Another Voice

Another Voice: Finally, some good tax news for California businesses

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It isn't often that the phrase "good news" is used in relation to California business taxes, but a small slice was delivered recently. Now that more Californians are working – the truly great news for our families and communities – there will be a reduction in the employer taxes that fund the state's Unemployment Insurance program.

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As business owners know all too well, predicting economic cycles is next to impossible – and there are some major wildcards that make it especially difficult in California.

California's UI Fund went insolvent in January 2009, prompting the state to borrow $10 billion from the federal government to continue uninterrupted benefit payments to out-of-work Californians. Under federal law, when a state defaults on such a loan for two consecutive years, employers are on the hook to begin the repayment process.

To the surprise of no one, California defaulted on the loan in 2011, triggering higher federal employment taxes in the form of a Federal Unemployment Tax Act credit reduction. With the credit reduction, employers paid an additional tax of $21 per employee from 2011 to 2018.

This tax increase cost employers more than $9.5 billion from 2011 to 2018, according to figures from the California Employment Development Department.

That was the bad news. The good news, the EDD said in its latest UI Fund update, is that no credit reduction is forecast for 2019 "as California is not expected to have an outstanding loan balance."

The fund regained a positive balance in April, and the EDD forecasts a $2.1 billion balance when this year ends. The balance is projected to increase to $2.6 billion by the end of 2019 and $3 billion by the end of 2020, assuming there is no economic downturn that sends Californians back into the unemployment lines.

"However, if changes are not made to the current financing structure, the UI Fund may not maintain a balance high enough to withstand an economic downturn," the EDD warns.

As business owners know all too well, predicting economic cycles is next to impossible – and there are some major wildcards that make it especially difficult in California. Exhibit A: the split-roll property tax initiative slated to appear on the November 2020 ballot. If this major tax on employers is approved by voters, it will hit the economy hard by driving up consumer prices and increasing unemployment.

Will California impose a $49 billion-per-year tax on services used by businesses? Will the state approve a single-payer health care plan that would come with a price tag of at least $200 billion per year? After voters approved more than 280 local taxes and bonds in the November election, will local governments continue loading the ballot with more tax increases, or have we reached a saturation point?

These are just some of the issues that would increase unemployment by increasing the cost of living and encouraging more California businesses to pack up and move to states with better tax climates (there are 48 such states to choose from, according to the Washington, D.C.-based Tax Foundation).

Thankfully, these problems are not inevitable. If business owners stay actively engaged with elected officials and potential voters, they can stave off the threats to employment and pave the way for more good news for workers and employers alike.

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