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Governor Would Pile Levies on Tax-Wracked Businesses

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Gov. Jerry Brown's tax plan unveiled earlier this month amounts to yet another tax on businesses – businesses that make jobs and contribute to our state's long-term growth and competitiveness.

First, Brown went after California business owners by proposing a reduction in the tax credits that businesses had accumulated but were unable to use. Next, he suspended the use of net operating loss carryovers for all businesses and individuals with incomes over $300,000. Then he proposed a half-cent increase in the state sales tax and an additional 1 percent tax on individuals with incomes above $250,000 a year. California already has an additional 1 percent tax on an individual's income over $1 million. The official name of that tax is the Mental Health Services Tax, but its nickname is the "Additional Tax on Millionaires." This new proposed tax could be called the "Junior Millionaires" tax.

Or it could be called what it is: a tax on business. The fact is many business owners with loss carryovers and tax credit carryovers from prior years have only just started making a profit after suffering through the economic downturn. If the governor's tax plan becomes law, business owners will be hit with the double-edged sword of an increase in business and individual taxes.

Consider the following scenario: A California business owner has gone through several years of losses. He had state tax credits available but was unable to use them in the past because his business had no taxable income. He has net operating loss carryovers but is unable to use them because they have been suspended by the state. His business has carried these losses and credits forward to be used in the future when his business turns around and he begins to make a profit again.

Let's assume his business finally does well and has a profit and the owner is now once again able to earn a salary of $500,000. Under this scenario, the business would have to pay taxes at the corporate level because the California loss carryovers have been suspended and the tax credits that were to be used in the future got eliminated completely due to the governor's plan. In addition, the owner now has to pay an additional individual tax because his income is over $250,000 and subject to the new tax rates.

Tax increases like those Brown is proposing appear unfair to business owners and may ultimately cause them to leave California for one of the more tax-friendly states on our borders.

The governor's plan is a short-term budget fix that could end up backfiring in the long run if businesses and individual business owners begin to leave our state.

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