept taxes within some reasonable and knowable bounds.

AB 259 would impose an annual tax beginning on or after January 1, 2024, and before January 1, 2026 at a rate of 1.5% of a resident's worldwide net worth in excess of $1 billion or in excess of $500 million in the case of a married taxpayer filing separately. After January 1, 2026, a 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 in 2026. 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 regulations to prevent the avoidance or evasion of the wealth tax.

California ranks 48th on the Tax Foundation's 2023 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. The top 5% of California income earners paid 70% of the total personal income tax (PIT) 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 3** and **AB 259** 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 3** and **AB 259** 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.

Furthermore, **AB 259** will facilitate nuisance lawsuits under the guise of tax enforcement, create conflicts with existing tax law, and lead to double jeopardy for taxpayers. We certainly 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 259** 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.

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's elected leaders are facing the first revenue shortfalls since the Brown Administration. The very last thing the Legislature should be doing is signaling to the most productive and prolific taxpayers in the state that they should consider taking their investments, energy, innovation and tax payments elsewhere.

For these reasons, we respectfully **OPPOSE ACA 3** and **AB 259** as **JOB KILLERS.**

Sincerely,

Preston Young
Policy Advocate

cc: Legislative Affairs, Office of the Governor

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