Governor Nixes Withholding for Independent Contractors

Governor Arnold Schwarzenegger has vetoed California Chamber of Commerce-opposed legislation that would have added to the state’s unemployment numbers and would have severely chilled California’s economic recovery.

The CalChamber, along with a large coalition of private, public and non-profit organizations, urged the Governor to veto SBX3 17 (Ducheny; D-San Diego), which included a “job killer” proposal that would have imposed two new independent contractor withholding mandates: a 3 percent across-the-board withholding requirement on payments to resident independent contractors and 7 percent for non-residents.

**Impedes Economic Recovery**

These proposals, part of the rejected budget package, would have threatened small business survival and imposed a major new cost burden on private, public and non-profit companies and agencies that use independent contractors. With California’s unemployment rate approaching the highest level ever, these proposals ran counter to the state’s need to encourage economic recovery and stimulate job growth.

These measures could have put sole proprietors/small companies out of business. The mandate applied only to resident independent contractors and non-residents.

**Author Pulls ‘Job Killer’ Bill**

Strong opposition from the business community helped stop the author of a California Chamber of Commerce-opposed “job killer” bill from proceeding with legislation this year that would have significantly increased the cost of doing business in California by increasing fines and penalties, while disregarding good faith efforts of California’s businesses to comply with complex regulations.

**Broad Opposition**

AB 846 (Torrico; D-Newark), which was recently added to the CalChamber “job killer” list, also would have removed the ability for agencies to work out settlements. It was opposed by a broad coalition of 37 organizations representing a wide range of industries, from contractors to agriculture, grocers, restaurants, hotels, manufacturers and others.

The bill would have required the Department of Toxic Substances Control, the state Air Resources Board, the Department of Industrial Relations (DIR), and the State Water Resources Control Board to adjust the maximum penalties up based on the consumer price index, and round up to the nearest multiple of $10, $100, $1,000, $5,000, $10,000 or $25,000.

Each agency would have been required to either impose the maximum allowable penalty, or impose a penalty.

Governor’s Veto Averts Revenue Losses from California Internet Affiliate Advertisers

Governor Arnold Schwarzenegger has vetoed California Chamber of Commerce-opposed legislation that would have harmed California online marketplaces, Web-service providers and websites of “affiliates”—small businesses and non-profits that earn money from banner ads and click-throughs.

The legislative proposal, part of the budget package vetoed by the Governor, redefined the sales tax “nexus”—requiring out-of-state sellers that pay California firms or residents for hosting advertising or sales referrals (often through a website link) to collect sales tax on sales to California residents.

**Tax Revenue Loss Averted**

Before the Governor’s veto, Overstock.com had announced it was canceling its Internet affiliate advertising program in California. After being contacted by the Governor’s administration, Overstock.com reinstated its California-based affiliates.

See Author: Page 6
**Cal/OSHA Corner**

**New Rules for Employees Working Around Infected Animals**

The Division of Occupational Safety and Health (Cal/OSHA) developed this regulation with the assistance of an advisory committee to address zoonotic aerosol transmissible pathogens (ATPs). These are disease agents that are transmissible from animals to humans by aerosol, and are capable of causing human disease.

(See June 19 Alert for coverage of requirements for handling other aerosol transmissible disease hazards.)

**Infection Risk**

Employees in a variety of settings may be exposed to existing zoonotic infection risks, such as hantavirus pulmonary syndrome, monkey pox, anthrax (from untreated animal hides), bovine tuberculosis, and Q fever and emerging zoonotic threats, including some strains of avian influenza.

This regulation incorporates a graduated system of controls based on the level of disease hazard and type of operation. For normal operations, where there is no alert or warning from the applicable government agency regarding an aerosol transmissible zoonotic disease hazard, the standard refers to existing requirements under Section 3203 (Injury and Illness Prevention Program) for hazard identification and control, investigation of injury and illness, and training.

It also refers to other protective measures such as sanitation and personal protective equipment, covered by Sections 3360–3368 and 3380–3387.

**Operations Requirements**

The regulation includes additional requirements for operations in which employees are exposed to an aerosol transmissible zoonotic disease hazard in wildlife. These requirements are triggered by the issuance of an alert or other notification by agencies of the U.S. Department of the Interior, U.S. Department of Agriculture (USDA) or U.S. Centers for Disease Control and Prevention, and the California departments of Food and Agriculture (CDFa), Fish and Game or Public Health.

