NEWSLETTER OF THE CONTRA COSTA TAXPAYERS ASSOCIATION

CoCoTax

Promoting accountable, cost-effective and efficient government and opposing unnecessary taxes and spending

February 11, 2021

CoCoTax President's Report – February 11, 2021

My two-year term as CoCoTax President ends in March. It was a rather unique and challenging time, but I was fortunate to be in the company of some of the most interesting, articulate and well-read people. Of course, I spent a lot of time attempting to educate and inform those who were not.

Taxes continue to rise while we continue to question the appropriate use of our tax dollars in one of the most expensive places to live – the Bay Area. Contrary to certain political idealists, California taxpayers are not a monetary volcano of erupting cash to fund irresponsible decisions, social experiments and egomaniacal indulgences. While some businesses are thriving (think grocery and hardware stores) others struggle (restaurants and personal care salons), and then some businesses either leave the state or close up shop. COVID-19 circumstances have pushed already over-regulated, overtaxed businesses to their limits.

The mission of Contra Costa Taxpayers goes on. I hope you have enjoyed our Lunchtime Speaker Series, but if you missed any of them, just search for Contra Costa Taxpayers Association on YouTube.com and you can watch at your leisure. We are concerned about censorship on social media, reporting opinions under the guise of "news", the naïvete of an uninformed and unsuspecting populace and a general lack of knowledge of fiscal matters by the average taxpayer.

While we are unable to meet in person, it is paramount that we stay informed and steadfast. Be watchful of improper governmental spending and accumulations. Be sure to inform us with facts so that we can inform others. There are many ways to participate with CoCoTax. We exercise as much thrift as possible with your dues and donations, even as our office expenses continue to mount. If you have skills to share, now is the time to speak up. Contact us to submit ideas and input. Consider serving on the Board, Executive Team or serve as an Officer. Become an integral part of the best organization in our efforts for *good government at affordable cost.*

Here are some recent articles of interest:

On the CC Board of Supervisors placing a cap on restaurant delivery fees

https://patch.com/california/pinole-hercules/s/hew2j/restaurant-delivery-fees-capped-by-county

On reforms to the Government Accounting Standards Board (GASB)

https://www.gasb.org/jsp/GASB/GASBContent_C/ProjectPage&cid=1176175841947

On High Speed Rail (aka #HighSpeedFail)

https://www.foxla.com/news/california-pushes-back-high-speed-rail-construction-deadline

Susan L Pricco
President, Contra Costa Taxpayers Association
"Good government at affordable cost"

Contact CoCoTax

Address
1661 Botelho Drive, Suite 105
Walnut Creek, CA 94596

Phone: 925-289-6900
Email: info@cocotax.org
Website: cocotax.org

On Facebook:
Contra Costa Taxpayers Association

CoCoTax

Promoting accountable, cost-effective and efficient government and opposing unnecessary taxes and spending

February 11, 2021

OPINION - PROPOSITION 19 PUTS FAMILY LEGACIES AT RISK

By Ted Gaines

A massive change to property tax law is coming soon that could cost families thousands of dollars a year and affect how parents and grandparents pass down properties through generations.

Proposition 19, passed by California voters last November, makes major adjustments to the "parent-child" and "grand-parent-grandchild" exclusions, all to the harm of taxpayers. Prior to Prop. 19, parents and grandparents could transfer their principal residence to a child or grandchild with no value limit and without adjusting the property tax base-year value, meaning that the child or grandchild would not be saddled with a huge new property tax assessment when they became owner. The person receiving the property could live there, rent it out, use it as a second home, or let it sit empty – there were no restrictions on property use to qualify for the exemption.

Prop. 19 changes all of that. Once the new law goes into effect on February 16, 2021, the unlimited value provision disappears. The new formula will be the current taxable value of the property plus one-million dollars. This change will hit many coastal property owners in the pocketbook as they inherit or receive property that appreciated wildly in California's multi-decade housing boom. Modest homes in Silicon Valley neighborhoods owned and transferred by middle-class families will face stratospheric tax bills under the new regime.

