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Politics



CURRENT TOP NEWS REPORTS
The Sacramento Bee

Testing the waters

WILLOWS -- There's no Sunset Strip, no Venice Beach and no bikinied Rollerbladers in this weathered Glenn County town.

Business tax breaks face state scrutiny

Lenny Goldberg isn't happy about the state's gargantuan budget deficit, but there is one thing about California's depressed economy that makes the longtime tax-reform activist feel pretty good.

Candidates getting early start -- on '06

Kevin Shelley has another week to wait before he's sworn in as California's secretary of state. But already, he's filed paperwork to run for re-election in 2006.

Condit's embark on libel suits' risky route

WASHINGTON -- Libel lawsuits can become a two-edged sword, as Rep. Gary Condit and his wife, Carolyn, may discover.

New laws in 2003: Licensing crematory managers

The body -- wrapped or clothed -- is placed in a closed container and then in a chamber known as a retort where temperatures reach 1,800 to 2,500 degrees.

Dan Walters: Research indicates gap between voters, non-voters will persist

One of California's many political peculiarities is the persistent -- even widening -- cultural gap between the state's residents and its voters.

Business tax breaks face state scrutiny

Cutting exemptions is seen as one way to pump up revenue.

By Gary Delsohn -- Bee Capitol Bureau

Published 2:15 a.m. PST Sunday, December 29, 2002

Lenny Goldberg isn't happy about the state's gargantuan budget deficit, but there is one thing about California's depressed economy that makes the longtime tax-reform activist feel pretty good.



Assembly Republican leader Dave Cox, R-Fair Oaks, says the state should work to stimulate the economy, not tax it more.

Sacramento Bee/Dick Schmidt

People are finally taking seriously Goldberg's decadelong campaign to change the way commercial and industrial properties are assessed, a move that could generate \$3.3 billion of new tax revenue a year, according to one recent study.

"The single biggest hole in the state's tax system is how we assess nonresidential property," said Goldberg, executive director of the California Tax Reform Association. "It is assessed at about half market value. If you bring it up to market value, I actually think you get more than \$3.3 billion, but we'll take that number."

The way in which business properties are assessed is just one of dozens of tax loopholes and exemptions likely to face scrutiny over the coming months as lawmakers and Gov.



Gray Davis struggle to close an estimated \$34.8 billion budget shortfall.

Higher income-tax rates for the wealthy, eliminating a state manufacturers' tax credit and ending tax breaks for small, tightly held companies known for tax purposes as "S corporations" all figure to be part of the coming budget and revenue debate.

Republican lawmakers and state business leaders have already begun to sound warnings about what they think could be the disastrous impact on the state's weak economy if businesses are forced to bear too much of the burden.

"That would destabilize the California economy more than anything," said Larry McCarthy, president of the California Taxpayers Association. "It would send a message all over California that California has just made it much more expensive and problematic to do business in the state."

Nevertheless, changing the way business properties are assessed is at the top of some Democrats' lists.

"I think it's something that's very worthy of serious consideration," said Assemblywoman Jenny Oropeza, the Long Beach Democrat who is chairwoman of the Assembly's budget committee. "I've been interested in it since last year's budget process. We've got to come up with some revenue options, and this is one that I feel makes some sense."

Under Proposition 13, residential and nonresidential properties alike can see their annual tax appraisal increase no more than 2 percent -- unless the properties are sold. When the properties change hands, they're reappraised and assessed at current market value.

But there are exemptions in state law for nonresidential properties that Goldberg and others argue have kept business property taxes artificially low.

If the sale is part of a corporate reorganization, for instance, or when less than 50 percent of the ownership interest is transferred, the 2-percent-a-year cap still applies.

"You might have five limited partners in a shopping center sell over time to five new partners, but because it's still the same mall, no single change generates a change in ownership for tax purposes," Goldberg said. "Commercial and industrial property is an investment. You make money off it. If the value goes up, we don't tax the increase appropriately. It's a pretty compelling case to change this, given today's economic climate."

Because property taxes go to local governments and schools, the benefit to the state would be indirect. But such a windfall could presumably offset some of the Proposition 98 money the state sends to local schools.

One bill already introduced by Sen. Martha Escutia, D-Whittier, would alter the legal definition of "change of ownership" to make sure businesses don't change hands without paying the extra tax.

"People are now really taking it seriously," said Goldberg. "For years, I've been beating the drum and people say, 'Yeah, you're right, but it's not politically viable.' Now it's definitely on the table in a way it's never been before."

"How far we can take it remains to be seen."