These measures include training, use of work methods that minimize the

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**California Chamber Officers**

**Mel Davis**

Cal/OSHA Consultant

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**CalChamber-Sponsored Seminars/Trade Shows**


**Business Resources**


Northern California Tour. Water Education Foundation. October 7–9, Sacramento. (916) 444-6240.

**International Trade**

IPO in Taiwan Seminar. Taiwan Trade Center, San Francisco. July 21, Santa Clara. (408) 988-5018.


Trade Mission to Vancouver, B.C. Sacramento Metro Chamber and

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**Next Alert: July 24**
Investment Incentives in Recent Budgets Crucial to California Economic Recovery

Recovery Critical to Ensuring Sufficient Revenue for Needed State Programs

The California Chamber of Commerce and other business associations have been urging decisionmakers to leave intact the important tax law changes enacted in the February 2009 and September 2008 budgets, including elective single sales factor, research and development (R&D) tax credits sharing, and net operating loss (NOL) carryback. Any repeal of these reforms will hamper the state’s fiscal recovery.

Much has been written in recent weeks in the general press about “corporate tax breaks” and the need to repeal them, as well as to close alleged “tax loopholes.”

These are highly inaccurate misrepresentations of important investment incentives adopted to facilitate economic recovery in the wake of the severe recession and $10+ billion in tax increases and accelerations imposed on the employer community.

Eliminating any investment incentives, as proposed in pending legislation and a ballot initiative filed July 8, will have an adverse impact on California employers, cause continued job losses, further erode the business climate and prolong the state’s recovery from the recession. Limiting the recovery will continue the state’s financial woes.

Interestingly, the very groups urging repeal of investment incentives spent millions of dollars opposing the May ballot measures, the defeat of which contributed $6 billion toward what is now estimated to be a $26.3 billion deficit.

The major investment incentives being attacked, including positive tax changes involving single sales factor, the R&D credit, and NOLs, have only minor fiscal impact on the state until 2011. Accordingly, repealing these important tax law changes will provide nominal fiscal relief for the state.

Single Sales Factor

1. Elective Single Sales Factor Apportionment: Encourages Jobs and Investment in California
   - Current tax structure penalizes investment. The current four-factor apportionment formula (the method the state uses to determine taxes owed by a multistate company in relation to the other states) discourages job creation and capital investment in this state because the more a company invests in jobs, buildings and equipment in California, the more corporate income taxes the business pays to this state. Effective January 1, 2011, some employers will have the option to elect a single sales factor apportionment formula.
   - Single sales factor will encourage jobs and investment California doesn’t currently have. Investment decisions are being made in reliance on the 2011 effective date of the single sales factor apportionment formula. However, the delayed implementation date means that, if the state were to repeal single sales factor, it would only lose that additional investment with no current-year revenue gains. Since the provision does not take effect until January 1, 2011, any repeal would not help the current budget year and will have an adverse impact on valuable investment decisions.
   - Positive revenue return on investment. A 2003 study by the Associated Industries of Massachusetts, which reviewed the effectiveness of Massachusetts’ single sales factor formula, found “Massachusetts gains over $7 of additional net personal income for each dollar of reduced state corporate excise tax revenues.” The study concluded, “This is a significant long-run return in terms of new jobs and higher incomes as a result of the state’s investment.”

Research and Development

2. R&D Tax Credit Sharing: Improves Ability for Some to Use the Important Tax Credit
   - Allows companies to fully utilize tax credits promised to them. Effective January 1, 2010, the R&D tax credit may be shared among a related group of affiliate or subsidiary companies. This change will help some employers who are not currently able to fully utilize their promised tax credits, despite having engaged in the desired R&D activities.
   - Improves taxpayer equity. The Franchise Tax Board has been able to have it both ways—businesses are “unitary” for the purpose of taxation, but separate entities for the purpose of applying tax credits. There should be consistent tax treatment of the members of a unitary group.

