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Opinion: New tax policy will help biotech companies to thrive in California

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Special to the Mercury News
Posted: 06/18/2009 08:00:00 PM PDT

A red herring of whopper proportions is being perpetrated in the current budget debate. An effort led by organized labor, and endorsed by the Mercury News in a June 14 editorial, falsely pits certain tax reforms enacted in February against deep cuts in programs and services under the banner of fairness.

At the top of the target list is California's sole tool to attract and retain new investments from life-sciences companies — the single sales factor tax apportionment. The reform adopts the approach of 22 other states to tax corporations based on in-state sales, rather than facilities and jobs, to remove the current disincentive to invest in facilities here.

Here's the problem with targeting this reform.

State Controller John Chiang says California will be out of cash by the end of June. Lawmakers are grappling with a $24 billion gap for the 2009-10 budget year. But the sales tax reform does not take effect until 2011. Its repeal would do nothing to close the budget deficit this year.

Rather, it would resurrect a failed tax policy that penalized companies for growth and job creation in the world's largest life-sciences cluster. Taking this backward step also threatens the development of promising new treatments and cures.

There are two other problems with criticisms of this reform.

First, it's difficult to understand how its repeal equates to budget "fairness." In the last two budget agreements, California businesses have been saddled with more than $10 billion in new or increased taxes.

This compounds the fact that California already has one of the highest corporate tax rates in the country and the highest in the West. The Tax Foundation consistently ranks its business tax climate near the worst.

The second problem is that critics only want to talk about one side of the financial impact. They point to an analysis by the Franchise Tax Board that estimates a reduction in corporate tax revenue.

But the board conducts only static estimates of tax policy, meaning it won't evaluate the positive impact on new jobs and higher personal income tax receipts or new facilities and higher property tax revenue.

Numerous studies, including an analysis in New York conducted by President Barack Obama's Economic Recovery Advisory Board director Austan Goolsbee, have borne out that switching to the single sales factor increases jobs and personal income tax.

Critics also want people to believe that this is a tool only for the largest corporations. In the life-sciences sector, there are many small and mid-size companies that view this reform as a strong signal that when they advance to late-stage trials and manufacturing, California won't penalize them for locating new jobs and facilities here.

The question isn't whether the reform will create precisely 32,000 new jobs by 2015, as some analysts predict. It's whether California, with double-digit unemployment, should do whatever it can to compete aggressively for jobs. The more states that adopt this tax strategy, the less competitive California has become for business investments.

Personal income tax provides the majority of our state revenue. California will never be able to pay for vital services, or recover from this recession, if we can't recruit and retain a strong job base. Single sales factor tax apportionment is a time-tested reform that is targeted squarely at doing both.

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