



The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers.



June 23, 2020

The Honorable Kansen Chu
 California State Assembly
 State Capitol, Room 3126
 Sacramento, CA 95814

Subject: Opposition to AB 398 (Chu), as amended on June 17, 2020

Dear Assembly Member Chu,

The California Taxpayers Association and the organizations listed in this letter oppose AB 398, which would create a statewide tax on jobs by imposing a new “headcount” tax on California employers who have more than 500 employees. The tax rate would be \$275 per employee.

Jobs are vital for individual California workers and to our state economy – especially in light of the COVID-19 pandemic. Every new job created in California provides income for the worker and provides increased revenue to the state through its existing tax structure. As California begins to recover from the current economic downturn, it is imperative that employers begin to rehire workers. Any disincentive to hiring will impede the state’s recovery.

The Legislative Analyst’s Office projects that the unemployment rate will range from 9.4 percent to 11.5 percent in 2020 while the administration projects unemployment will peak at 25 percent in June. Depending on the economic scenario, many individuals could remain out of the workplace for some time. AB 398 would only exacerbate this crisis by slowing hiring and delaying the ability of California workers to return to work.

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CalTax and the coalition oppose this legislation for the following reasons:

Increases Costs for Californians. Increasing the cost of doing business in California will lead to higher costs for Californians as the tax is passed to the consumer, making everyday products and services more expensive. Additionally, this bill taxes many of California's hospitals leading to higher medical costs in the middle of the COVID-19 pandemic. With millions of Californians unemployed, this bill will harm the most vulnerable in our communities.

Punishes Businesses for Hiring Employees. Under AB 398, employers who hire more California workers, regardless of the company's location, would be penalized with higher taxes. This creates an incentive for employers to consider moving non-essential California-based employees to states that do not impose a headcount tax. There would be an even greater disincentive for businesses close to the employee threshold to hire additional employees, since adding even one employee could trigger a massive tax increase. Under this bill, if a taxpayer with 499 employees adds an employee, that employee would add \$137,500 in taxes, in addition to salary and benefits.

With the new independent contractor classification law going into effect, this bill would significantly harm Californians. As many former independent contractors in the state now are classified as employees, this tax would provide a strong disincentive to hire in California. Taxpayers would have a new incentive to hire independent contractors in other states or countries, as doing so would lower their employee count and the associated tax levy. This bill runs directly counter to the efforts to increase job growth within the state – by creating a new disincentive for hiring employees, and Californians in particular, this bill increases the risk of California workers losing their jobs as businesses shift to other states.

It is common for policymakers to pursue taxes on products or activities they would like to see less of. For example, a higher tax on cigarettes was imposed to attempt to reduce the number of smokers. A tax on electronic cigarettes was proposed this year by the governor with the stated goal of decreasing vaping. Tax increases on soda have been proposed based on the argument they would reduce consumption of sweetened beverages. Following the same rationale, taxing jobs will result in fewer jobs, especially for those whose jobs are viewed as most expendable.

Imposes an Unnecessary Tax. This bill imposes a new tax at a time when California businesses already are paying some of the highest taxes in the country. According to the Washington, D.C.-based Tax Foundation, California's business tax climate already ranks third-worst in the United States. AB 398 would exacerbate the problem.

For these and other reasons, CalTax and the organizations listed below strongly oppose AB 398.

California Taxpayers Association
Advanced Medical Technology Association (AdvaMed)
Agricultural Council of California
Alliance for Automotive Innovation
American Council of Engineering Companies, California
Associated General Contractors
Association of California Life and Health Insurance Companies
Bay Area Council
Biocom
Brea Chamber of Commerce
Building Owners and Managers Association of California

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California Apartment Association
California Association of Licensed Security Agencies, Guards & Associates
The California Association of Sheet Metal and Air Conditioning Contractors National Association
California Attractions and Parks Association
California Bankers Association
California Beer and Beverage Distributors
California Building Industry Association
California Business Properties Association
California Business Roundtable
California Cable & Telecommunications Association
California Chamber of Commerce
California Fuels and Convenience Alliance
California Grocers Association
California Hospital Association
California Hotel & Lodging Association
California Land Title Association
California League of Food Producers
California Legislative Conference of the Plumbing, Heating and Piping Industry
California Life Sciences Association
California Manufacturers and Technology Association
California Railroads
California Retailers Association
California Restaurant Association
Central Valley Business Federation
Commercial Real Estate Development Association of California (NAIOP)
Computing Technology Industry Association (CompTIA)
Contra Costa Taxpayers Association
Council On State Taxation
Dairy Institute of California
El Centro Chamber of Commerce
Electronic Transactions Association
Family Business Association of California
Folsom Chamber of Commerce
Fontana Chamber of Commerce
Fountain Valley Chamber of Commerce
Global Business Alliance
Greater Conejo Valley Chamber of Commerce
Greater Riverside Chambers of Commerce
Healthcare Distribution Alliance
Hesperia Chamber of Commerce
Humboldt Redwood Company and Mendocino Redwood Company
Insights Association
International Bottled Water Association
International Council of Shopping Centers
Investment Company Institute
Kern County Taxpayers Association
Lancaster Chamber of Commerce
Long Beach Area Chamber of Commerce
Los Angeles Area Chamber of Commerce
Los Angeles County Business Federation
National Electrical Contractors Association
National Federation of Independent Business
North Orange County Chamber of Commerce

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North San Diego Business Chamber
Northern California Allied Trades
Oceanside Chamber of Commerce
Official Police Garage Association of Los Angeles
Orange County Business Council
Orange County Taxpayers Association
Oxnard Chamber of Commerce
Pacific Merchant Shipping Association
Pacific Water Quality Association
San Gabriel Valley Economic Partnership
San Diego Taxpayers Association
San Diego Regional Chamber of Commerce
Santa Ana Chamber of Commerce
Santa Maria Valley Chamber of Commerce
Securities Industry and Financial Markets Association
Service Corporation International
Silicon Valley Leadership Group
Simi Valley Chamber of Commerce
Solano County Taxpayers Association
Southern California Glass Management Association
Southwest California Legislative Council
Sutter County Taxpayers Association
TechNet
The Silicon Valley Organization
Torrance Area Chamber of Commerce
United Contractors
United Hospital Association
Victor Valley Chamber of Commerce
Wall and Ceiling Alliance
West Coast Lumber and Building Material Association
Western Growers Association
Western States Petroleum Association
Western Wall and Ceiling Contractors Association
Wine Institute

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