

May 11, 2018

TO: Members, Senate Governance and Finance Committee

FROM: Sarah Boot, Policy Advocate 

**SUBJECT: SB 993 (HERTZBERG) SALES AND USE TAXES: SERVICE TAX: QUALIFIED BUSINESS
OPPOSE/JOB KILLER – AS AMENDED MAY 9, 2018
SET FOR HEARING – MAY 16, 2018**

The California Chamber of Commerce must respectfully **OPPOSE SB 993 (Hertzberg)**, amended May 9, 2018 as a **JOB KILLER**. **SB 993** would impose a 3% tax on services purchased by businesses in California, with some exceptions, adding another layer of taxes onto California companies, raising costs, and putting them at a competitive disadvantage.

SB 993 would increase the cost of doing business in an already costly state by taxing most of the services used by businesses, including those necessary for day-to-day operations, like accounting or janitorial services. Additionally, **SB 993** would make an already complex tax system even more costly and challenging for California businesses to navigate.

The negative impacts of **SB 993** will hit small businesses the hardest. Although the bill has a limited exemption from this tax increase for certain small businesses, it certainly does not protect all of them. Small businesses depend on the services included under **SB 993** to conduct their operations. While larger businesses will be able to avoid paying taxes on certain services by bringing them in-house, most small businesses will not be able to do so. The burden of complying with this new tax will also be more challenging for small businesses that provide services – as they likely have limited resources to set up a new tax system within their companies. Additionally, such small businesses could suffer a loss of customers and revenue due to higher prices for their services.

Even though **SB 993** focuses on business-to-business transactions, and attempts to avoid raising taxes on individuals – this bill would increase the costs of producing and selling goods here in California. These costs would ultimately be passed on to consumers – with the higher prices disproportionately impacting working families.

SB 993 will unquestionably put California businesses at a competitive disadvantage. For businesses that must purchase services, this new 3% tax has no counterpart among the vast majority of other states, and will instantly add another anti-competitive burden with no countervailing competitive benefit. These companies would need to increase prices, reduce expenses – or perhaps relocate – to accommodate this new burden. If adopted, any other state in the country will have a more business friendly tax environment than California and lower prices for the services covered. California does not need another disincentive for businesses to stay in California, locate in California, or grow in California.

For these and other reasons, we **OPPOSE SB 993 (Hertzberg)** as a **JOB KILLER**.

cc: Ronda Paschal, Office of the Governor
The Honorable Bob Hertzberg
Colin Grinnell, Senate Governance and Finance Committee
Scott Chavez, Senate Republican Caucus
Robert Ingenito, Senate Appropriations Committee
District Offices, Members, Senate Governance and Finance Committee

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