May 9, 2018

The Honorable Anthony Rendon
State Capitol, Room 219
Sacramento, CA 95814

RE: AB 2731 (Gipson) -- Tax Increase Aimed at Capital Investment -- OPPOSE

Dear Mr. Speaker:

On behalf of the American Investment Council ("AIC"), I am writing to respectfully oppose AB 2731 (Gipson), which represents a massive tax increase that will drive financial services businesses and their high-paying jobs out of California. This bill will also discourage risk capital that fuels many leading industries in the state.

The AIC is an advocacy, communications, and research organization established to advance access to capital, job creation, retirement security, innovation, and economic growth by promoting responsible long-term investment. Our members are the world's leading private equity and growth capital firms united by their commitment to growing and strengthening the businesses in which they invest. If AB 2731 moves forward, it will discourage our members, as well as investors throughout private equity and venture capital, investing in California jobs, industries, and workers.

Specifically, this bill will add a 17% surtax on top of the current ordinary state income tax for carried interest capital gains. AB 2731 is a punitive tax against returns on investment made by venture capital firms, private equity firms and hedge funds. Carried interest is a capital gain earned only by those investment partners who succeed in delivering substantial returns to their limited partner investors, who include state pension funds. It does not warrant such punitive and discriminatory treatment. Under California law, carried interest capital gains is already taxed the same as ordinary income and taxed at California's highest-in-the-nation rate.

California benefits enormously by having significant private equity and venture capital firms and their investments throughout the state. In 2016 alone, California received the second most private equity investment of any state with $77.16 billion invested in 522 companies.

AB 2731 will put these same private equity firms, venture capital funds, hedge funds, and other investment funds in California at a competitive disadvantage with their out-of-state rivals and these in-state firms will be forced to leave in order to remain competitive. If passed, California will be uncompetitive with New York, Nevada, Texas, and other states in the battle for top-quality investment talent. California's investment firms have been an integral part of California's economic success. However, these firms and their managers

799 9th Street NW, Suite 200, Washington, DC 20001 202.465.7700 @AmericanInvests investmentcouncil.org

do not have to be located in California, nor do they have to invest in California businesses.

AB 2731 will result in a 30.3% income tax rate on carried interest in California – a tax rate borne by no other category of income earned by any California worker. Tech sector hubs like Seattle, Washington and Austin, Texas have no income tax. The consequences of AB 2731 are that California-based funds will suffer under this measure making these firms unable to compete with firms based outside the state. A significant number of financial services businesses – and their high-paying jobs – will leave California. This will shrink the tax base, produce less growth and revenue, and threaten California's tech and bio-tech sectors.

We believe strongly that not only would California not receive the $500 million to $1 billion in additional revenue the proponents of the bill predict, but also the state will lose the substantial tax revenue those individuals are now paying.

Finally, AB 2731 represents bad fiscal policy that will create an even greater reliance on high income filers which will result in greater volatility in California's tax base. The Franchise Tax Board recently released data illustrating the state's unhealthy reliance on high-income earners. In 2016, the top 1 percent paid 45.8 percent of the state income tax revenue while accounting for 23.1 percent of the personal income. This measure loads an ever-greater tax burden on a small segment of the taxpayers — one that is sophisticated and highly mobile.

The American Investment Council submits that it is counter-productive for California to impose a punitive tax on carried interest and we urge you to reject AB 2731.

Respectfully submitted,

Jason Mulvihill
General Counsel
American Investment Council

cc: Members of the California State Assembly