



August 15, 2003

**To:** California News Media  
**From:** California Taxpayers' Association (Ron Roach) (916) 930-3104;  
[ron@caltax.org](mailto:ron@caltax.org)  
**Subject:** Tax Issues Before the Legislature

### **TAX THREATS LURK IN FINAL FOUR WEEKS OF LEGISLATIVE SESSION**

A number of tax threats, possibly including a split roll, are lurking as the California Legislature returns from summer recess on Monday (August 18). In the final four weeks of this year's session, while many at the Capitol might be distracted by recall election politics, taxpayers should watch for low-balled tax hikes, including those masquerading as fees.

After finally passing a more than \$99 billion state budget in late July, the Legislature took its summer break. It has unfinished budget-related business, including additional fees that are pending in bills still needing final action. The Legislature has until September 12, when the two-year session is scheduled to recess until January.

Cal-Tax President Larry McCarthy said taxpayers should watch out for tax increases that have a way of surfacing late in legislative sessions, with backers trying to get them passed before opposition can be mounted. In the past, such legislation, sometimes passed late at night without public hearings, has become known as a "midnight special." A \$2.4 billion tax measure (**AB 2065**, Oropeza) was approved last year without policy hearings to allow Cal-Tax or others to debate its provisions.

Sources say taxpayers should keep an eye on **SB 17** (Escutia), which passed the Senate as a bill to require corporations to report annual property transactions and impose stiff penalties for failure to do so. Set for hearing in the Assembly Appropriations Committee on August 20, it is considered a precursor to legislation or a ballot initiative that would require commercial property to be reassessed to current market value more frequently than residences. The bill is likely to become a vehicle to split the property tax roll by altering change-of-ownership rules to trigger more frequent assessments of commercial property, reported *Sacramento Bee* columnist Daniel Weintraub.

Another tax threat looms in a scheme being hatched by leading Assembly Democrats – and blessed by Governor Gray Davis and Lieutenant Governor Cruz Bustamante – to swap the unpopular car tax increase for higher income and tobacco taxes. Assembly Appropriations Committee Chair Darrell Steinberg is circulating the plan in the Assembly

Democratic Caucus. He believes it can be a revenue-neutral exchange to avoid the two-thirds vote requirement for the Legislature to increase taxes. Senate leaders have been cool toward the idea, which already has been criticized editorially by the *Los Angeles Times*, the *San Jose Mercury News* and the *San Francisco Chronicle*. Cal-Tax President McCarthy on August 14 issued a [statement](#) in opposition.

The Senate's Select Committee on Tax Reform, originally set to expire on August 18, will be continued through the end of the session. It is expected to hold hearings on a host of proposals. The Senate Rules Committee wants the select committee to hear subject matter contained in legislation seeking authority for local governments to levy income taxes as well as enact their own motor vehicle license taxes. The date of such a hearing was not known at this writing.

A proposed constitutional amendment to split the roll and require businesses to be reassessed to current market value when more than half of the company changes ownership (**ACA 16**, Hancock), remains in the Assembly Revenue and Taxation Committee. It was heard on July 7 when the author chose not to bring it to a vote. The proposal is aimed at a statewide ballot in 2004, and cannot make it through the Legislature without Republican votes.

Backers contend that the change-of-ownership definition for business property reassessment to current market value, without altering the Proposition 13 tax rate of 2 percent, can be done by majority votes of the Assembly and Senate, and increase property tax revenue by \$3 billion or more a year. Opponents say this is an end-run around Proposition 13 and that owners of commercial property are paying taxes based on assessments closer to market values than other property.

Supporters of two constitutional amendments to reduce the vote threshold for taxes and bond measures from two-thirds to 55 percent for affordable housing, transportation and open space projects were active around the state with news conferences in Sylmar and Sacramento on August 14. The measures are **SCA 11** (Alarcon) and **ACA 14** (Steinberg).

Pending on the Senate floor is **SB 1067** (Speier), which would make it illegal for corporations to go offshore in name only to avoid California taxes. The bill has been the subject of a lobbying effort in the districts of some Republicans, such as Senator Sam Aanestad. His district's major newspaper in Chico carried a nearly full-page ad paid for by labor unions who are pushing the bill, along with state Treasurer Phil Angelides. They also held a news conference in Chico, contending the bill would bring in \$132 million in additional income tax revenue over 10 years.

The Senate Health and Human Services Committee on August 20 is scheduled to hear **AB 71** (Jerome Horton), a hotly debated measure increasing cigarette taxes and enforcement rules. It would impose a one-time, one-cent-per-pack tax (which proponents call a fee) on manufacturers and importers of cigarettes. All manufacturers, importers, distributors, wholesalers and retailers of tobacco products would have to be licensed.

Measures that critics say erode taxpayer rights in a crackdown on so-called tax shelters also are scheduled to be heard (**AB 1601**, Frommer) in the Senate Appropriations Committee on August 18, and (**SB 614**, Cedillo), in the Assembly Appropriations Committee on August 20.

The Senate fiscal committee also is scheduled to consider **AB 694** (Levine), making it easier to impose the sales and use tax on vehicles, boats and aircraft brought into the state, and **AB 923** (Firebaugh), eliminating certain sales tax exemptions on farm equipment and requiring farmers to buy health insurance for farm workers in exchange for tax credits.

The Assembly fiscal panel's file includes **SB 20** (Sher), imposing taxes (called fees in the bill) on sales of electronic equipment to finance a program to deal with electronic waste. Other bills on the August 20 file include **SB 103** (Alpert), expanding sales tax nexus for out-of-state retailers selling products in California over the Internet; **SB 157** (Bowen), authorizing California's participation in the Simplified Sales Tax Project, and **SB 1009** (Alpert), allowing use of personal income tax forms to collect the state's sales and use tax.

Budget trailer bills needing final action include some of the additional fees, ranging from higher costs for driver's licenses and car registrations to additional charges to hunt and fish.

Legislation also is expected to include a plan to assess owners of remote property for costs of protecting dwellings from forest or brush fires. Passage of the budget assumed that some type of fee structure to raise \$50 million a year would be pushed to help fund the state Department of Forestry and Fire Protection.