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# Renewing CALIFORNIA'S PROMISE 2010

California Labor Federation, AFL-CIO

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## Corporate Tax Break Accountability

AB 2567 (Swanson), SB 1391 (Yee), SB 1273 (Wolk), AB 2666 (Skinner)

### Purpose

To bring needed transparency and accountability to corporate tax expenditures.

### Background

Corporations in California are getting a free ride when it comes to paying their fair share of the tax burden. They receive major credits and exemptions from dozens of state taxes. In fact, just the tax credits passed as part of the September 2008 and February 2009 budget "solutions" will cost the state \$8.7 billion in lost revenue from 2008-09 to 2014-15 and \$2-2.5 billion ongoing.<sup>1</sup>

These corporate tax breaks are given away with no accountability about whether the money will help create or retain jobs in California. At a time of such scarce state resources, we cannot afford these giveaways without measurable results.

A recent report by the Legislative Analyst's Office shows that tax expenditure programs (TEP's) cost the state nearly \$50 billion dollars in 2008/09. In this era of perennial budget deficits, when the Governor's answer to balancing the budget is cutting off

healthcare and social services to the neediest, it is unconscionable that so much taxpayer money goes out the door to wealthy corporations.

The LAO report noted additional problems with TEP's:

1. **Limited Legislative Review.** Resources are allocated to new TEP's automatically each year, generally without further legislative review.
2. **Little Spending Control.** TEP funding is not annually appropriated through the budget process, meaning there is no limit or control over the amount of money spent.
3. **Enforcement Problems.** The TEP's offer many opportunities for tax evasion, given the relatively low level of tax auditing the state undertakes.
4. **Vote Requirement.** TEP's only require a majority vote to establish but a two-thirds vote to be scaled back or eliminated if found to be ineffective or cost-inefficient.
5. **Targeting Problems** TEP users often experience large "windfall benefits" from being compensated for actions they would undertake anyway.<sup>2</sup>

The Enterprise Zone program is a good example of the inadequate oversight TEP's receive. The Public Policy Institute

of California recently released results from a study that they did on the Enterprise Zone (EZ) Program and concluded that enterprise zones “have no statistically significant effect on either employment levels or employment growth rates.”<sup>3</sup> With unemployment at 12 percent, California leaders need to enact initiatives that will help create jobs. Why are we giving away corporate subsidies that have no impact on job creation or employment levels?

While the Governor proposes an elimination of the safety net, he demands little from corporations in terms of sharing the pain. He proposes to simply suspend for one year the package of TEP’s passed in last year’s budget solutions (single sales factor, net operating loss carryback, and tax credit sharing).

Why should corporations seeking tax breaks not be held to an accountability standard like all other recipients of state assistance? CalWORKS recipients are required to provide fingerprints, checked continuously for fraud and required to report their income every three months. They are also required to find work for thirty-two hours per week or their grant could be cut and time limit could be shortened for how long they can receive assistance.

Alternatively, for the billions they receive from the state, corporations are not required to provide evidence of jobs created or the wage rates paid. They are not even required to stay in the state after they receive state subsidies. Families seeking state aid are required to go through an exhaustive process to get benefits that allow them to barely

scrape by. Corporations receive billions with virtually no oversight.

It is time to track whether taxpayer money given to corporate benefactors is being spent to actually create jobs or if it would be better spent trying to close a \$20 billion budget deficit.

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## What These Bills Will Do

- ❑ AB 2564 (Swanson) – This bill requires that all corporate tax breaks show up as a line item in the budget.
- ❑ SB 1391(Yee) – This bill allows the state to recoup, or “clawback,” any future tax expenditure if a company leaves the state or decreases employment in California before 5 years.
- ❑ SB 1273 (Wolk) – This bill sunsets every new tax subsidy after 5 years.
- ❑ AB 2666 (Skinner) – This bill creates a public database of the companies that receive corporate tax breaks and the number of jobs they create.

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## Support

California Labor Federation, AFL-CIO  
(Sponsor)

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## Key Contacts

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