



## **A Welcome Gift for California Job Creators: California's Security Deposit Shakedown is Over**

By George Runner

It's no secret that starting a new business in California is tough. With our high tax rates and hostile regulations, we are consistently ranked one of the worst states in which to do business and create jobs.

For years the California State Board of Equalization has been making this problem worse by demanding security deposits from all new California corporations and LLCs. The required security typically equals half a year's worth of estimated taxes and ranges from \$2,000 to \$50,000 per company. This "shake-down" effectively penalizes new business owners before they can get their business up and running, make their first sale or owe any tax.

Most states do not impose automatic security requirements. In fact, California's requirements have been among the most sweeping in the nation, catching many new business owners by surprise.

It's challenging enough starting a new business in California. Forcing new business owners to turn over up to \$50,000 of their money does nothing to help them succeed, nor has it proven cost-effective in protecting the state from unpaid taxes.

Since being elected to Board of Equalization three years ago, ending this onerous practice has been my top priority. That's why I am pleased to announce that on December 17, my colleagues and I voted to eliminate these burdensome security requirements for nearly all new businesses.

The Board's action immediately suspends automatic security requirements for corporations and LLCs registering with BOE. Going forward, the Board will require security only when a business has a history of non-payment or poses a high compliance risk.

In addition the Board will review and release much of the security currently held in the form of cash and liquid deposits, surety bonds and personal guarantees. BOE staff expects to begin releasing deposits to business owners in February 2014.

This is welcome holiday news for thousands of California small businesses. The state currently holds security belonging to more than 15,000 taxpayers and valued at nearly \$300 million. We expect more than half of this amount will be released to taxpayers, boosting California's economy and jobs.

Or as National Federation of Independent Business/California Executive Director John Kabateck puts it: "This money is capital that is desperately needed to help new businesses stay solvent and grow, but California was choosing to penalize businesses before taxes were even owed. Now those small businesses can focus on what is critically needed in this state—creating jobs for the nearly two million unemployed."

CalChamber policy advocate Jennifer Barrera agrees, stating: "This is a good, common sense policy that allows California businesses to invest revenue into expanding their workforce rather than having the BOE hold it for tax liabilities that may never occur."

Of the nearly \$300 million in security on deposit with the state, more than \$67 million is held in the form of cash and other liquid deposits, like certificates of deposit. The remaining \$228 million consist of surety bonds and personal guarantees.

These released funds will provide hardworking taxpayers with much needed additional capital to spend on their businesses and reinvest in the economy.

This new policy is a step in the right direction for California's business climate, and is a fitting gift for thousands of hardworking California small business owners and entrepreneurs this holiday season.

*George Runner represents more than nine million Californians as a taxpayer advocate and elected member of the State Board of Equalization. For more information, visit [boe.ca.gov/Runner](http://boe.ca.gov/Runner).*