

## California Groups Resisting Governor's Proposed Repeal of Enterprise Zone Tax Incentives

by John Buhl

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With California Gov. Jerry Brown (D) calling for the elimination of the state's enterprise zone tax incentives program, supporters of the program are coming together to fight to keep the tax breaks.

To help close a \$25.4 billion shortfall, Brown on January 10 proposed eliminating the incentives to save the state an estimated \$343 million in fiscal 2011 and \$581 million in fiscal 2012. The governor's budget plan says the enterprise zone tax changes "are intended to move the responsibility and the authority for local development efforts to the local jurisdictions and their voters." (For coverage of the governor's budget proposal, see *State Tax Notes*, Jan. 17, 2011, p. 148, *Doc 2011-578*, or *2011 STT 7-3*.)

The California Association of Enterprise Zones and the California Employment Opportunity Network have formed a coalition called Californians for Jobs and Safe Communities and hired a public relations firm to try and convince lawmakers to keep the tax breaks. According to the coalition's website (<http://jobsandsafecommunities.com>), the enterprise zone program helped create or retain more than 118,000 jobs in California in 2010.

However, not everyone believes the program is worth the cost. A February 7 report by the California Budget Project (CBP) says the program's cost to taxpayers has increased 35 percent annually without any evidence that the incentives have helped create jobs or business investment. (For the CBP report, see *Doc 2011-2706* or *2011 STT 27-7*.)

"Our review of the most up-to-date data on the Enterprise Zone Program finds its cost has soared, but our communities haven't seen the jobs and economic growth they were promised," said Jean Ross, executive director of the CBP, in a press release. "If state policymakers want to preserve the core services Californians value, we can't afford a program that doesn't use scarce resources effectively."

The CBP study also says 70 percent of the tax breaks go to businesses with at least \$1 billion in assets, and rural areas with high unemployment rates saw relatively little benefit from the program compared with large, urban areas.

But Teresa Casazza, president of the California Taxpayers Association, responded that the CBP's figures ignore the population differences that account for the gap between urban and rural zones. Casazza also said small businesses do, in fact, benefit from the incentive program.

"Larger businesses simply hire more people," Casazza said. "As a percentage, this program provides significant savings for small businesses. It's false and inaccurate to say small businesses are not a major beneficiary."

Casazza also argued that the data in the CBP report does not properly assess the overall impact of the tax credit program. German-based company Mounting Systems brought 100 jobs to Sacramento that would have gone to Arizona without the enterprise zone program, she said.

When asked about Cal-Tax's comments and claims that the enterprise zones have helped create jobs, Ross responded that CBP's research was well-vetted and adheres to the "strictest academic standards."

"When you go to a public hearing on this program, you'll see a long line of small businesses, but you don't see [large corporations]," Ross said. "We want to improve the public dialogue on this issue and show where these tax breaks are really going."

Others, including former state senator and State Board of Equalization member George Runner, also argue that the repeal plan could be unconstitutional.

In a February 7 letter to the Assembly Budget Subcommittee No. 4, Runner said Brown's plan would "retroactively increase taxes for California businesses by nearly \$1 billion this year." Runner also called the proposal "bait and switch taxation which violates the Due Process and Contracts Clause of the United States Constitution."

A request to the governor's office seeking comment about the legal concerns of the repeal plan had not been returned as of press time.

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