Net Operating Loss

3. NOL Carryback: Improves Taxpayer Equity in Tax Treatment of Losses
   - NOL deduction resolves inequity in the tax structure. The NOL deduction is meant to resolve an inequity in our tax structure, which comes from businesses experiencing losses or profits at different times, yet all being subject to the same government deadlines for income tax reporting. To resolve this, the NOL deduction allows taxpayers to offset or deduct one tax year’s losses from another tax year’s profits.
   - NOL carryback change improves equity in tax treatment of employer losses. Effective January 1, 2011, employers and individuals will be able to carryback losses two years, as well as being able to carry them forward. Under current law, only carryforwards are available. Carryback and expanded carryforwards will provide added flexibility and partial federal conformity for companies that use the NOL deduction.

Economic Recovery

Economic Recovery, Development Needs to Be a Top Priority for the State
   - The state should take a long view of tax policy, similar to any investment strategy. While the costs of existing and recent investment changes seem high, the long-term benefits of job retention, creation and investment are tremendous. The state’s strongest revenue-generating...
Investment Incentives in Recent Budgets Crucial to Economic Recovery

From Page 3

years have occurred when the economy is strong. Higher employment rates and capital investment result in bountiful personal and corporate income tax revenues that will stabilize the economy going forward.

● Higher taxes are no guarantee of additional net revenues, while harming the economy. Proposals such as split roll property taxes, various ways to tax high-income investors in the California economy, and other punitive tax proposals that target job creators and the employers in this state are extremely high-risk. The resulting harm to the economy and decline in revenues may far outweigh any static revenue “gains” scored from a particular proposal.

● California’s tax climate already chills investment. California has the highest corporate tax rate among the western states, and one of the highest in the country. California’s personal income tax and sales tax rates also consistently rank in the top 10 highest in the nation. Repeal of these investment incentive proposals will only exacerbate those unfortunate rankings.

● California has lost more manufacturing jobs than any other state. Most states have lost manufacturing jobs since 2000. As a percentage of gross state product (GSP) though, no competing state has lost as many as California since 2000. According to a recently released report on California manufacturing, the industry’s share of the state’s GSP has declined 9.8 percent. Comparatively, Texas manufacturing gained 24 percent of its GSP and Oregon gained 66 percent. California has lost 30 percent of its industrial base since December 2000, more than any other state.

● Federal government is improving NOL and R&D. Ironically, the federal government is exploring ways to provide incentives to employers to stimulate the economy. For example, it has expanded to five years the carryback of the NOL deduction and created a new R&D tax credit. Repealing any of these important incentives would have the opposite effect and discourage growth.

Coalition Against Higher Taxes

A CalChamber-led coalition is continuing to emphasize to lawmakers and the public that adoption of additional tax burdens will have adverse consequences for the economy and jobs. More information on the campaign by Californians Against Higher Taxes appears at www.MoreJobsNotTaxes.com.

Staff Contact: Kyla Christoffersen

New Rules for Employees Working Around Infected Animals

From Page 2

production of aerosols, use of personal protective equipment, sanitation and decontamination practices, and medical surveillance measures. Respiratory protection is required where there is an increased concentration of potentially infectious aerosols.

Similarly, farms and associated operations identified by the USDA or CDFA as being at increased risk of infection will be required to implement sanitation and other protective measures for employees who are in contact with potentially infected animals or their products, byproducts or waste.

These measures include identifying areas in which exposure is likely to occur and restricting entry into those areas, which are to be under the supervision of a trained person. For employees who enter these areas, the proposal includes requirements for training, protective clothing and personal protective equipment, sanitation facilities, medical surveillance and respiratory protection.

The highest level of protection required is for operations involving the handling, culling, transport, killing, eradication or disposal of animals infected with zoonotic aerosol transmissible pathogens, or the cleaning and disinfection of areas that contain or contained those animals.

Because of the increased risk of infection, these operations will require a detailed work plan, including a supervised restricted area and contaminant reduction (decontamination) zone; employee training; personal protective equipment and clothing; respiratory protection; and medical surveillance.

