To: Governor Gavin Newsom
From: California Travel Industry Recovery Coalition
Date: April 9, 2020
RE: COVID-19 Business Stimulus Revised Recommendations

Dear Governor Newsom,

Thank you for your strong, decisive leadership during this unprecedented time. As you continue to make critical decisions to prepare California for the peak of COVID-19 and ensure we are able to meet this moment, we urge you to not lose sight of the economic hardships businesses are facing, especially those in the travel and tourism industry. Your administration has been very responsive and collaborative, and for that we are grateful, but more needs to be done to ensure California can recover from this catastrophe.

As a reminder, travel and tourism is one of California's most vital engines for economic growth. Prior to the stay at home orders, travelers injected hundreds of millions of dollars into communities across our state, infusing $145 billion into our economy in 2019. This spending generated $12.3 billion in local and state tax revenue and supported more than 1.2 million jobs for California workers. It is estimated that California will lose $54.5 billion in travel spending by the end of 2020, for an impact approximately seven times that of the 9/11 attacks.

All segments of travel have been impacted, not just leisure. The live events industry in California is an economic engine and job creator that generates over $20 billion in broad economic impact and over 1 million jobs, affecting every major metropolitan area in California. The meetings, conventions, fairs, and events this segment of industry delivers are critical supporters of local economies and a powerful driver of entertainment, travel, lodging, taxes, and retail revenue that is imperative to the recovery of the larger travel and tourism industry. Without targeted support to sustain and recover this industry, many California labor unions, small businesses, and communities reliant on events will face untold financial hardships for years to come.

People in travel and tourism are disproportionately being impacted by COVID-19 related furloughs and layoffs, accounting for a staggering percentage of the over 1 million Californians' filing for Unemployment Insurance. Though we previously outlined recovery ideas to help our businesses, employees, and communities survive this turbulent time, given the passage of the federal stimulus provided through the CARES Act, we have revised our list of suggestions.

Tourism Promotion Stimulus

Visit California drives inbound travel to the state (Visit California's programs delivered an additional $14.8 billion of visitor spending in California last year). A one-time emergency stimulus to fund a recovery campaign is the quickest method to revitalize communities across the state who are facing the potential loss of the Transient Occupancy Tax revenue base that provides vital funding for local services and sweeping losses among the industry's jobs base of approximately 1.2 million employees. As travel ceases, Visit California's visitor-funded program will be severely impacted and will not have the recommended funding level to promote a recovery campaign. A one-time emergency stimulus would enhance funding ($45 million recommended) for Visit California to assist in generating tourism revenues and the associated state and local tax revenues after the expiration of the State of Emergency.

In addition to Visit California's efforts, local destination marketing organizations help encourage travel to their communities. Emergency one-time funding is necessary to ensure travelers continue to visit California.

Employee Retention Credit

The CARES Act includes a refundable payroll tax credit equal to 50% of qualified wages paid by eligible employers to certain employees during the COVID-19 crisis to encourage businesses to keep workers on payroll. Qualified wages are limited to $10,000 per employee for all calendar quarters, for a maximum credit of $5,000 per employee. The credit is available to eligible employers whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel, or group meetings, or who have experienced at least a 50% reduction in gross receipts as compared to the same quarter in the prior year.

We would like a similar provision on the state level by providing a temporary business tax credit worth 40% of wages paid by a qualified employer to an employee, for a maximum credit of $2,400 per employee. A qualified employer would be defined as an employer primarily engaged in the business of food service, lodging, retail, automobile rentals, air transportation, amusement, entertainment, recreation, or accommodation for mass gatherings of people.

Payroll Tax Deferral

The CARES Act allows employers to defer payment of the 6.2% employer Social Security tax for the remainder of 2020, with 50% of such deferred tax due on December 31, 2021 and the remaining 50% due on December 31, 2022. We ask that a similar provision be enacted for state payroll-related taxes.

Net Operating Loss Carryback

The CARES Act provides for NOL relief for corporations. It allows taxpayers to carryback 2018, 2019, and/or 2020 net operating losses for five years. The NOL can fully offset prior years' taxable income and result in a refund. Taxpayers can elect not to utilize the NOL carryback provision for any or all years.

California businesses' expenditures are far exceeding revenues, creating net operating losses. Current California law allows businesses to carry back these losses for two years and/or forward to future years, and the NOL carry back is not limited. California should also allow the NOL carry back for five years.

There is also a provision for taxpayers other than corporations. It allows pass-through businesses and sole proprietors to retroactively turn off the excess active business loss limitation rule implemented with Tax Cuts and Jobs Act (TCJA), which prevented non-corporate taxpayers from deducting more than $250,000 ($500,000 for joint filers) of net business losses against other income, by amending the provision to apply to tax years beginning after December 31, 2020 (rather than December 31, 2017). California should also allow non-corporate taxpayers to retroactively turn off the deduction limitation on excess business losses implemented with Assembly Bill 91 by amending the provision to apply to tax years beginning after December 31, 2020, and further allow the disallowed portion of the business losses to be recharacterized as NOLs.

Business Interruption Insurance

Not all business interruption Insurance policies cover the COVID-19 pandemic. We either need changes mandating insurance companies assist or that state government support the insurance companies by having them approve restaurant COVID-19 related claims, with the state acting as the payment administrators. This proposal would increase the odds of a business surviving the calamity by providing operating cash flow more quickly than other incentives.

Temporary Travel Tax Credit

To encourage business and leisure travel spending once the threat of COVID-19 subsides, create a new tax credit to incentivize domestic business and leisure to travel within California within a specified time frame. The tax credit would be worth 50% of qualified travel expenses incurred in California from a time specified by public health officials through December 31, 2020. Qualified travel expenses include any expense over $50 that is incurred while traveling in California, away from home, with language to explicitly reference expenses related to meals, lodging, recreation, transportation, amusement or entertainment, business meetings or events, and fuel. The credit is not allowed if the taxpayer receives a refund for the expense within the taxable year or if the taxpayer is a dependent.

Refunds for Overpayments and Deferrals of Estimated Taxes

These refunds have been made available at the federal level primarily as a result of regulatory (Treasury or executive [IRS]) action. We encourage California to take similar actions to facilitate liquidity at this time. This should have limited budgetary impact on the state, as it typically involves cash flow that would reverse within a year.

Cal Competes (CC)

CC is a state tax credit program for small businesses in California. If a business applies and is chosen, it has the opportunity to receive state tax credits if it meets certain hiring and expenditure thresholds. It is safe to assume that most businesses will not meet their objectives in 2020. It would be helpful if the state relaxed the requirements for 2020 and extended the timeframe for the participating businesses to meet their objectives. Also, perhaps we could work with GO-Biz to explore opportunities to expand the program to include additional travel-related businesses.

Minimum Wage Relief

Under SB 3, the minimum wage is scheduled to increase $1 a year for three years for small businesses and a $1 a year for two years for larger businesses. When this crisis passes, hotel and lodging establishments will not be able to cover the costs of these increases. SB 3 creates so-called “off ramps” that allows the Governor to temporarily postpone increases if there are job losses — which we expect from all industries in the state.

We look forward to continuing the dialogue with your administration to find solutions that will bridge the gap between federal and state assistance in a way that will benefit all Californians and ensure we can bounce back once the threat of COVID-19 is neutralized.

Sincerely,

California Travel Recovery Coalition