

**“TAX COMMISSION” RELEASES FORMAL REPORT:
GOVERNOR APPLAUDS EFFORT OF GROUP AND PROMPTLY DECLARES A SPECIAL
SESSION ON TAX REFORM**

At a press conference at the State Capitol on September 29, 2009, the Governor, flanked by the Chair and representatives of the “Governor’s Commission on the 21st Century Economy” (also known as the “Governor’s Tax Commission”), formally presented a series of recommendations the Commission has been developing since early 2009. The 14 member bi-partisan commission was appointed by the Governor and the Assembly Speaker and Senate President pro Tem to look at issues of tax volatility and revenue stability. Twice the Commission asked the Governor for an extension, which was subsequently granted, in order to more adequately research reform options for the state’s antiquated tax system.

Chairman Gerry Parks outlined the plan to the press corps, which includes: 1) changes in the Personal Income Tax (a reduction of the rate in all categories, and a reduction in the categories themselves), 2) the elimination of the Corporate Income Tax, 3) the elimination of the state’s share of the sales tax, 4) the implementation of a new Business Net Receipts Tax – to be established at a low rate and not to exceed 4%, 5) the development of an Independent Tax Dispute Forum, and 6) establishment of a so-called “rainy day fund” for the state’s General Fund. These proposals would be phased in over a five-year period.

Perhaps the most controversial element of the new plan is the establishment of the new Business Net Receipts Tax (BNRT). In a primer, previously released by the Commission, it describes the BNRT as a “business-level tax” that would “broaden the tax base of California. It would tax all types of business organizations, including corporations, pass-through entities, and sole proprietorships. It would subject businesses that provide services, to a tax on the consumption of these services...” When asked why the Commission did not consider placing a sales tax on services, as had been previously suggested by Governor Schwarzenegger in late 2008 and throughout 2009, Chairman Parks noted that there was no appetite to do so in the legislature, and “that drove us to say, is there another way,” which prompted the exploration of the BNRT.

Governor Schwarzenegger thanked the Commission for their hard work on the package and said that he would “challenge the legislative leaders to be courageous” when considering the Commission’s recommendations. Shortly after the conclusion of the press conference, the Governor issued an Executive Order, calling for a “Special Session on Taxation” in order to encourage the legislature to convene to address the Commission’s work product, and specifically he requests the legislature “consider and act upon legislation to address and improve the state tax system...” At the press conference, the Governor noted, “My goal is to get this done this year.”

However, the entire plan is not without controversy, as evidenced by the dozens of questions raised by the reporters, to the Governor and the Commissioners during the press conference. Of the 14 Commissioners, 9 members signed the Commission report, in support of moving their concepts forward, while 5 members chose to not sign the report. The ball is now in the hands of the legislature, with the Governor acknowledging the difficult task ahead.