

Tax perk bills abound in Legislature's final week

By Jim Miller
jmiller@sacbee.com

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With California's finances firmly on the mend, the state's film industry, historic structure preservationists and others are pushing for hundreds of millions of dollars in new and extended tax breaks during the final days of the legislative session.



Orange County Film Commissioner Janice Arrington speaks to a crowd about the importance of creating tax incentives for California's film industry on Wednesday in Sacramento. AB 1839 is a proposed bill that would approve \$400 million in tax incentives to keep film industry jobs in the state.

The proposals would join a pair of potentially pricey tax breaks already approved by Gov. Jerry Brown in recent weeks to attract a strategic bomber production line to California. More big-ticket items could yet emerge before the Aug. 31 adjournment, including a package of incentives to woo electric carmaker Tesla to put a giant battery plant, and 6,500 jobs, in the Golden State.

"We're struggling to create jobs in certain parts of the state," said state Sen. Ted Gaines, R-Roseville, the co-author of a possible Tesla incentive bill with Senate President Pro Tem

Darrell Steinberg, D-Sacramento. "I'm not opposed to providing tax credits if we can see an investment being made by business."

More than \$50 billion in tax breaks are already on California's books, from \$2.2 billion in income and corporate tax breaks for companies' research and development expenses to \$48 million in sales-tax exemptions on farm equipment. But after tailing off during the recession, dozens of tax credit proposals have been introduced this session.

Members of both parties carry the bills. The legislation is easier to pass, requiring only a majority vote instead of the two-thirds vote required of direct spending on a specific program. And unlike the zero-sum nature of the state budget process, when spending on one program is often seen as coming at the expense of another, revenue losses are spread across state government.

Gaines and other proponents say tax credits, exemptions and deductions are a valuable way to help businesses and other taxpayers targeted by the benefit. Others, though, are skeptical of the approach.

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The benefits of tax breaks vs. their costs often are more difficult to judge than direct state spending on schools, health care and other programs.

"These tax credits seem to be very popular these days. But I think taxpayers are entitled to a very serious examination of the value of how the money is being spent," said state Sen. Lois Wolk, D-Davis, who leads the Senate committee that reviews the legislation.

The proposed quadrupling of the 5-year-old film and TV tax credit from \$100 million to \$400 million annually has generated a business-labor, star-studded lobbying effort. Actors Carl Weathers of "Rocky" fame and Ron Perlman from "Sons of Anarchy" joined lawmakers at a Capitol rally on Wednesday.

In the soaring language of a Walk of Fame tour, the bill's preamble links the TV and movie industry to "inspiring generations to dream about the bounty of this golden state, driving a modern gold rush of those who came here to be a part of that California dream, as they had done during the Gold Rush and the Dust Bowl migrations during previous generations."

Lobbyist Barry Broad, who represents the Teamsters and other film industry unions, said it's clear that California will lose productions and well-paying jobs to other states without a robust tax credit.

"A lot of people in the industry would like to make productions in California because a lot of the industry is located in California," Broad said. "But they have to do what works for their bottom line."

The Legislature's nonpartisan fiscal analyst has urged lawmakers to be cautious.

In an April report, the office reported that there is "no conclusive evidence" that the existing credit has stemmed the loss of TV and film productions to other states. It warned of a "race to the bottom" if California tries to match lucrative incentives offered by Louisiana and some other states.

Another pending bill would create an \$80 million tax credit program meant to encourage the preservation of historic structures. The measure by Assembly Speaker Toni Atkins, D-San Diego, would

ANNUAL COST OF STATE TAX BREAKS

Lawmakers are considering several tax-break measures next week. Here is a look at some of the programs already on the books:

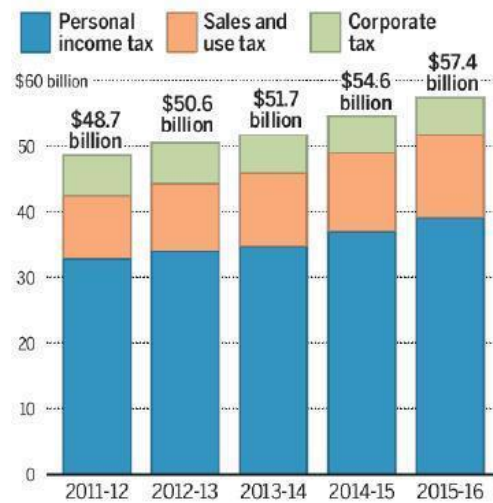
Deductions reduce taxable income. Examples include: charitable contributions and unreimbursed employee expenses.

Exemptions exclude income from taxes. Examples include: widows, credit unions and corporations in their first year of business.

Credits reduce tax liability. Examples include: research and development, film credit, and investing in low-income rental housing.

What tax breaks cost the state

Credits and other tax breaks reduce government revenue by more than \$50 billion annually.



Sources: State Department of Finance, Legislative Analyst's Office

Major components (with estimated 2014-15 general fund loss):

Personal income tax

- Exclusion of employer contributions to health plans (\$5.5 billion)
- Home mortgage interest deduction (\$4.6 billion)
- Exclusion of employer pension contributions (\$3.8 billion)

Sales and use tax

- Food products (\$4.66 billion)
- Gas, electricity and water (\$3 billion)
- Prescription medicines (\$1.9 billion)

Corporate tax

- Research and development credit (\$2.2 billion)*
- Giving certain businesses more options to calculate state tax liability (\$460 million)
- Tax benefit for certain multistate and multinational corporations (\$1 billion)

* Also includes personal income tax amounts

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add California to the list of states that offer historic structure tax credits to piggyback on a related federal program.

