



April 22, 2008

TO: Members of the Assembly Committee on Appropriations

FROM: California Chamber of Commerce
 American Electronics Association
 Association of California Insurance Companies
 Association of California Life and Health Insurance Companies
 California Aerospace Technology Association
 California Bankers Association
 California Building Industry Association
 California Business Properties Association
 California League of Food Processors
 California Manufacturers & Technology Association
 California Restaurant Association
 California Retailers Association
 California Taxpayers Association
 Council on State Taxation
 Long Beach Area Chamber of Commerce
 Personal insurance Federation of California

**SUBJECT: AB 1848 (MA) INCOME TAX: RETURNS: WITHHOLDING
 OPPOSE**

The above-listed business organizations must respectfully **OPPOSE AB 1848 (Ma)**, as introduced, which would expand the burden on California companies to police state tax compliance of independent contractors, companies, investors, and customers who are residents of California.

We **OPPOSE** for the following reasons:

1. New tax-policing mandate for companies - AB 1848 requires California companies to screen and flag any California vendor and other payees that may not have the proper taxpayer identification number information and, for these payees, forces companies to withhold taxes at a rate of 7% from their payments. If they do not, California companies can be liable for the unheld taxes.

The new mandate in **AB 1848** would apply to numerous types of payments of income earned within the state by California residents, including:

- ✓ Independent contractor commissions, fees and other payments

(Over)

- ✓ Payouts of interest and dividend income
- ✓ Rental payments on California commercial properties
- ✓ Royalty payments on natural resources located within the state
- ✓ Distributions to California residents from estates or trusts

2. Not a simple federal conformity bill - AB 1848 attempts to impose at the state level a withholding requirement currently mandated only at the federal level. Unfortunately, state-level compliance will be far more burdensome and complicated than federal. This is the opposite of what federal conformity bills should do which is to simplify reporting.

3. Significant new and costly tax administration burdens - If enacted, **AB 1848** will require many companies to expend significant time, labor, and resources to create and expand systems to process additional independent contractor/outside payee information and to implement withholding that is accurate and in compliance with numerous, complex tax laws and reporting requirements.

Since FTB estimates that 50% of the amounts required to be withheld by **AB 1848** would have been paid anyway, there appears to be a questionable, disproportionately low rate of anticipated revenues generated in comparison to the significant additional burden **AB 1848** will mean for some businesses.

4. Penalizes California companies – Because only those businesses with California operations can be forced to comply with **AB 1848**, this bill burdens those operating within our state more than those operating elsewhere. This bill provides yet another disincentive to operate a business within California.

While we understand that California needs to close the tax gap, we do not believe the solution should involve counterproductive and significant increases to the cost of doing business in California and further weakening of California's competitiveness with other states. Currently, only Minnesota, Georgia and Colorado have a mandate similar to that proposed by **AB 1848**.

5. Bad statewide and nationwide precedent of shifting tax policing on companies - The continuing trend of shifting tax agency policing functions and enforcement costs onto the private sector in the form of mandates is inappropriate and bad public policy and sets a bad precedent both in this state and nationally.

For these and other reasons we must respectfully **OPPOSE AB 1848**.

We appreciate, however, the willingness of the author and the sponsor to listen to the business community's concerns and look forward to continuing to discuss and determine whether there are ways to resolve these concerns.

cc: The Honorable Fiona Ma
Mike Prozio, Office of the Governor
Consultant, Assembly Committee on Appropriations
Anthony Archie, Assembly Republican Caucus