

ABX3 27 AND AB 178 – OPPOSITION FACT SHEET

Threat to California Technology Sector Jobs and Harms California Online Marketplaces, E-Commerce Companies, Nonprofits, Many Others

What the Bills Do:

ABX3 27 AND AB 178 are nearly identical. Out-of-state online retailers would have to start collecting sales tax on CA Internet purchases if they use a CA online marketplace or pay to have a banner ad or “click-through” on a CA website, from which referrals generate more than \$10,000 in sales.

Harmful Impact on California Companies:

ABX3 27 AND AB 178 could result in fewer overall CA tax revenues because of harm to highly-coveted CA-located technology sector and e-commerce companies and jobs:

Out-of-state competitor companies and other states may benefit most:

- Out-of-state retailers will have strong motivation to seek out online marketplaces and web-service companies located in *other* states in order to avoid collecting CA tax.
- Only one other state, New York, has adopted a similar nexus law. That means there are many other states from which to choose if CA adopts this law.
- In the e-commerce world, online marketplace companies in competitor states and countries, unheard of today, can quickly surge and become major companies overnight.

Could mean fewer CA tax revenues from income, property, sales and use taxes:

- Within a small sampling of companies – these bills could result in over \$1 billion in estimated revenue losses and over 16,000 estimated lost CA jobs. CA tax revenues from income, property, and sales would correspondingly diminish.
- CA could also lose tax revenues as valuable highly-mobile e-commerce jobs and operations are transferred to other states, simply by moving servers.

Just because New York is doing it, doesn't mean it's good for California:

- ABX3 27 and AB 178 propose a nearly identical law adopted by NY last year. However, CA's technology sector footprint is approaching 2 to 3 times the size of NY's (2006, latest avail. data). CA has far more to lose than most other states from proposals that harm e-commerce.

| | New York | California |
|-----------------------|-----------------|-------------------|
| Jobs | 301,500 | 940,000 |
| Establishments | 17,663 | 43,424 |
| Payroll | \$24.4 billion | \$95.2 billion |
| Private Sector | 4.3% of workers | 7.2% of workers |

CA consumers could see free web-services and useful online resources disappear:

- Today, consumers benefit from free web resources, such as health information, blogs, social networks, and e-mail. These websites often survive through banner ads and click-through programs, which would be discouraged under ABX3 27 and AB 178.
- A major Internet retailer terminated all of its “click-through” arrangements in NY, almost immediately after NY adopted a similar law.

Chills CA's leadership in e-commerce and growth of new e-commerce:

- Currently, e-commerce as percent of total US commerce is only about 3% according to the US Census Bureau. E-commerce brings high-paying jobs, major economic benefits, and significant tax revenue to the Golden State. Erecting fences on the Internet could chill needed growth of one of CA's best economic engines.
- Helps small companies get their start: E-commerce enables thousands of CA entrepreneurs to get their start. It is estimated more than 50,000 websites are launched per week. Many small companies are 100% web-based and depend on banner advertisements and click-throughs for income.
- Helps small companies compete with big companies: CA brick and mortar businesses, such as independent booksellers, benefit from being able to sell products online to an expansive customer base, national and global. This helps them to compete with large chain stores on a scale never before possible.