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Good morning, my name is Corey Owens, and I manage state legislative and regulatory affairs for Facebook.

I'd first like to thank Chairman Perea and Vice Chairman Donnelly for convening this hearing. It is difficult to overstate the importance of more open communication between Sacramento and Silicon Valley. This committee should be applauded for being forward-thinking in its approach to tax policy and for its focus on the high tech sector.

Facebook is only one among dozens of success stories to come out of Silicon Valley. From Bill Hewlett and Dave Packard, to Steve Jobs, to Larry Page and Sergey Brin, the innovators who have changed the way the world uses technology have built their companies here, designed their products here, and generated billions in tax revenue here.

Much research has been done into what elements were necessary for Silicon Valley to thrive, and many other states and countries have attempted to replicate that secret sauce with varying degrees of success.

One thing is certain: The world into which Silicon Valley sprung in the late 1800s and early 1900s was very different than the one that exists today. Manufacturing was still king, physical proximity to fellow innovators was non-negotiable, and the talent pool wasn't going to go anywhere else.

Today, much of the technology we use as consumers is manufactured outside of the United States.

Companies like Facebook are finding it almost impossible to hire enough engineers in California, while cities like New York, Austin, and Raleigh-Durham have made successful plays for our country's creative class.

Meanwhile, after receiving world-class educations at universities like San Jose State and Stanford, the best and the brightest from around the world are forced to return home.

The same technology that will enable virtual testimony later today has made trans-continental collaboration on high-tech products par for the course.

And other states and countries are going to great lengths to foster business-friendly environments that attract well-educated, well-paid workers. From targeted job credits to robust enterprise zone agreements, the array of tools being deployed to draw companies and their employees from California is impressive.

As a result of these shifts, California has lost ground in the competition for jobs and innovation. In the last decade, California lost more than 53,000 private sector jobs. Texas added 1.25 million and Arizona added 265,000 in the same period. Many of the world's best bioscience and greentech companies have set up shop North Carolina and Virginia. And, Facebook's announcement last week that we will be opening a sizeable engineering office in New York City was not the first time a California company chose the Big Apple as the place to hire new employees.

Tax policy alone cannot secure California's place as the home of the best research, innovation, and jobs in the world. As you will hear from others today, California must make significant investments in its education system and research institutions if it has any hopes of competing in the global economy. Tax policy alone can, however, make it far more likely that companies like Facebook continue investing here, continue hiring here, and continue bringing revenue

to California from around the world.

As this committee and the high tech sector consider the ways that sound tax policy can encourage job creation and spur innovation, two realities should inform the discussion:

1. California's corporate and personal income tax rates are among the highest in the world. Absent dramatic change to those base rates, smart tax policy solutions will need to come in the form of targeted adjustments that create a better environment in which high tech business can grow.
2. Much of California's corporate tax policy was written when California's great job-creators and innovators made and sold widgets. The technology sector remains a bright spot in California's economy, but many of the companies that will create the jobs and tax revenue of the coming decade do not make widgets – they make pokes and virtual cows.

With those realities acknowledged, there are three specific policies that, if implemented correctly, can encourage job creation and spur innovation in the high-tech sector.

While much has been said about single sales factor in recent years – and I won't rehash it here – I want to emphasize just how important the single factor apportionment is to small and medium, downstream companies. As the members of the Committee know well, it is the small businesses that become medium and large businesses that represent the greatest value to California in terms of job creation and tax revenue. Zynga, the developer of games like FarmVille that was founded just four years ago, now has more employees than Facebook and a larger market cap than Electronic Arts. As small application developers become larger companies with bigger payrolls and fixed assets, their decisions about where to expand will be driven in large part based on whether they will be punished or rewarded for doing so. Preserving single sales factor is less about Facebook, and more about the next Facebook and the next Zynga.

Second, the Committee has an important opportunity to update California's R&D credit program in a way that could significantly increase innovative activities in the state. The current rules provide credits within a narrow set of industries, leaving out a great deal of innovative activity that California has a significant interest in keeping within the state. Between the narrowness of the existing credit, the ambiguity in what qualifies, and the onerous compliance

requirements, the cost of claiming R&D credits sometimes outweighs their benefit.

Finally, I'd encourage the Committee to carefully consider the concept of patent boxes. A number of countries have reduced tax rates on revenue from qualified intellectual property, encouraging innovation and the investments that support research. California, home to many of the great innovators of the last century, is uniquely situated to benefit from a patent box. Many California companies have moved manufacturing capacity overseas, and some are beginning to move R&D as well. A patent box would encourage manufacturing companies to keep R&D budgets and employees in California. Meanwhile, Internet companies that can easily move engineers to another state or country would have a distinct incentive to keep them in California.

A California patent box would have to be structured carefully to encourage innovation and investment. Two considerations:

1. It is relatively easy to calculate the revenue derived from a patented manufacturing process that produces something that is sold, or from a patented drug that is then sold. It is harder to calculate revenue derived from an algorithm that powers a free search engine, or from a block of code that

powers a free messaging service. For a California patent box to encourage a broad range of innovation, it would need to provide clear methods for determining qualified revenue outside of a simple sales transaction.

2. A patent box would have to be carefully designed to take single sales factor into account. As more states and countries move to a single sales factor model, for a patent box to actually improve California's competitiveness, it would need to reduce tax liability within the single sales factor scheme.

California is a state with many assets that attract employers and innovators. It is also a very expensive place to do business, a place that increasingly does not favor well when compared to competing jurisdictions. Targeted updating and reform of the California tax code can relieve much of the substantial pressure on high tech companies to invest elsewhere. I hope this hearing is only the first of many conversations with the high tech sector about areas of mutual interest.

Thank you for having me here today. I look forward to the rest of the day's discussion.