Promoting Capital Investment and Middle Class Jobs

Exempt Sales Tax on Capital Equipment Purchases | Phase in to prevent any revenue loss to the state

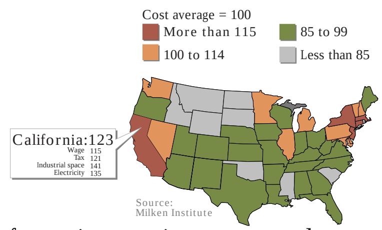
Exempt the state portion of the sales tax (5 cents) for purchases of machinery and equipment used in manufacturing and research & development beginning with purchases made in 2009. No exemption for local sales tax except as agreed by local authorities.

Exemptions granted pursuant to this section for purchases made on or after January 1, 2009, shall be postponed until after January 1 of the first fiscal year in which the state budget deficit is eliminated, but no later than January 1, 2013. The exemption shall be granted in the form of a refund of sales tax paid to the Franchise Tax Board. For qualified purchases made on or after January 1, 2013, the exemption would be currently available to the taxpayer.

Economic Recovery

We need new technologies to be invented and manufactured in California. We also need sustainable manufacturing processes atnd technologies for all industries to meet climate change goals. California can be at the forefront of research and development as well as manufacturing of new technologies if we have policies to support capital investments.

California manufacturers pay higher costs than rest of the nation



Since January 2001, California lost over 440,000 manufacturing jobs. These jobs represent quality middle class careers that have an average wage of sixty thousand dollars, provide for upward mobility and typically include health benefits. Manufacturers have the highest multiplier of any industry with networks of suppliers whose economic vitality have a direct and positive impact on the state's revenue.

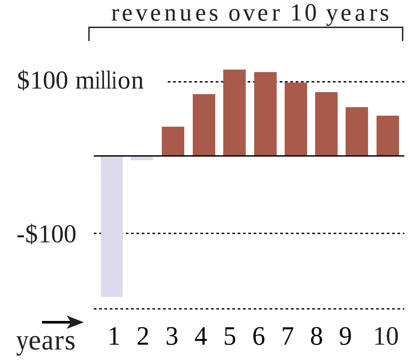
California is only 1 of 3 states in the US that taxes manufacturing equipment purchases with no credit or exemption. Most states recognize that taxing the input as well as the final manufactured product is double taxation and discourages investment. Current policy will mean less production in California -- out-of-state companies will elect to grow elsewhere and in-state companies will shift workers or facilities to other regions that do not burden capital investments with excess taxation.

Jobs & Revenue: Stimulus without Cost to State

This change in tax structure would create thousands of high-paying jobs in manufacturing and add thousands more in non-manufacturing sectors. California's manufacturing workers are paid an average of $25,000 more per year than service-sector employees. The economic multiplier effect of each manufacturing job is two and one-half, the highest of any job type. Ultimately, the loss in tax revenue is offset by additional revenue from higher economic activity.

By the fourth year after the policy change, a net revenue gain is realized. Proposed language delays taxpayer's ability to redeem sales tax credit for three years, allowing stimulus from purchases made within the three year period to fully materialize and offset the $2.4 billion cost over those three years.

5-cent sales tax exemption would create additional **$489 million** in state tax revenues over 10 years



Source:The Milken Institute

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