The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers.

Date: April 8, 2020
To: Members, Assembly Human Services Committee
From: Peter Blocker, Vice President of Policy
Subject: OPPOSITION to AB 2712 (Low), as introduced on February 20, 2020

The California Taxpayers Association and the listed signatories are opposed to AB 2712, which intends to impose a 10 percent value-added tax (VAT) to finance a California universal basic income program.

CalTax and the coalition oppose this legislation for the following reasons:

**Imposes a Regressive Tax on Disadvantaged Californians.** A VAT is a consumption tax that is passed through to consumers, similar to sales tax. Therefore, it is a regressive tax that disproportionately burdens people with lower incomes. All consumers of all income levels pay the same tax on the same items, including many items that are necessities of daily life. Generally, a VAT is implemented by entire countries in lieu of a sales tax. Michigan is the only U.S. state with a VAT, and it is in lieu of a corporate tax. A VAT should be considered only if it would replace another tax, not add an additional tax burden, especially on the most vulnerable Californians.

**Costly Administration.** Although other countries have implemented a VAT, there would be issues if implemented in a single U.S. state due to interstate commerce and the inability to apply
the VAT to goods shipped into or out of the state. Administration of the tax by the California Department of Tax and Fee Administration would be difficult and costly.

The CDTFA, which does not have any experience administering a VAT, would have the responsibility of training personnel to implement and administer the tax. The agency would need to hire and train more personnel, specifically auditors and collectors, which would increase the cost to implement and decrease the anticipated revenue. Additionally, the CDTFA would need to administer guidance and educational programs to taxpayers, who would have many questions as they struggled to comply with a new form of tax in addition to existing tax burdens.

**Increases the Cost of Operating a Business in California.** Implementing a VAT would likely reduce retail spending, which would have a domino effect on jobs, as those businesses would have fewer resources to dedicate to retaining employees or expanding operations. Businesses at all levels will be burdened with additional recordkeeping and reporting responsibilities. Small businesses would be drastically affected since they would have less technical expertise and resources to administer the tax. In addition, businesses would be subject to yet another type of audit.

**Creates a Competitive Disadvantage for California Goods.** This tax would impact all California businesses and their ability to be competitive in the marketplace. California-based taxpayers would be forced to pay the VAT based on their consumption. As explained above, a typical VAT allows for a pass-through of these costs to the consumer, increasing the prices charged for the product. Taxpayers based in localities where a VAT is not imposed could charge lower prices for the same goods and services because they would not have to account for this additional tax or the associated compliance costs.

The imposition of a VAT in California could lead to unintended consequences, which may include more taxpayers leaving the state to remain competitive in a global marketplace where consumers highly value lower prices.

**Legislation is Premature, Given Ongoing Stockton Pilot Project.** The City of Stockton launched a universal basic income pilot project to evaluate how such a program will impact working Californians. Until the pilot project is complete and outcomes can be evaluated, this legislation is premature. Already, Stockton’s study has run into challenges when tracking how program participants utilize funding. Currently, nearly 40 percent of study participants withdraw cash, making the data collected from the study inconclusive. Nowhere in the world has universal basic income been conclusively tested or studied. Finland had a two-year test in place but opted to terminate the test early due to the limited guidelines required for people receiving monthly payments. Stockton is nine months into its 18-month, privately funded pilot project. As Finland and Stockton evaluate the universal basic income idea, California should allow time for collection of the data needed to completely understand the long-term effects of this type of program.

For these reasons, CalTax and the organizations listed below strongly oppose this legislation.

Sincerely,

California Taxpayers Association
California Attractions and Parks Association
California Bankers Association
California Building Industry Association
California Business Roundtable
California Fuels & Convenience Alliance
California Life Sciences Association
California Manufacturers & Technology Association
California Retailers Association
California Travel Association
Coalition of Small and Disabled Veterans
Family Business Association of California
Flasher Barricade Association
Fountain Valley Chamber of Commerce
Greater San Fernando Valley Chamber of Commerce
Kern County Taxpayers Association
Orange County Business Council
Orange County Taxpayers Association
Santa Maria Valley Chamber of Commerce
Solano County Taxpayers Association
Southwest California Legislative Council
Sutter County Taxpayers Association
Ventura County Taxpayers Association
Western Manufactured Housing Communities Association

cc: The Honorable Evan Low, California State Assembly