



August 25, 2009

Mr. Gerald Parsky, Chair
Commission on the 21st Century Economy
c/o State of California Department of Finance
915 L Street, 8th Floor
Sacramento, CA 95814

Dear Chairman Parsky:

The California Retailers Association appreciates the time and hard work the Commission on the 21st Century Economy has devoted over recent months to hearing and considering various issues concerning California's tax structure. We must, however, respectfully express our strong concerns and opposition to a business net receipts tax (BNRT).

Our concerns start with the BNRT rates being discussed. Rates ranging from 2.7% to 3.3% have been discussed. By comparison, Texas has different rates for different industries, with retailers subject to a rate of 0.5%. Assuming BNRT rates near 3.0% would mean retailers would pay combined taxes substantially in excess of what we pay now.

The BNRT also does not recognize or provide a deduction for the significant expenses represented by compensation and benefits. As a result, the tax will penalize California-based businesses that provide competitive wages and benefits, including health care. It would be ironic if the business tax structure in California would be changed to discourage employers from offering healthcare, while at the same time, the Legislature tries to mandate expansion of employer-based healthcare.

There are other concerns we have with the BNRT:

- How will this tax affect specific economic sectors – which industries will see their liabilities increase (relative to proposed tax cuts) and which will pay less? How will these changes affect these industries' inclinations to do business in California?
- How will the BNRT proposal affect California job creation and retention, since, in effect, it appears to be a tax on employees? Will the BNRT provide an incentive for businesses to reduce California payrolls, including for California headquarters, in favor of outsourcing or relocation?

- How will the BNRT affect California's competitiveness, specifically with respect to domestically-produced goods and services exported at a new higher price and with respect to those same goods and services offered at lower prices by other states and countries?
- Will the BNRT result in increased costs of doing business in California as it pushes up the cost of goods and services for vital California industries?

The California Retailers Association is a trade association representing major California department stores, mass merchandisers, supermarkets, chain drug and convenience stores, as well as specialty retailers such as auto, book and home improvement stores. Our members have more than 9,000 stores in California and account for more than \$100 billion in sales annually.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Dombrowski". The signature is written in a cursive, flowing style.

Bill Dombrowski
President & CEO