



QUESTIONS & ANSWERS ABOUT THE JOBS TAX INITIATIVE

California Taxpayers' Association

California Chamber of Commerce

California Manufacturers &
Technology Association

California Healthcare Institute

BayBio

TechNet

Genentech

Neighborhood Market Association

Catalyst Biosciences

CBS Corporation

BIOCOM

California Business Roundtable

Mercator MedSystems

TechAmerica

BioMarin

Kern County Taxpayers Assoc.

The Walt Disney Company

General Electric Company

Revanche Therapeutics

Silicon Valley Leadership Group

California League of Food
Processors

Johnson & Johnson

Orange County Taxpayers Assoc.

Biogen Idec

Time Warner

Life Technologies

Fox Group

Lypro Biosciences

California Distributors Association

Viacom

Synecor

Amgen

Cisco Systems

San Francisco Chamber of
Commerce

*Partial Listing

Q: What is the Jobs Tax Initiative?

A: This shortsighted measure, currently being circulated by paid signature gatherers to qualify for the November ballot, would reverse recent tax updates that encouraged business to create and keep jobs in California and instead take us a giant step backward on our road to economic recovery.

Q: It takes us backward?

A: It would increase taxes on small businesses and large California employers. It would tax employers when they create new jobs or further invest in California, and it would stifle the growth of our innovative industries, such as high tech, biotech and green technology. The initiative would lead to more job losses and fewer state and local revenues.

Q: More job losses and fewer state and local tax revenues?

A: That's right. More than a million Californians have lost their jobs since 2007 and recent U.S. Census data shows that in the year 2008 alone, California had a net loss of 46,742 businesses. By repealing the tax reforms that are intended to grow the economy, put people back to work, and increase tax revenues, the initiative promises more of the same – jobs losses and reduced tax revenues in the long-term.

Q: Why do proponents claim the initiative would repeal tax breaks and close corporate loopholes?

A: Because it's a good campaign slogan. Unfortunately it's not true. One of the few positive things to come out of the state capitol in recent years was overdue tax reform that: 1) updated business net operating loss allowances to bring them up to federal standards; 2) eliminated tax penalties previously imposed on employers for hiring more Californians or owning property here; and 3) corrected an inequity that prevented earned research and development credits from being fully utilized. These were not tax breaks or loopholes. They were deliberate and necessary reforms to help businesses grow, put Californians back to work, and make our state competitive with surrounding states that want our companies and our jobs. The initiative would repeal these reforms and take us in the wrong direction.

Q: How would the initiative change the net operating loss deduction?

A: Businesses experience losses or profits in cycles that differ from government tax deadlines. A biotech firm, for example, spends an average of 15 years and nearly a billion dollars to develop a new treatment. Federal laws allow companies to level out their losses over time by carrying them back two years (in some cases, five years) through amended tax returns and forward 20 years. State tax laws were recently updated to enable businesses to carry losses back two years and forward 20 as well. The initiative repeals those updates, eliminating the *carryback* altogether and reducing *carryforwards* back down to 10 years.

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Paid for by Stop the Jobs Tax, a coalition of taxpayers, employers, and high tech and biotechnology organizations, with major funding from Genentech and Johnson & Johnson and Affiliated Entities



Q: Does that impact small businesses? What about job growth?

A: For struggling businesses, eliminating the two-year *carryback* could literally mean the difference between survival and closing shop. Putting more businesses out of work translates to fewer long-term tax revenues and more layoffs. Reducing the *carryforward* allowance would hit hardest the companies engaged in developing tomorrow's medical cures, green energy, and high tech advances -- the very industries we are counting on to provide tomorrow's jobs. They can spend costly decades in development before their products are even sold in the marketplace.

Q: How does the initiative tax job creation?

A: The formula California has used to determine how much of a multi-state company's income can be taxed in-state includes their in-state sales and their payroll and property. For expanding California employers, the unintended consequence of that has been to actually charge them *higher* income taxes the more California jobs they create and the more new facilities they build *here*, and *lower* income taxes when they took their jobs or built new facilities *out of state*. In a nationwide trend, 24 states have moved to a formula that relies primarily on in-state sales, for the sole purpose of encouraging job growth. California's system was finally updated as well. Beginning next year, companies can have their state income tax based on their in-state sales, rather than on jobs and facilities. The initiative would repeal that change and again tax job creation.

Q: So the initiative would penalize companies for bringing more jobs to California?

A: Exactly. Under the initiative, the more jobs a company creates in California, the higher their income tax. It provides a big financial incentive for companies to expand into more favorable states, taking good jobs and tax revenues with them. It's a big concern for the future of California's high tech, biotech, green tech and other growth industries. We've already seen some of them expand into other states. If we allow this initiative to pass, experts predict that even more jobs and revenues will leave the state.

Q: So the initiative hurts both small businesses and large employers?

A: Yes, and it places the highest tax burdens on California businesses that have invested the most here. The more California jobs a company has created, and the more research and development facilities and manufacturing operations they've built in California, the higher the initiative would raise their income tax.

Q: Did the recent tax reforms change the corporate income tax rate? Does the initiative?

A: No. The state's corporate income tax rate remains unchanged. It will still be among the highest in the nation and the highest in the west.

Q: How do research and development tax credits work and how would the initiative change that?

A: For several decades, the state has provided research and development tax credits in instances where a company increases their R&D investment from the previous year. The purpose of those R&D credits is to incentivize more R&D. One inequity in the system has prevented the credits from being as effective as they were intended. The R&D is generally undertaken by the small R&D subsidiary of a company. For tax purposes, the entire family of companies is taxed together, but when the R&D credit is provided, the family of companies was not permitted to use it. In other words, the R&D credit could only be used by the arm of the business that was not generating a profit, thus the credit had no value. The law was recently corrected so that the family of businesses could make use of the earned R&D credit. But the initiative repeals that correction. Again, it would make us less competitive with other states that want our businesses and our jobs.

Q: Would the initiative increase tax revenues for our schools?

A: On the contrary. Proponents like to talk about the immediate tax revenues that might accrue if we eliminated the recent tax reforms, but the reality is this initiative eliminates the very tax reforms necessary to rebuild and grow our economy and jobs. Unemployed people and stagnant businesses simply do not provide adequate tax revenues to fund our schools, health care facilities, or transportation systems. If the initiative passes, we can count on decades, not years, but decades of budget cuts to our schools and other public services. It's a short-term gimmick with long-term and very negative consequences.