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## **New Tax Proposal Could Devastate California Service Businesses**

Jobs and competitive playing field will suffer greatly,  
says head of state's private consulting engineer's association

Sacramento, CA (October 1, 2009) -- Many Californians are unaware that in its long awaited report to the legislature, the California Tax Commission is recommending the adoption of a major new tax on the gross receipts of all California businesses that provide services -- which would include just about any service business in the state.

"With California experiencing its worst economic recession in decades, this is hardly the time for California to hammer the economy with a major new 'Business Net Receipts' tax," said Paul Meyer, the head of Sacramento-based ACEC California, the American Council of Engineering Companies. Nonetheless, Meyer, said that very action -- to tax professional business services such as accountants, engineers, architects and advertising agencies -- is before the California legislature right now. It is also an action, he says, that is opposed by a large coalition of organizations, including ACEC California, who unlike consumers are monitoring the activities in Sacramento.

"The State's Commission on the 21st Century Economy (a.k.a. the tax commission) was supposed to present an overall package of tax changes that is revenue neutral. The idea, says Meyer, was that tax increases were to be exactly offset by tax reductions. But, he says, it is

questionable whether or not this tax package actually meets that test.

"In recent years, the state's revenue and savings estimates based on current law have generally not been very accurate," said Meyer. "If you add to that the uncertainties associated with a whole new tax scheme, including the likelihood that taxpayers will change their purchasing behavior in response to the tax changes, the unreliability of the estimates grows greater still."

The single biggest change recommended by the Commission is the creation of the Business Net Receipts Tax. Only very small firms with less than \$500,000 in annual gross revenue would be exempt. The only major tax deduction allowed would be direct payments to other businesses, and not even employees' salaries would be tax deductible. "The BNRT," warns Meyer, "would in many respects be similar to the value added tax used in Europe, but it would not just be applied to products but to services as well."

Meyer also points out that the proposed BNRT would cause many unintended and perhaps even intended hardships that will exacerbate the state's already massive fiscal problems. The list, says Meyer would include:

- Discouraging businesses from hiring additional (non-deductible) employees,
- Encouraging firms to move or expand out-of-state,
- Encouraging many California residents with no option but to seek out-of-state employment,
- Making goods and services created in California even less competitive in the international marketplace than they already are,
- Disproportionately impacting labor intensive businesses,
- Forcing into bankruptcy or into drastic cutbacks businesses which due to the recession are already on the financial brink,
- Requiring the establishment of a massive and costly new expanded tax collection infrastructure along with the inevitable expanded bureaucracy of accountants, attorneys, tax collection agents, administrators, clerical staff, and other salaried state workers.

Perhaps most threatening of all, Meyer feels, is that the tax rate will most likely rise higher and higher in future years (above the proposed initial four per cent tax rate), because compared to

other taxes it will be politically easier to raise a tax that will be buried in the price of products and services and thereby rendered relatively invisible to consumers and voters.

"Without a doubt," said Meyer, "the BNRT would have a broad and costly impact on California's consumers. As a Nobel laureate in economics once noted, businesses never pay taxes—their customers do."

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**About ACEC California**

*ACEC California is a statewide association representing more than 1,000 private consulting engineering and land-surveying firms that average 20 employees each. ACEC California is dedicated to enhancing the consulting engineering and land surveying professions, protecting the general public and promoting the use of the private sector in the growth and development of our state. Our members provide services for all phases of planning, designing and constructing projects. For more information, visit [www.acec-ca.org](http://www.acec-ca.org).*