

# GOVERNMENT AFFAIRS WATCHDOG

## DIGITAL DOWNLOAD TAX STALLS

An Assembly committee stopped one of two printing industry opposed bills that would hurt consumers and the economy resulting in taxes on items never taxed before, such as downloadable digital products.

The bills, AB 1840 and 1956, place a new tax on digital products and are written in a way designed to avoid the requirement that new taxes be subject to a two-thirds vote of the Legislature.

AB 1956 failed to pass the Assembly Revenue and Taxation Committee, while AB 1840 passed the committee on a party line vote on April 14.

Because of the business-hindering factors in the legislation, a growing list of more than 240 organizations and companies joined together in opposing the proposed "digital" tax bills.

AB 1956 would have imposed an expansive, unprecedented new Internet tax on Californians who purchased digital media and who transferred and sold digital work, including prepress transfer of electronic files.

AB 1956 avoided the Proposition 13 requirement for new taxes to be approved by a two-thirds vote by ordering the state Board of Equalization to draft a new regulation to tax digital media without providing the necessary underlying statutory authority. Further, the bill attempted to establish that there is existing authority to tax digital media as "tangible" products by manipulating and stretching terminology in current statutes that provide for sales and use tax.

## NEW TAX RATES

Four cities have approved new tax rates that are effective July 1, 2008. The new rates apply only within each city's incorporated limits. The tax rates outside the incorporated city limits will remain the same.

### City of El Cerrito 8.75%

The City of El Cerrito, located in Contra Costa County, approved a 0.50% City of El Cerrito Street Improvements Transactions and Use Tax, which will increase the tax rate within city limits to 8.75% from 8.25%.

### City of Reedley 8.475%

The City of Reedley, located in Fresno County, approved a 0.50% City of Reedley Public Safety Transactions and Use Tax, which will increase the tax rate within city limits to 8.475% from 7.975%.

### City of Sanger 8.725%

The City of Sanger, located in Fresno County, approved a 0.75% City of Sanger Public Safety Transactions and Use Tax, which will increase the tax rate within the city limits to 8.725% from 7.975%.

### City of Seaside 8.25%

The City of Seaside, located in Monterey County, approved a 1.00% City of Seaside Transactions and Use Tax, which will increase the tax rate within the city limits to 8.25% from 7.25%.

AB 1840 still leaves a door open to tax small online retailers and Internet service companies that sell products to Californians via the Internet.

## NEW TALK ABOUT SERVICE TAXES

As news surrounding California's current budget situation becomes more and more dismal, talks about new service taxes have resurfaced. Specific services such as movie admissions and health club memberships were mentioned in a letter that Board of Equalization Chair Judy Chu wrote to several key legislators last week. Chum's letter estimated that as much as \$2.7 billion in tax revenue could be collected if California taxed services that other states already do.

In addition, Senate President Pro Tem Don Perata (D-Oakland) has proposed that services such as dry cleaning, tech support and consulting have a service tax applied to them. Both Perata and the soon-to-be-replaced Assembly Speaker Fabian Nunez (D-Los Angeles) both support the implementation of new service taxes.

## CHOCOLATE TAX

Last year an article entitled "Why Is Buying Hot Chocolate So Confusing?" appeared in a tax journal. If you think sales tax is confusing on print, wait until you try to decipher the Board of Equalization's chocolate memo at [http://www.test.boe.ca.gov/leonard/info/hot\\_chocolate.pdf](http://www.test.boe.ca.gov/leonard/info/hot_chocolate.pdf).



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## WORKERS' COMP ROLLBACK

The Senate Labor and Industrial Relations passed along two bills that would weaken the Workers' Compensation reforms established in 2004. SB 1338 (Carole Migden, D-San Francisco) would eliminate the sunset on a provision that currently allows for employees to pre-designate their physicians for work injuries and SB 1717 (Don Perata) would arbitrarily double the permanent disability (PD) benefits.

