

## Written Statement of Douglas E. Barnhart For the Tax Reform Commission Workshop

I would certainly like to participate but will not be in California for the workshop dates.

California does not have a revenue problem in general but it does have a spending priority problem that is enhanced by the current tax structure. Its tax structure needs to be revised to reward job creation in the State as well as productive behavior.

Of the proposed changes that I am aware the elimination of the State corporate tax and the reduction of personal tax rates are the two I think would go the most good. The general rule in construction is that it is much easier for a firm headquartered in Nevada, Utah, Texas or Arizona to come west than a California firm to travel east. This is due to the California Corporate Tax structure which is the highest in the West. In addition, many construction firms hold an S-Corporation status. California levies a 1.5% Corporate Tax on S-Corporations in addition to the personal income tax paid by the company owners. It is a competitive disadvantage. The State needs to encourage firm ownership to remain in the State rather than operate from an out of state headquarters. In addition, the State needs to support California companies doing work outside of the state. At Barnhart most of the firms I competed against on large California projects were not headquartered in California. In fact some were foreign owned which was really disturbing when the project was funded by public money.

With regard to sales tax, it is not a problem for contractors in that they simply pass the cost on to the customer including the State and Federal government on public projects. In this regard it is really a question of ultimate cost for the final bill payer namely the public. I question in an era that has seen material shortages if the government should have to pay less for materials than the private sector. I believe such a dual policy would create a potential for abuse as materials can move from jobsite to jobsite. Some contractors do perform work on both public and private projects. In many ways the sales tax is a good way to obtain tax contributions from everyone as it is paid at the point of sale. It is very simple and difficult to avoid which works. As a counterpoint, I suspect that some firms purchase materials and equipment from outside the State and in doing so attempt to avoid paying sales tax. I guess if you eliminated the sales tax some of those orders potentially could go to California firms. There is a resale license that can be used to obtain sales tax credits but I know of very few construction firms that use the license which supports my basic point in that it is a pass thru tax. The resale license should be eliminated for construction firms in my opinion.

I do not know much about the proposed net receipt tax but on the surface does not appear to be a good solution for construction firms. General Contractors or at least Building Contractors subcontract at least 80% of the value of a project. It would appear that the net receipt tax would result in the double taxing of construction projects.

I do not know enough about the Net Receipts Tax to comment. I do not claim to have any specific knowledge regarding tax structures but I did create my company with 100% internal growth and have a very good idea of what it takes and how some take advantage of the System.