As bad as that will be, it is another provision that is more likely to cause havoc and financial loss for many Californians. Under Prop. 19, a person receiving property under one of these exclusions must now use the property as their primary residence to qualify. That means if you have moved to a different city, you would have to move back and occupy the home to receive the exemption. It means that if you are happy with your current home, you would have to give it up and move to qualify for the exemption.

The date these changes go into effect is right around the corner. If you are planning on transferring property to a child or grandchild, please be aware of the very different landscape that awaits you and them after February 16.

There are a thousand unanswered questions regarding these changes that are not clarified in the proposition language. What happens if multiple children receive a property but only one makes it a primary residence, for example? What happens if someone qualifies for the exclusion, then moves out of the primary residence for a time, then moves back in? Does the exemption kick back in or is it lost forever? It was an initiative written with little concern for detail.

Proposition 19 does provide some new and welcome benefits for California taxpayers, most notably that it allows certain property owners to transfer their base-year tax assessment to all 58 counties. This allows homeowners who want to downsize, move closer to their children, or relocate for any other reason to keep a lower property tax. Prior to Prop. 19, that benefit was only available within counties or in a handful of counties that accepted base-year transfers. Taxpayers can now also use that transfer provision three times instead of the one-time, geographically limited use in prior law.

Although I favor the base-year transfer provisions, I oppose this new tax increase, which will take hundreds of millions of dollars a year from Californians inheriting their family's biggest asset. But it's now the law, and as a Board of Equalization Member and taxpayer advocate, I will be seeking to identify every area where Prop. 19 is unclear and am committed to working with the legislature, county assessors, tax professionals and taxpayers to ensure effective administration of this new law.

Visit my website at boe.ca.gov/gaines for more information on Prop. 19 and for examples of how the new law would affect passed-down properties. Please consult a qualified attorney or tax professional for advice on transferring any property.

Senator Ted Gaines (Ret.) was elected to represent the Board of Equalization's First District. He is a leading taxpayer advocate and is committed to providing trustworthy and transparent representation for nearly ten million constituents in 30 counties of northern, eastern, and southern California. For more information, visit boe.ca.gov/Gaines.

OPPOSITION TO AB 71

CoCoTax has joined with CalTAX and over 40 organizations to oppose AB 71 (Luz Rivas, Bloom, Chiu, Wicks), which would raise taxes $2.4 billion annually on companies doing business in California. Here is a link to follow the b ills progress or hopefully, its defeat.

http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB71

Following is the content of the memo sent to the Assembly Revenue and Taxation Committee on February 2, 2021.

Subject: OPPOSITION to AB 71 (Luz Rivas), as amended on January 12, 2021

The California Taxpayers Association and the organizations listed in this letter oppose AB 71, a proposed $2.4 billion-a-year tax increase on California businesses and residents. This bill would significantly increase taxes on businesses by amending the Revenue and Taxation Code to raise the corporate tax rate for businesses with taxable income over $5 million from 8.84 percent to 9.6 percent (10.84 percent to 11.6 percent for financial institutions). The bill also would require taxpayers who make a water's-edge election to include in their gross income 50 percent of global intangible low-taxed income and 40 percent of the repatriation

income of affiliated corporations. Taxpayers that experience a tax increase under these provisions would be prohibited from utilizing business tax credits to offset more than $5 million of the new liability. Global intangible low-taxed income also would be included in a taxpayer's gross income for purposes of the Personal Income Tax Law.

There is no doubt that homelessness in California should be addressed, but AB 71 creates new problems rather than solutions, and we therefore must oppose this bill for the following reasons:

Imposes an Unnecessary Tax. This bill would impose a tax increase at a time when California businesses already pay some of the highest taxes in the country. California's existing corporate income tax rate is already the highest among the Western states and one of the highest in the nation. According to the Washington, D.C.-based Tax Foundation, California's business tax climate ranks second-worst in the United States. After comparing the costs of operating in California vs. other states, many employers left our state in 2020. The relocation of these companies and their employees to lower-cost states has a major impact on state and local tax revenue, causes unemployment for workers who cannot move to the new location, and is a sign that California must find ways to be more competitive.