The state's business leaders and Republicans at the Capitol don't think the idea

State ending its power dealings

They've been called heroes and rescuers, naifs and bunglers -- sometimes all at once.

Schools can call up policy

On public school campuses around California, the war on drugs has taken a back seat to concern for student safety.

Let inmates worship, court says

SAN FRANCISCO -- In a victory for Muslim prisoners in California, a federal appeals court ruled Friday that wardens can't interfere with inmates' religious practices without proving a compelling security need.

Imperial faces big water cut

Federal officials upped the pressure on the Imperial Irrigation District on Friday by warning that Imperial will share in a massive cutback of federal water to Southern California that will take effect Jan. 1.

should go far at all. They want to see it fade into oblivion.

"I never saw a tax I liked, period, end of subject," said Assembly Republican leader Dave Cox of Fair Oaks. "Our approach should be to stimulate the economy, not tax it more."

His words were echoed by McCarthy, whose association is a pro-business lobbying and advocacy group.

"It raises the cost of every product and service produced in California," McCarthy said. "It makes us less competitive. It threatens jobs. It has all kinds of horrible consequences."

Like other Republicans in the Assembly and Senate, Cox said he's going to do all he can to hold the line on new taxes.

"The fewer dollars you collect in taxes, the greater stimulus as far as the economy is concerned," Cox said. "When people come around and start talking about taxing this or taxing that, all they're really talking about is redistributing money, and it's something we ought to look askance at every time. What we need are less taxes, not more."

Underscoring the scope of the issue, the state Department of Finance publishes a study each year called the Tax Expenditure Report. It lists many of the dozens of tax breaks, exemptions and exclusions that directly or indirectly cost the state's general fund more than \$23 billion a year in lost revenue.

For fiscal year 2001-02, the report said, breaks in personal income tax law deprived the state of more than \$18 billion. Those included everything from the mortgage interest deduction (\$3.2 billion) to deductions for personal moving expenses (\$16 million.)

In state sales and use taxes, there are exemptions for items ranging from food products (\$2.7 billion) to subscription periodicals (\$10 million).

On the business side, besides the property tax break, small corporations get tax breaks totaling \$1.9 billion; multinational companies get breaks by electing to be taxed only on their United States income (\$360 million); and some manufacturers get tax credits for investing in their companies (\$340 million).

"Eliminating tax incentives, those kinds of things that try to draw industry to California, is very counterproductive," said McCarthy. "The budget problem in California is not a revenue problem, but if they want more revenue, the biggest thing they can do is revive the economy. As soon as the economy improves in California, it's a cash machine. The tax revenue comes streaming in."

McCarthy's group also has been speaking out against fraud and waste in state government.

"If you raise taxes on anyone before you begin to manage or cut the fraud, all you're doing is raising taxes to fund the fraud," McCarthy said. "It's no wonder people outside of Sacramento don't think the Legislature is doing a very good job of managing these issues."

Oropeza said a special committee chaired by Assemblyman John Dutra, D-Fremont, who has carried legislation similar to Escutia's, is looking at the Goldberg idea and others and will report on its findings by mid-January.

"There is no question there is a delicate balance," Oropeza said. "We're not going to destroy the California economy and balance the budget in one year."

That would be stupid.

"But we do have to look at some of the benefits that have accrued to the business community over the years and see whether, in this climate, they still make sense. The business community is going to have to step up just like everyone else and be part of the solution."

About the Writer

The Bee's Gary Delsohn can be reached at (916) 326-5545 or gdelsohn@sacbee.com.

Costly exemptions ?

Referred to as "tax expenditures," here are some of California's biggest tax exemptions and exclusions and their estimated cost in lost revenue to the state's general fund.

Personal income tax

- Home mortgage interest deduction **\$3.2 billion**
- Exclusion of pension contributions and earnings **\$3.2 billion**
- Exclusion of employer contributions to health plans **\$2.7 billion**
- Exclusion of Social Security benefits **\$1.2 billion**
- Charitable contributions deduction **\$1.2 billion**

Sales and use tax

- Exemption for gas, electricity, water, steam, heat **\$3.2 billion**
- Food products **\$2.7 billion**
- Certain prescription medicines **\$709 million**
- Vessels and aircraft **\$300 million-\$600 million**
- Cargo and returnable containers **\$100 million-\$500 million**
- Custom computer programs **\$174 million**

Bank and corporation tax

- Subchapter S corporations **\$1.9 billion**
- Research and development credit **\$520 million**
- Carry-over of net operating losses **\$370 million**
- Water's-edge election for multinational companies **\$360 million**
- Manufacturers' investment credit **\$340 million**

SOURCE: California Department of Finance, Legislative Analyst's Office

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