



Grover G. Norquist

President

August 24, 2004

The Honorable Arnold Schwarzenegger
State Capitol Building
Sacramento, CA 95814

Dear Gov. Schwarzenegger,

I am writing to you on behalf of the more than 10,000 California members of Americans for Tax Reform, and all California taxpayers, to urge you to delay the adoption by the Franchise Tax Board of the “Return Free Tax System” for income tax collection. The proposal could have long term negative effects on California businesses and families, yet it is being rushed through with little debate. A vote of the Franchise Tax Board is scheduled for tomorrow, August 25.

The proposed “Return Free” system would allow California taxpayers to file electronically, saving taxpayers and the state money. In addition, it would allow the state to compute individuals’ income tax liability, in an effort to reduce complexity to taxpayers.

However laudable these goals are, the details of their proposed implementation would hurt the people of California. As written, the plan would empower the state at the expense of the people, would encourage taxes to rise over time, and would set up the state as a competitor to legitimate private businesses.

Giving the state the responsibility to compute tax liability for individuals takes away one of the key taxpayer rights – the right to make financial decisions to reduce one’s tax burden and to claim every deduction allowable. Tax payers will be reluctant to challenge the state-approved tax liability, and the state will have an incentive to collect more money by minimizing legitimate deductions and exemptions.

The proposal would also make tax increases more likely in the future. Income taxes are already largely hidden by the withholding system. Filling out quarterly or yearly tax returns is often the only time taxpayers really see how much they pay. By eliminating this step in the process, income taxes become almost invisible, and there will be less opposition to tax increases and less support for tax reform.

Finally, the proposal would set up the state of California as a competitor to legitimate, established businesses. Tax preparation businesses currently help taxpayers comply with the law and minimize tax liability, while countless computer software products do the same and allow electronic filing of returns. Letting the state offer similar services for free sets up the state as a predatory competitor to these businesses.

The Internal Revenue Service, as well as other state revenue agencies, have considered and rejected plans similar to California's. Instead, the IRS and the others decided to work in cooperation – not competition – with private companies. Agreements were made to provide simplified, on-line returns with e-filing, free of charge to low income people and others, using existing private products.

The vote of the Franchise Tax Board will affect the jobs and the pocketbooks of countless Californians. I urge you to intervene with the board, and ask them to delay action. Superior alternatives exist to meet the stated goals without empowering bureaucrats, raising taxes, or driving private companies out of business.

Sincerely,

A handwritten signature in black ink, appearing to read 'G. Norquist', written in a cursive style.

Grover Norquist