The Tax Is Retroactive and Disadvantages U.S. Corporations. The tax on repatriated income is retroactive, reaching back to a one-time event from 2017-18. There is no possible way that taxpayers could have foreseen that they would have to pay taxes on income they reported years ago. Taxing income from years in the past should be flatly rejected.

Taxing companies that repatriate income back to the United States puts U.S.-based companies doing business in California at a substantial disadvantage to foreign corporations that do not bring income back to the United States. The additional costs from this proposal will be borne by U.S.-based businesses, and will be a significant disadvantage for companies in a competitive market.

Effectively Undermines the Water's-Edge Election. Prior to the enactment of the water's- edge election, the United Kingdom, Japan, Canada, and other trading partners were outraged by California's method of taxing multinational companies, which led these foreign governments to call for significant retaliatory actions against California and the United States unless corrective measures were adopted. This outrage led to the creation of California's water's-edge election in 1986 with passage of SB 85 (Alquist). The water's-edge election has been a success in ensuring that California is allowed to tax profits derived from or attributable to California, while California businesses that have operations here and abroad are not over-burdened with reporting nor penalized for their California investments. At the same time, our trading partners are satisfied by California's water's-edge election because their constituents are not being unreasonably burdened or taxed by a sub-state, thus easing the tensions of a potential trade or tax war. Following passage of the creation of the water's-edge election, *The Sacramento Bee's* editorial board wrote in August 1986: "(S)omething had to be done about California's unitary taxing method – not because it is unfair or inefficient, but because the nation's most important trade partners object to it violently. Its mere existence provokes foreign policy problems for the nation (which Congress and the president are itching to resolve if California doesn't) and hinder foreign investments in the state." AB 71 would bring back many of these tax fights, effectively undermining the benefits of the water's-edge election.

Worsens the Competitive Disadvantage for Employers Who Stay in California. As businesses will be unable to mitigate the proposed increase in corporate taxes, they will look to other alternatives to lower their costs. Since California is a state with a high cost of doing business, taxpayers will look to lower total operating costs by relocating to lower-cost jurisdictions or suspending expansion of business activities within California.

The relocation of these companies and their employees to lower-cost states has a major impact on state and local tax revenue, causes unemployment for workers who cannot move to the new location, and is a sign that California must find ways to be more competitive. The companies that remain will be placed at a tremendous competitive disadvantage. Their only response will be to reduce or not increase wages and benefits for their workers, and move new hires to lower- cost jurisdictions to stay competitive. A thriving economy is the best source of growing revenue for important government programs, but by chasing jobs away, this proposal would hurt rather than help.

Jobs Are Vital. Californians are sensitive to the problems noted above, as illustrated by the Berkeley IGS Poll's finding that 78 percent of voters "agreed that taxes in California were already so high that they were driving many people and businesses out of the state." The seriousness of this problem was made clear in 2020 when pioneers in the technological revolution – founders of a signature industry that spawned the appellation "Silicon Valley" and made California the world's tech leader – decided to move elsewhere specifically because of California's high costs and the threat of even higher taxes on the horizon. If the state's only response is a tax increase, other employers will be far more likely to join the exodus.

Additionally, California's anticipated 2021 unemployment rate average of 8.5 percent is still higher than pre-COVID lows of 3.9 percent and the overall U.S. unemployment. Jobs are vital for individual California workers and to our state economy – especially in light of the pandemic. Every new job created in California provides income for the worker and increased revenue to the state through the existing tax structure.

Budget Has Record Surplus and Tax Windfall. Governor Gavin Newsom's January budget has record reserves of $22 billion, including $15.6 billion in the state's Rainy Day Fund. Additionally, California is estimated to have a $15 billion revenue windfall from higher-than- anticipated tax revenue. Tax receipts are so high that for just the second time in nearly 40 years, California may find itself in a position where tax refunds may be required under the Gann Limit. In short, tax increases are not necessary.

We encourage the Legislature to increase the revenue available for important programs not by increasing tax rates, but by helping California employers recover from the pandemic, rehire workers and return to the activities that filled the state's tax coffers and reserves.

For these and other reasons, CalTax and the organizations…strongly oppose AB 71.

New County Building