The pre-designation of physicians' clause is set to sunset on December 31 of 2009; however, the proponents of the bill believe that there is no longer a need for the sunset and that this provision should be implemented permanently. Opponents, PIC among them, point to when the sunset was first put in place. The Division of Workers' Compensation (DWC) was directed to evaluate the use of this provision and its overall impact on the system. DWC has yet to conduct this evaluation. Committee consultants analyzing SB 1338 say that DWC lacks the resources to start the evaluation.

In the past, employers in general have not objected to employees pre-designating their primary treating physician. However, employers are concerned with the ability for a pre-designated physician to make a referral outside of the employer's Medical Provider Network (MPN) – even if the MPN has appropriate specialists available. This means that any referrals for physical therapy, chiropractic care, diagnostic testing, and more could be done outside of the MPN, side-stepping cost controls.

At the hearing, business groups argued that further study was needed before the Legislature eliminates the sunset; nevertheless, the bill passed 3-1.

The other workers' compensation bill, SB 1717, regarding permanent disability, also passed the committee along party lines even though DWC is currently evaluating all relevant data and holding meetings with stakeholders. The bill would automatically create a 50 percent increase in PD benefits across the board. In addition, amendments to the bill were taken to reinstate the 15 percent increase to PD benefits if an employer fails to provide an

## U.S. FORESTS

Information from the United States Forest Service continues to show that we have about the same amount of forestland in the United States today as we did 100 years ago, as cited on *mailmovesamerica.com*.

Here are some compelling facts:

- U.S. forests cover nearly 750 million acres or one-third of our entire land base.
- We've added more than 10 million acres of forestland in the last 20 years.
- And the standing inventory – the volume of growing stock – of hardwood and softwood tree species in U.S. forests grew by nearly 50 percent since 1953.
- All of this is true thanks to the impressive efforts of Mother Nature, as well as to the environmental stewardship of our paper industry, which devotes great attention to managing our forests responsibly.

Moreover, it's not just the U.S. Forest Service data making this case.

According to the National Academy of Sciences, in a report issued in November 2006, the United States is one of the world's leaders in forest growth, continuing to show gains in forestland for the past 15 years.

According to the Food and Agriculture Organization of the United Nations,

- The region's forest resources remain abundant.
- Further, the United States has about 150 million acres of forestland designated primarily for conservation, accounting for 75 percent of the total designated in all of North America (Canada, Mexico & U.S.).
- Forestland in the United States designated primarily for conservation has increased over 4.5 million acres since 2000.

Along with the conversion of prior agricultural land to forestland, some 4 million tree seedlings are planted each day. Of this amount, the wood and paper products industry plants 1.7 million every day, more than making up for what is harvested.

employee with an offer to return to work for at least 12 months.

Both of these bills will increase the cost of Workers' Compensation and weaken the reforms.

## NEW POSTAL INCREASE

As promised, the U.S. Postal Service increased mailing costs for First Class letters from 41 cents to 42 cents. Periodical rates for newspapers are increasing about 2.9 percent on average.

One major way to save money is to fold all of your First Class flats to fit into letter-size envelopes. Remember that any mail piece that exceeds the letter size must be mailed at flat rates that are 98 percent more to mail than if you just folded the flat and mailed the piece out at First Class letter rates.

Monitor how many flats your newspaper is mailing, and you'll see that this adds

up to real money quickly. (The piece must be less than a quarter of an inch thick and weigh less than 3.5 oz. to still qualify as a letter piece.) Is your mailing process optimized?

Many are not aware of the recent changes within the U.S. Postal service.

A new federal law mandates that the mail service must act more like a private company by showing profits. Also, it has not and will not receive government subsidization.

This makes competition tough for the Postal Service, since the cost of gas continues to rise. With each penny increase in the cost of gas, it costs the U.S. Postal Service 800 million dollars more in fuel expenses a year.

To keep up, the service must make increases in the rate of sending some packages and in the price of stamps.