“The city of Sacramento has long strived to preserve its historic resources and considers the California rehabilitation tax credit as a vital incentive in support of this cause,” Sacramento Vice Mayor Jay Schenirer wrote the Senate Appropriations Committee last month.

The Brown administration has been publicly silent on the film credit. But it has poured cold water on Atkins’ bill and other proposals. A Department of Finance review of Atkins’ bill cited a study of Missouri’s program, the largest in the country, which called the effort “an inefficient use of state resources.”

The Governor’s Office also objects to a bill that would create a \$200 million tax break to promote private-sector investments to impoverished parts of the state. The Finance Department said “it is unclear that the marginal benefit of the economic activity resulting from this new credit will outweigh its costs.”



Actor Carl Weathers, backed by a line of California legislators, speaks in support of AB 1839, a bill that would increase film industry tax breaks, on Wednesday in Sacramento.

On other measures, though, Brown has been a cheerleader.

Last year, the governor and lawmakers eliminated the enterprise zone program and replaced it with a package of tax perks overseen by the Governor’s Office: hiring credits for businesses in low-income areas; exempting the purchase of manufacturing and biotech equipment from the state portion

of the sales tax; and the California Competes program that offers tax credits to

companies thinking of moving to the state – or leaving it. Supporters said the program was cheaper and more effective than enterprise zones, which cost an estimated \$700 million in lost tax revenue.

In April, the governor signed legislation creating a property tax break for commercial spacecraft manufacturers, reducing local revenue by an estimated \$1 million. Supporters said the law will bolster the state’s space industry, while opponents in local government objected to the lost revenue.

And Brown has signed legislation that provides about \$420 million in tax incentives to attract a strategic bomber contract to the state. Two sets of bidders – aerospace giants Lockheed Martin and Boeing, the intended beneficiary of AB 2389, signed in July, and Northrop Grumman, which backed SB 718, signed last week – have wrapped the incentives into their project bids.

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In addition, the administration backs legislation to put another \$25 million annually into California Competes. Assembly Bill 1560, passed the Assembly with only two no votes and is pending in the Senate.

The recession put a damper on tax break proposals. Yet nearly all existing ones survived, even as lawmakers approved deep spending cuts for schools, health and welfare programs. And new ones were added as part of the February 2009 budget deal: the \$100 million film credit plus a corporate tax break costing hundreds of millions of dollars. Voters eliminated the latter when they passed Prop. 39 in November 2012.

Lenny Goldberg of the California Tax Reform Association, a longtime observer of state tax policy, said the latest proposals are an improvement over broad, long-standing tax breaks such as the \$2.2 billion research and development credit. But they still raise concerns, he said.

"If we want these defense contracts, we're going to have to write down the cost. If we want these Hollywood productions, we're going to have to write down the cost," he said.

Even then, the breaks are difficult to analyze. The film credit, California Competes and other programs include exemptions from the state's public-records law. State law also closely guards taxpayer confidentiality.

"There is really this tension between evaluating tax programs and taxpayer confidentiality," said Jason Sisney, deputy legislative analyst. Of the research and development credit, "It's hard to see what the state is buying for that money," Sisney said. "Some might have a great deal of merit. Some might have less merit. The truth is we don't see them."

More tax breaks could be in store in the coming week, amid rumors of a much larger package of

These are among bills this year that would give tax breaks to businesses and other taxpayers.

Already signed:

AB 2389: Allows for an estimated \$420 million in tax credits over 15 years to help aerospace companies Boeing and Lockheed Martin land the Air Force contract for a new strategic bomber project.

SB 718: Allows for an estimated \$375 million to \$465 million in tax credits over 15 years to help prime contractors, such as aerospace company Northrop Grumman, land the Air Force contract.

Pending measures

AB 1839: Increases California's film and TV production tax credit to \$400 million, up from \$100 million, and extends it to 2019.

AB 816: Exempts from sales tax the donation of high-efficiency appliances to low-income customers.

AB 1560: Allocates another \$25 million annually to the California Competes tax credit program.

AB 1999: Creates an \$80 million annual tax credit for the rehabilitation of historic structures.

AB 2262: Changes the calculation of property tax on private railroad cars, costing about \$1.2 million.

AB 2434: Excludes from a person's gross income any water agency rebate they get for tearing out lawn, costing about \$1 million

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regulatory relief and tax breaks to lure the Tesla factory. With the Legislature scheduled to adjourn by Aug. 31, the public has yet to see any written proposal.

"They've already received a tremendous amount of tax benefits from the state," Wolk said of Tesla. "This is a single company and we have to be careful."

But Gaines said the state has to do as much as it can to win the gigafactory project. "We know there's competition from several other states," he said. "We just want to put our best foot forward."

Call Jim Miller, Bee Capitol Bureau, (916) 326-5521. Follow him on Twitter @jimmiller2.

Read more here: <http://www.sacbee.com/2014/08/22/6648235/tax-perk-bills-abound-in-legislatures.html#storylink=cpy>