

Q: Will fair business taxes “kill California jobs”? A: No

Any time the topic of fair business taxes comes up in California, you can bet the standard arguments against it will be:

- “California is already a high tax state for business”
- “Businesses will have to close and move away if we pass this tax”
- “Californians will lose jobs”
- “Taxing corporations will hurt small businesses”

None of these arguments are true, but they’ve been repeated so many times a lot of people think that they are.

Assertion: “California is already a high tax state for business”

NOT TRUE. California rates 13th in the country in corporate tax rates, at 8.84%. But the *effective* corporate tax rate is much lower—4.7%—due to various tax credits and loopholes, according to a study by a business-friendly group, the Council on State Taxation. Its spokesperson admits, “California is pretty middle-of-the-pack when it comes to business taxes.”

In 1980 California corporations contributed 15% of the state’s revenues through taxes. Today they pay just 11%. That represents several billion dollars not going to schools and public services, and higher taxes for the rest of us.

Assertion: “Businesses will have to close and move away if we pass this tax”

NOT TRUE. Businesses do not decide where to locate based on a single factor. Business taxes typically rank low on a list that includes proximity to markets; availability of labor; quality of schools, hospitals, and transportation networks and other infrastructure; energy costs; and the like. State and local tax costs are usually less than 2% of the cost of a business, and often close to 1%. Thus if a proposed tax on business would raise that tax by, say, 1.3% (the size of a recent increase in Oregon), that comes to 1.3% of 2%, or a .026% increase in business costs.

California is the only oil producing state (of 21) that has no oil severance tax. Where will Chevron go if we impose such a tax? Texas? Alaska? Those states already have this tax—not to mention the only place to drill for California’s oil is in California!

Businesses that leave California do so for reasons other than taxes. For instance, in 1975 California boasted 6 auto plants that employed 30,000 autoworkers. Nearly all of these plants were profitable when they were closed; they were just not as profitable as plants in Mexico and China, where labor costs are far lower than American standards. These companies left to chase the cheapest exploitable labor, not because of taxes.

Assertion: “Californians will lose jobs”

NOT TRUE. No business guarantees that they will produce jobs in exchange for tax loopholes; they just demand the loopholes. Tax credits on the books in California right now give corporations billions of dollars, but no study has shown these create jobs, and corporate lobbyists have always killed legislation to force them to provide information that could assist these studies.

Assertion: “Taxing corporations will hurt small businesses”

NOT TRUE. Many tax credits and loopholes are applicable only to large corporations. The tax loopholes handed out in 2009, “elective single sales factor apportionment” and “tax credit transfers,” worth over a billion dollars, affect no small businesses at all; they are only operative for national and global businesses that do business in California.

Conclusion: California needs fair business taxes

Profitable businesses are not going to move if California raises business taxes by a reasonable amount, like other states are doing right now to address budget deficits in the recession. Rather, restoring public education and other vital service funding will help make California an attractive place to do business. We need a properly funded public sector, which nourishes a strong economic environment with good roads, high speed internet access, good public transit, a healthy population, and a solid education system from kindergarten through university. Only such an environment produces the creative workers and knowledge base necessary to innovate new industries and the sustainable economy we need, while maintaining a high standard of living. On the other hand, continuing to de-fund the public sector will be the most effective “job killer” and California-killer conceivable.