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STOP HIDDEN TAXES! BUSINESS AND TAXPAYER GROUPS WARN THAT BUDGET DEALS COULD HURT TAXPAYERS

SACRAMENTO -- Leaders of a growing business and taxpayer coalition today issued a call for stepped-up vigilance against hidden taxes that often crop up in connection with the state's annual budget process.

Larry McCarthy, president of the California Taxpayers' Association, Jack Stewart, president of the California Manufacturers & Technology Association, and Allan Zaremberg, president of the California Chamber of Commerce, co-chairs of the "Stop Hidden Taxes!" coalition, said the potential for taxes masquerading as fees is greatest when the spending lobby pushes budget trailer bill amendments that circumvent the normal legislative notice and public hearing process.

"These 'midnight specials' are sneak attacks on taxpayers," McCarthy said, citing such past examples as a budget deal to increase withholding on real estate sales in 2002. It took further legislation to clean up the mess that could have been avoided if public hearings were held to disclose flaws in the proposal.

Nearly two dozen proposals have been introduced in the Legislature this year, some of them moving, others stalled, that are threats to show up in the context of the budget battle, when policy committees hold last-minute "hearings," sometimes late at night, or the provisions are inserted with floor amendments with little or no policy debate.

Stewart said, "The economy and its consumers suffer when taxes are disguised as fees. These hidden taxes are ways for spending advocates to find what they think are new and secure revenue sources. Unfortunately, the damage done by these new taxes will hurt California consumers and undercut future growth of the state's economy."

Furthermore, Stewart said, "A tax-and-fee response to the state's budget problem is a grave error. California will be a more expensive and less desirable place to live and

operate businesses. Extended discussion of tax and fee increase proposals in Sacramento sends a damaging signal to those who would invest in California and create jobs.”

The State Constitution prohibits the Legislature from imposing a state tax without a two-thirds legislative vote. This strict vote threshold is the fundamental protection taxpayers have against overzealous taxing and spending. But in recent years, legislators have begun ignoring this safeguard by simply calling a tax a “fee.” Fees are far easier to implement since they require only a majority legislative vote.

“These so-called ‘fees’ have been proposed on just about everything imaginable,” said Allan Zaremborg. “Fees have been proposed on phone bills, electric bills, beer, bottled water, wine, soda, diapers, prescription drugs, shipping costs, health care facilities and grocery bills, including a fee on the cost of a grocery bag!

“Renaming a tax a fee only undermines taxpayer protection and our state economy. We should respect the voter, mandated requirement of a two-thirds legislative approval on taxes. Californians deserve a comprehensive and vigorous debate over any state spending plan.”

In recent years, Cal-Tax has tracked more than \$7 billion in tax-like fees proposed in the state Capitol and by city councils and boards of supervisors around the state. Most of these measures are successfully opposed in the Legislature or vetoed if they pass. Some have become law, such as a “fee” in 2003 that was really a tax on rural property to pay for state fire protection. It was repealed before taxes could be collected, but only after the California Farm Bureau Federation took it to court with a lawsuit contending that the tax was illegal because it had passed without two-thirds votes of the Legislature.

McCarthy said so far in 2005 some \$1 billion in tax-like fees would be imposed by measures that have been proposed, ranging from new taxes on cars, gas to fuel cars, textbooks, bicycles, satellite broadcasting and the list goes on.

“Imposing new taxes threaten the economy and growth in revenues that come from a growing tax base. That’s why all proposed taxes must be subjected to the scrutiny that results from a two-thirds legislative vote requirement,” McCarthy said.

In addition to their call for vigilance against hidden taxes in the context of the current budget, a proposed initiative has been submitted to the Attorney General’s Office that would protect the two-thirds vote requirement for the state Legislature to approve tax increases.

Cal-Tax, the CMTA and the California Chamber of Commerce support the imposition of legitimate fees that are necessary for the delivery of services, such as driver’s licenses and use of state parks. Fees become taxes when they bring in more revenue than

needed to fund a government service that benefits a fee-payer. Fees are taxes when they are levied against a class of taxpayer that receives no special benefit.

The coalition has sent a letter to the Schwarzenegger Administration and the Legislature alerting them to this threat of hidden taxes. Along with Cal-Tax, CMTA and the California Chamber of Commerce, the coalition's nearly 60 members are listed on the attached letter. (Note: The letter is posted on the Cal-Tax Web site.)

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