

STATE CAPITOL  
P.O. BOX 942849  
SACRAMENTO, CA 94249-0045  
(916) 319-2045  
FAX (916) 319-2145

Assembly  
California Legislature

DISTRICT OFFICE  
360 WEST AVENUE 26, SUITE 121  
LOS ANGELES, CA 90031  
(323) 225-4545  
FAX (323) 225-4500

WEB

<http://democrats.assembly.ca.gov/members/a45/>

KEVIN DE LEÓN  
CHAIR, ASSEMBLY APPROPRIATIONS  
FORTY-FIFTH DISTRICT

## AB 1935 (De León) California First—Bringing Jobs Back to California

### PURPOSE:

Save the state over \$600 million annually through repeal of the tax law that incentivizes California businesses to move operations out-of-state.

Instead of out-sourcing jobs to other states, revise the tax code to encourage corporations to increase their investment in California through universal application of the “single sales factor”. This change will encourage businesses to stay in California and for out-of-state companies to invest more heavily here.

---

### BACKGROUND:

Last year, the Legislature passed Senate Bill 15 (3X) (Calderon) and Assembly Bill 15 (3X) (Krekorian), which revised the methodology for calculating corporate taxes arguing that eliminating payroll and property taxes from that calculation—allowing a so-called “single sales factor”—would encourage businesses to locate here and discourage companies from moving out-of-state. Beginning on January 1, 2011, corporations will have the option of using the “single sales factor” in calculating taxes owed to the state.

However, unlike the vast majority of other states that utilize such a corporate tax calculation, California failed to require all eligible companies to use the “single sales factor” and instead made its use *elective*, thereby continuing to reward companies that move or base their operations out-of-state.

In addition to California, 23 states have implemented or are in the process of phasing-in the single sales factor apportionment method. Use of the single sales factor is currently *mandatory* in 17 other states: Colorado, Georgia, Illinois, Indiana, Iowa, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, New York, Oregon, South Carolina, Texas, and Wisconsin.

This legislation will require every eligible company to utilize the single sales factor so corporations that move out of state will not be rewarded and incentivize out-of-state companies that have large sales in the state to move jobs and investments to California.

California currently uses an apportionment formula that is based on three (3) factors: sales, payroll, and property located in the state. Most types of businesses also apply a double-weighted sales factor. This system tends to penalize corporations that maintain substantial payroll and operations in California but primarily sell their products nationally or internationally—this results in an incentive to expand operations out-of-state in order to reduce the weight of the payroll and property factors.

The single sales factor (in which sales is the sole apportionment factor), reduces overall taxes for companies that have significant payroll and facilities in California, but make most of their sales outside of the state. Corporations that base the vast majority of their payroll and operations outside of California but make substantial sales here will ultimately pay more in state taxes under this simplified formula.

Starting in the 2011 tax year, corporations doing business in California will be able to decide whether to utilize the single sales factor or the three-factor formula. Allowing this election unfairly rewards corporations that invest the bulk of their payroll and operations out-of-state.

This legislation seeks to establish a consistent standard that does not give unnecessary tax breaks for corporations anchored outside of California, and equalizes the tax assessment for all corporations doing business in this state.

---

**PROPOSAL:**

Amend the Corporation Tax Law in the Revenue and Taxation Code to make the single sales method for appropriating income mandatory instead of elective.

This modification will eliminate the incentive for companies to move out-of-state and save the state \$135 million in budget year 2010-11, \$450 million in 2011-12 and \$600 million in 2012-13.

---

**SUPPORT:** AFSCME, California Immigrant Policy Center (CIPC), California Tax Reform Association (CTRA), Service Employees International Union (SEIU) California State Council, National Association of Social Workers (NASW)-California Chapter, United Firefighters of Los Angeles City-Local 112 IAFF

**OPPOSITION:** California Chamber of Commerce, California Manufacturers & Technology Association (CMTA), Cal-Tax

---

*For more information, please contact: Lisa Chin, Legislative Director, at (916) 319-2045. (rev. 5-3-10)*