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Cal-Tax Commentary



Preserving Economic Prosperity and Protecting Taxpayer Rights: Proposition 37

By Larry McCarthy

California by far leads the nation in economic strength and vitality. According to a forecast by the state Employment Development Department, California will see a 23.6 percent increase in jobs from 1998 to 2008. Through thriving businesses and agriculture - small and large - the people of California have experienced unprecedented growth and prosperity.

However, a recent court decision threatens the economic boom that Californians have enjoyed in recent years.

A California Supreme Court decision in 1997, *Sinclair Paint v. State Board of Equalization*, gives state and local governments sweeping authority to levy higher taxes that affect consumers and businesses without a vote of the people or any accountability as to how the tax collections would be spent. The *Sinclair* decision has opened the floodgates to a plethora of new taxes, disguised as "fees," on products and services on which we depend.

Proposition 37 was placed on the November statewide ballot by the California Chamber of Commerce, California Farm Bureau Federation, California Taxpayers' Association, California Manufacturers & Technology Association and over one million registered voters who signed petitions to close this loophole that opens the door to potentially billions of dollars in new taxes.

Under current law, the "*Sinclair* loophole" creates great potential for government abuse. Since the *Sinclair* decision, nothing in state law prevents a city council or the Legislature from enacting new taxes on consumer necessities without a vote of the people. And with little oversight or accountability, we essentially are



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giving politicians the opportunity to spend our money however they choose - not necessarily as taxpayers desire and expect.

California voters have not once, but twice, overwhelmingly passed statewide initiatives to make government more accountable to taxpayers. When Proposition 13 passed more than two decades ago, California voters both cut property taxes and amended the state Constitution to require that future state tax increases or new state taxes be approved by two-thirds vote of the state Legislature. More recently, voters passed Proposition 218, which requires local taxes to be approved by the voters who will be paying them. Proposition 37 will uphold the integrity of these successful statewide initiatives and give power back to California taxpayers.

If Proposition 37 is defeated, it could have devastating economic effects to industries throughout California. For example, the paint industry and its customers already have paid over \$75 million into a new program the California State Bureau of Audits has criticized as ineffective and lacking in accountability.

Supporting Proposition 37 will allow businesses to continue to grow along with California's thriving economy and attract, not deter, business growth and opportunity.

Currently, the economy is strong, revenues are high and it is difficult to justify new taxes. However, we know the economy is cyclical, and economists don't know how much longer prosperous times will last. When the economy slows, so will the flow of tax revenue. Politicians should tighten their belts, but they also will look inevitably to raise taxes on businesses to make up the shortfall to keep government programs running.

And let's not forget that imposing new and higher taxes on businesses means higher prices for consumers. California consumers will bear the burden of government-mandated fees on products. Voting "yes" on Proposition 37 will guarantee that taxpayers have a voice in determining which tax proposals are necessary and meritorious, and which are unnecessary.

Fees and assessments are now a larger cost to taxpayers in California than property taxes, sales taxes, or income taxes. Even before the *Sinclair* decision, fees and assessments were a serious problem for taxpayers. These taxpayer exactions by state and

local government are growing and represent a cost of \$25 billion per year.

"Yes on Proposition 37" has a strong and diverse coalition of supporters representing California's taxpayers, consumers, businesses, agriculture and many others that support this vital measure.

Let's stop politicians from enacting "hidden taxes" and restore accountability back to the people of California.

For continued economic prosperity and preserving taxpayer rights, vote "yes" on Proposition 37 in November.

For more information
on Proposition 37, visit
yesonprop37.org

- Larry McCarthy is president of the California Taxpayers' Association.
