



To: Governor Schwarzenegger and Members of the California Performance Review Commission

Subject: Support for a California Tax Commission.

The California Performance Review recommendation for a California Tax Commission is a unique and historic opportunity to do what California has been unable to achieve in the last 50 years – eliminating the confusion of separate tax agencies in California. A California Tax Commission would consolidate a vast and fragmented tax administration function in California and have it run by elected officials at the State Board of Equalization. This would be a tremendous step forward for California. It provides greater certainty, predictability and fairness for all taxpayers, including those operating businesses in the state.

The Problem:

California now has a reputation around the world as a place that treats business unfairly and unpredictably in the tax administration process. CFO magazine annually ranks California at or near the bottom when measuring fairness and predictability in tax administration. Unelected and unaccountable bureaucrats at the Franchise Tax Board have undercut the policy directions of the California Legislature and Governors. They have regularly demonstrated they are not neutral tax administrators. The clear pattern of behavior is to subordinate fair tax administration to a revenue result – how can California bend or change the administration of rules to produce more revenue. This has damaged California's credibility and undercuts this state's ability to attract investment. As lawmakers have attempted over the years to encourage investment, the FTB has worked in the other direction by making California a high-risk place as it relates to tax administration.

The Tax Commission Consolidation has the following benefits for Californians:

- BOE Process is Open. Unlike the Franchise Tax Board, which has little accountability, works in secrecy and does little to consult taxpayers prior

to making significant policy decisions, the State Board of Equalization has an open process and tries to work out problems through a collaborative discussion that includes taxpayer input.

- Interested Parties – BOE Committees. The BOE utilizes a committee structure and an “interested parties” process to fully develop issues prior to final decisions being made or the formal regulatory process being initiated. All interested parties are invited to participate in informal discussions with BOE staff and sometimes Board members themselves on issues being developed before final decisions are made. Often, disputes are avoided and better tax administration is achieved through this collaborative process. This is the model for fair and effective tax administration.
- The BOE's Cooperative Approach has been effective. Agreement was reached through this process on a formula for assessing major utilities. The resolution avoided years of costly litigation with uncertain outcomes. The Property Tax Committee routinely resolves disputes between taxpayers and assessors on the local administration of the property tax.

At BOE legislative committee hearings, problems can be identified in draft legislative proposals. False starts can be redirected back to staff for refinement . This review prior to going to the Legislature is a significant savings for the Legislature, tax agencies and taxpayers.

- Hands-on Elected Tax Administrators. The Taxpayer Bill of Rights correctly recognizes that taxation is the most sensitive point of contact between government and the people it serves. We believe tax administrators must be accountable to taxpayers – to assure taxpayer problems are fully understood and considered. The BOE provides four full-time elected tax administrators.
- Positive Change for the California Business Climate. California will attract more investment when it again projects a reputation of fairness, accountability, and openness in the administration of state tax laws.

On the issue of consolidation itself, virtually every independent study of this question has come out in favor of consolidation, including the Little Hoover Commission and former Governor George Deukmejian's tax advisory commission. Former Assemblymen Caspar Weinberger and Bill Bagley were earlier proponents of consolidation. AB 15 (Klehs, Andal, Connolly, Isenberg and Peace) was overwhelmingly approved by both legislative houses in 1994.

We see consolidation offering more direct accountability, convenience to taxpayers and long-range budget savings. We also believe there could be immediate savings in administrative overhead.

In conclusion, California is best served by a single tax agency directly accountable to voters. We strongly urge adoption of the CPR recommendation for a California Tax Commission.