Industries Required to Comply

This regulation will apply directly to the following facilities, service categories or operations:

● Operations involving the management, capture, sampling, transportation or disposal of wild birds or other wildlife;

● Farms producing animals or animal products, including the transport of animals and untreated animal products, byproducts or waste to or from farms;

● Slaughterhouses and initial processing facilities for untreated animal products, byproducts or wastes;

● Veterinary, animal inspection and other animal health operations;

● Importers of live animals and untreated animal products;

● Zoos, animal parks, pet stores and other operations in which animals are displayed, transported or housed;

● Laboratory operations involving samples, cultures or other materials potentially containing zoonotic ATPs; and

● Zoonotic ATP incident response operations further defined within the regulation.

An exception from the regulation is made for restaurants, facilities or portions of facilities in which the sole exposure to animal products, byproducts or waste comes from carcasses or portions thereof that have passed an inspection conducted in accordance with USDA or CDFA regulation and have been determined fit for human consumption.

The Labor Law Helpline is a service to California Chamber of Commerce preferred and executive members. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 448-2262 or submit your question at www.hrcalifornia.com.
State Supreme Court Rules to Protect Businesses from Abusive Lawsuits

In two recently decided companion cases, the California Supreme Court provided clarification on whether cases brought as “representative” actions by unions under California’s Unfair Competition Law (UCL) and Labor Code Private Attorneys General Act of 2004 (PAGA) must meet class action requirements.

Upholding Proposition 64

In Arias v. Superior Court (Angelo Dairy), the court held that a plaintiff seeking relief on behalf of others under the UCL must satisfy the requirements for a class action as required by Proposition 64. The court based its decision on the plain language and voter intent behind Proposition 64, which amended the standing requirements of the UCL to preclude uninjured plaintiffs from seeking relief on behalf of others.

With respect to the PAGA claim, however, the court held that an individual may pursue a representative claim for penalties without satisfying statutory class action requirements. The court reasoned that PAGA, in contrast to the UCL, contains no express requirement that an individual comply with the requirements of Proposition 64.

Proposition 64, overwhelmingly approved by California voters in 2004, required that plaintiffs in lawsuits filed under the state’s UCL must actually have suffered harm. This reform was intended to provide companies doing business in California with significant relief from the numerous frivolous lawsuits clogging the court system.

In the second case, Amalgamated Transit Union Local 1756 v. Superior Court of Los Angeles (First Transit, Inc.), the court held that a third party, such as a union, may not bring a representative action under PAGA and California’s UCL because the party was neither impacted by nor directly involved with the alleged violations.

CalChamber Weighs In

The California Chamber of Commerce filed a “friend of the court” brief in Amalgamated because of the cases’ impact on California businesses, which continue to be hit with representative and class action lawsuits, particularly in the area of wage and hour law.

The CalChamber believes that narrowing the scope of who may bring the lawsuits will curtail the swift progression and trend of representative actions. Defending against such actions, particularly those that lack merit, is extremely costly to businesses.

Staff Contact: Erika Frank

CalChamber Stops Climate Change Tax Increase

Strong opposition from the California Chamber of Commerce, local chambers and the California business community has helped to stop a CalChamber “job killer” bill that would have increased costs and discouraged job growth by granting the California Air Resources Board (ARB) broad authority to implement unlimited fees and taxes with little or no oversight.

As a result of amendments on June 19, the CalChamber has removed its opposition to AB 231 (Huffman; D-San Rafael). At this time, CalChamber has no position on the bill. The CalChamber will remain alert in case the Legislature attempts to bring back any of the bill’s previous language through the controversial “gut and amend” technique.

AB 231 would have granted the ARB broad authority to implement unlimited fees and taxes with little or no oversight. The authority contained in AB 231 before the amendments would have amounted to billions of dollars.

As the CalChamber mentioned in its position letter, the ARB already has the authority to impose fees only for administrative purposes. The ARB is now working on a fee regulation to raise nearly $39 million for the current year to cover administrative costs for implementing AB 32 (Núñez; D-Los Angeles; Chapter 488), the state’s landmark climate change bill seeking to reduce greenhouse gas (GHG) emissions.

AB 32 provided that much more “shall” be raised by fees to “provide incentives to reduce GHG emissions” and otherwise “meet the goals of” AB 32. In a 2006 letter to the Assembly Journal, former Speaker Fabian Núñez agreed that the ARB fee authority is now limited to the direct costs of administering AB 32.

