NO ON 24

Stop the Jobs Tax

QUESTIONS & ANSWERS ABOUT PROPOSITION 24

California Taxpayers' Association
California Small Business Alliance
California Manufacturers & Technology Assn.
California Healthcare Institute
BayBio
TechNet
Los Angeles Area Chamber of Commerce
Genentech
Neighborhood Market Association
CBS Corporation
BIOCOM
Industrial Environmental Association
California Hotel and Lodging Association
California Independent Grocers Association
TechAmerica
Alliance of Contra Costa Taxpayers
Printing Industries of California
BioMarin
California Chamber of Commerce
Kern County Taxpayers Association
California Building Industry Association
The Walt Disney Company
General Electric Company
Silicon Valley Leadership Group
California Taxpayer Protection Committee
California Citrus Mutual
Hewlett-Packard
California League of Food Processors
California Retailers Association
Johnson & Johnson
Orange County Taxpayers Association
Time Warner
Inland Empire Taxpayers Association
Asian Business Association – Los Angeles
United Californians for Tax Reform
Viacom
Amgen
Valley Taxpayers' Coalition
Cisco Systems
Valley Industry & Commerce Association
San Francisco Chamber of Commerce
* Partial Listing

What is Proposition 24?

It's a November ballot measure that would reverse recent state tax updates that are desperately needed to grow our economy and put Californians back to work. It would take us a giant step backward on California's road to economic recovery.

It takes us backward?

At a time when we're trying to pull California out of a deep recession and put people back to work, Prop. 24 literally taxes new job creation, hits California employers and small businesses with $1.3 billion dollars each year in higher taxes, and stifles job growth in our most promising industries. California State Franchise Tax Board estimates show 120,000 businesses could be impacted. That means more small businesses closing shop, more employers expanding into other states, fewer jobs, and fewer tax revenues.

Prop. 24 means fewer jobs and less tax revenue for our schools and other public services?

That's right. Increasing taxes on small businesses and large California employers would dramatically slow down our economic recovery at a time when we can least afford it. The Rose Institute at Claremont McKenna College reports Prop. 24 could cost us 322,000 jobs and $1.8 billion in lost tax revenues, beginning next year and persisting for several years. Prop. 24 is a short-term gimmick with long-term and very negative consequences.

Why do proponents claim the initiative closes corporate loopholes?

It's a good campaign slogan, but the truth is the initiative doesn't close a single loophole. It reverses sound and deliberate tax reforms that are desperately needed to put Californians back to work. Our unemployment rate is the highest it's been since the Great Depression and higher than almost every other state. Prop. 24 makes that much harder to turn around.

Almost every state has a lower unemployment rate than California?

That's right. States across the country are updating their tax structures to attract and grow businesses and jobs. We finally did the same, but the initiative would repeal those updates.

Other states have the job creating tax policies that Prop. 24 would eliminate here?

Yes. In fact, if Prop. 24 passes, California will stand alone as the only one of the 10 largest states to be without any of these important tax policies. It would also put us at a great disadvantage with other Western states we compete with for jobs.

Why is it referred to as the Jobs Tax initiative?

It taxes job growth. In a national trend, 24 states have moved *away* from taxes on job growth. California is among them. Beginning next year, multi-state companies can have their state income taxes based on their in-state sales, rather than on a formula that includes their employees and property. But Prop. 24 would reinstate the *outdated* system that forces employers to pay higher income taxes for every new job they create here. As the state's non-partisan Legislative Analyst noted: *"With most states' formulas now based only on sales, the old formula that used property and payroll could put some California producers at a competitive disadvantage."* Absurd as it sounds, Prop. 24 would financially *reward* companies when they expand into *other* states and take good jobs and tax revenues with them.

9/16/10

Stop the Jobs Tax | 111 Anza Blvd. #406, Burlingame, CA 94010 | Phone 800-610-4150 | **www.StopProp24.com** | **info@StopProp24.com**
Paid for by No on 24 - Stop the Jobs Tax, a Coalition of Taxpayers, Employers, Small Businesses, Educators, and High Tech and Biotechnology Organizations, with major funding from Genentech and General Electric Company including aggregated contributions

How would the Jobs Tax Initiative impact small businesses and their employees?

It adds insult to injury. Small businesses have been hit hard by the recession. Bankruptcies rose 81% in California last year. A recent state tax update provided a lifeline for small businesses that have experienced net operating losses, but the initiative takes it away.

It takes away a lifeline for small businesses who are struggling to survive the recession?

The recent state tax updates permit businesses to carry back their net operating losses two years to prevent them from being taxed out of business. (Federal tax laws allow five years for small businesses and two years for large businesses.) But Prop. 24 prohibits any carry back of net operating losses. That would prove the last straw for many small businesses, forcing them to close shop -- a huge concern since small businesses provide more than half the private sector jobs.

Did the recent tax reforms change the corporate income tax rate? Does Prop. 24?

No. The state's corporate income tax rate remains unchanged. It will still be among the highest in the nation and the highest in the west. And if the Jobs Tax Initiative passes, we can count on California still coming in close to rock bottom on almost every national ranking of business tax climates. The Tax Foundation ranks us 48th on their *State Business Tax Climate Index* and the Small Business & Entrepreneurship Council ranks us 49th with one of the nation's worst climates for small business and entrepreneurship on their *Small Business Survival Index.* Almost every state in the country is more hospitable to business, and jobs, than California. The recent tax updates would help keep businesses here and grow more jobs here. By repealing them, Prop. 24 promises the opposite.

How does Prop. 24 slow job growth in some of California's most promising industries?

Biotechnology, clean technology, and high tech are some of the high-growth sectors California is counting on to provide tomorrow's high-paying jobs. But the Jobs Tax Initiative would make that much more difficult. It would not only penalize companies when they create new jobs, it would also prohibit the full use of earned research and development tax credits, and prohibit them from leveling out their R&D investments. With the recent state tax updates, we finally started to make some progress helping these innovative industries grow more jobs. By repealing those updates, Prop. 24 would make California *less* competitive with other states in attracting and retaining businesses and jobs.

How does Prop. 24 prohibit the full use of earned research and development tax credits?

California requires each business in a family of related businesses to pay state income taxes based upon the entire group's income and allows that same group of businesses to share earned research and development tax credits. But Prop. 24 would prohibit that family of businesses from sharing those R&D tax credits. Since a credit has no value if it cannot be used by the arm of the business that's generating a profit, Prop. 24 would render useless many earned R&D tax credits and stifle the growth of some of our most promising industries in high tech, green technology and biotechnology.

The initiative stifles innovation in California's biotechnology, clean technology, and high tech fields?

A biotech firm, for example, can spend several decades and a billion dollars to develop a new medical treatment. Federal tax laws recognize that different businesses have different cycles and rather than tax them out of business, allows them to level out their losses. Recent state tax updates matched the federal 20-year carry over allowance for net operating losses. So the biotech firm, for example, can be taxed on their average profitability over time rather than taxed *out of business* for running too many net operating losses before the medical treatment has a chance to get to the patients that need it. In addition to prohibiting businesses from carrying *any* losses back, Prop. 24 limits carry over allowances to 10 years, only half of the federal allowance. That's not much help for the biotech firm that spent several decades developing that treatment, or the employees it might have been able to hire or the patients who await the new treatment.