The CalChamber believes the ARB hasn’t shown that it needs new revenue-raising authority because it has yet to complete the first administrative fee regulation for AB 32. ARB also is just starting work on a cap-and-trade regulation. A new committee of experts was just appointed to review the elements of a cap-and-trade program, including whether an auction should be conducted and how new revenues might be used. The state shouldn’t give the ARB new authority until the board justifies the need.

The bill provided no guidance, no limits and no controls over the amount the ARB could raise, or from whom. The CalChamber believes that the Legislature should keep firm control of the authority to impose new fees.

Staff Contact: Amisha Patel
Governor Nixes Withholding for Independent Contractors

From Page 1 payments made to non-corporate individuals and sole proprietorships, California’s smallest businesses. In the current economic downturn, a withholding mandate would have taken resources out of the hands of small business owners and may have put more Californians out of work. In addition, the requirement could have provided an incentive for companies to give business to corporations rather than independent contractors.

Government-Mandated Loan

These proposals amounted to a government-mandated loan from California’s small businesses that may already be in compliance or have no tax liability. Most of the claimed revenue to be generated from the proposal was accelerated revenue or revenue that will have to be refunded—equivalent to a low-interest loan on the backs of small businesses. In many cases, money would have been withheld that the state ultimately would have had to refund and could otherwise have been used to keep cash-strapped businesses afloat, many of which are experiencing losses and will not owe taxes.

Creates New Costs

These measures also posed a significant cost burden to the state. A 2005 Franchise Tax Board (FTB) study acknowledged that implementation would be costly and complex. A similar recent proposal (ABX1 12) estimated a $10 million implementation cost for the Employment Development Department. Last year, for example, the State Controller announced that California’s existing computerized payroll system could not accommodate the Governor’s executive order to reduce the hourly wage of certain state employees, without six months to reconfigure and at a cost of $177 million.

In some cases, the cost of implementation may exceed revenue returns for an individual company. The 2005 Independent Contractor Withholding report by FTB cites a tax compliance rate in the 80th or 90th percentiles for independent contractors.

Thus, for a relatively small percentage of non-compliant taxpayers, the withholding mandate casts a wide, onerous net over tax-compliant companies and agencies, forcing them to pay implementation costs in the thousands to millions of dollars. They would have had to create new manual or computerized payment systems. For many, due to the complexity of computer system changes, one to two years would have been required to implement.

Multi-state companies would have had to create systems specific to California, or to modify existing systems that presently serve national or multi-state operations. Companies would have had an ongoing administrative burden of withholding and remitting the withheld amounts.

Penalizes Californians

Both withholding mandates are out of step with federal law and all other states. California would have been the only state with these costly mandates, effectively penalizing job-creating California companies and small businesses for choosing to operate in California.

The measures also shifted tax enforcement function onto the private sector. FTB, unlike business, is specifically designated to collect and enforce taxes. This bill inappropriately shifted onto business what should be FTB’s enforcement burden and responsibility.

The 7 percent non-resident withholding mandate is not federal conformity. Although there is a 7 percent non-resident withholding mandate at the federal level, it applies only when there is a problem with the independent contractor’s taxpayer identification number. Only Minnesota, Georgia and Colorado have adopted variations of the federal requirement.

Implementation of this far narrower federal withholding mandate at the state level, as proposed by stalled 2008 legislation, AB 1848 (Ma, D-San Francisco), would have been extremely costly and complex. SBX3 17—which would have applied the 7 percent withholding to all payments to non-resident independent contractors—would have been many times more so.

Action Needed

CalChamber advocacy efforts against these withholding mandates are continuing as the budget is not yet resolved and passage of the proposals can be reattempted. A strong showing of opposition by the business community is needed.

Contact Laurie Lively at Laurie.Lively@calchamber.com to add your company to the opposition coalition letter.

Staff Contact: Kyla Christoffersen

AuthorPulls ‘Job Killer’ Bill

From Page 1 that is equal to the economic benefit the business derived from the violation. This provision required agencies to use precious and scarce resources to calculate alternate penalties.

The CalChamber was concerned that agencies would have had no incentive to work with businesses to mitigate hazards through the successful negotiation of settlements.

Dangerous Precedent

The rulemaking for the penalty increases would have been exempted from the Administrative Procedures Act, which provides a fair and objective procedure for all agencies to follow for rulemaking. Allowing agencies to conduct emergency rulemaking without finding of an emergency sets a dangerous precedent, CalChamber explained in its opposition letter.

The DIR penalty provisions applied to both public sector and private sector employers. California is already among the costliest states in which to do business in a complex regulatory environment. CalChamber explained that driving up costs further may force California businesses to make the choice to leave the state, taking jobs and the state’s tax base with them.

Staff Contact: Marti Fisher

Staff Contact: Kyla Christoffersen
Governor’s Veto Averts Revenue Losses from California Internet Affiliate Advertisers

From Page 1

Overstock.com estimates its Internet affiliate advertisers in California create millions of dollars in revenue. There are more than 25,000 affiliates in the state of California, many of which are small, entrepreneurial businesses, estimated to pay around $123 million in income tax revenue alone each year from affiliate advertising.

Last year, Overstock.com immediately terminated its affiliates advertising program in New York when that state enacted a similar law. Amazon.com has cancelled advertiser affiliate agreements with two other states with Internet taxation proposals, North Carolina and Rhode Island, and had threatened to do the same in California.

Coalition Opposition

The CalChamber, along with a large coalition of California employer organizations and companies, urged the Governor to veto the Internet taxation proposal. CalChamber had designated the proposal a “job killer,” as well as another proposal included in the budget package sent to the Governor, requiring business and government to withhold taxes on payments to independent contractors (see story on Page 1).

Following his veto of the Internet taxation proposal and the budget package, the Governor said California cannot solve its budget deficit by raising taxes and driving businesses out of the state.

“After passing the largest tax increase in California history, it makes absolutely no sense to go back to the taxpayers to solve the current shortfall—that’s why I vetoed the majority vote tax increase passed by the Legislature. With unemployment at an all-time high, we should be doing everything we can to keep jobs and create jobs in California,” the Governor said.

Harms California Companies

Although aimed at out-of-state companies, the Internet taxation proposal would have inflicted significant harm on California companies. It undermined numerous ways that California companies currently survive or earn money, including: offering online-marketplace services to customers that are retailers around the globe, placing banners and other advertisements on websites, and earning commissions from placing “click-through” advertisement links on websites.

The proposal sought to establish that California “nexus” is created when any retailer enters into any referral agreement with a California resident in exchange for compensation or commission—including online marketplaces and websites—that generates referrals in excess of $10,000 in sales.

“Nexus” refers to the U.S. Constitution’s requirement that an out-of-state retailer have a sufficient physical connection with a state before the state can force the retailer to collect the state’s sales or use tax.

This change would have encouraged out-of-state retailers to instead use out-of-state online marketplaces and websites. By using out-of-state competitor Web-service companies, out-of-state retailers can lawfully avoid collecting California sales or use tax, while still reaching California consumers.

Constitutional Problems

The constitutionality of this form of attempted “nexus” has not been decided by the U.S. Supreme Court and thus could be subject to immediate court challenge under the U.S. Commerce Clause. New York was sued immediately after adoption of its “nexus” law last year and is still in litigation with no end in sight.

Coalition Against Higher Taxes

A CalChamber-led coalition is continuing to emphasize to lawmakers and the public that adoption of additional tax burdens will have adverse consequences for the economy and jobs.

More information on the campaign by Californians Against Higher Taxes appears at www.MoreJobsNotTaxes.com. Staff Contact: Kyla Christoffersen
Free Overview: Vacation, Paid Time Off, Sick Leave, Exempt Employees

If you are responsible for administering and monitoring your company’s vacation, paid time off (PTO) or sick leave policies and you employ exempt employees, you will want to attend the Vacation, PTO, Sick Leave & Exempt Employees Overview Live Web Seminar.

This free, 30-minute overview Web seminar will help you better understand:
- Different components and legal requirements of vacation, PTO and sick leave policies.
- Do’s and don’ts of implementing each policy.
- How each policy affects your exempt employees’ accrual and usage.

Topics to be covered:
- California law regarding accrual and use of vacation, paid time off and sick leave.
- How exempt employees may use the various leaves and in what increments.
- What deductions may be made from exempt employees’ accrual and wages.
- How kin care is affected with paid time off and sick leave policies.

Register today online at www.calbizcentral.com or call (800) 331-8877.