

Calif. stands to reap windfall from Facebook IPO

January 12 2012, By JUDY LIN , Associated Press



California's nonpartisan Legislative Analyst Mac Taylor displays a copy of his office's review of Gov. Jerry Brown's proposed \$92.6 billion 2012-13 state budget as he discusses the report during a news conference in Sacramento, Calif., Wednesday, Jan. 10, 2012. Overall Taylor's office expects less tax revenue in the coming year than the governor's estimates, possibly requiring deeper spending cuts.(AP Photo/Rich Pedroncelli)

What's good for Facebook and its employees could be very good for California's treasury.

If the Palo Alto company goes public this year, as many have speculated, the state stands to reap hundreds of millions of dollars in capital gains taxes from [Facebook](#) investors and employees profiting from stock sales.

That could bring a much-needed windfall to a state government facing a \$9.2 billion deficit.

In calculating how much revenue the state can expect in the next year or so, the nonpartisan Legislative Analyst's Office this week released a report that considered historical income trends but also budgeted for a revenue bump on the assumption that Facebook and some other California companies will go public.

An initial public offering from the Silicon Valley [social networking](#) giant is the most anticipated, with the legislative analyst saying the company could issue \$10 billion worth of stock. California taxes the capital gains from stock sales.

"In the coming months, the state's revenue forecast will need to be adjusted somewhat to account for the possibility of hundreds of millions of dollars of additional revenues related to the Facebook IPO," Legislative Analyst Mac Taylor wrote in the analysis of Gov. Jerry Brown's [budget proposal](#), released Wednesday.

Taylor cautioned that the performance of the overall [stock market](#) could play a larger role than any single [initial public offering](#), no matter how successful, depending on whether the market has an unusually strong or weak year.

"We caution that it will be impossible to forecast IPO-related state revenues with any precision, and it is likely that little information about the state revenue gain from the Facebook IPO will be available before investors file tax returns in April 2013," the report stated in a section titled "The Facebook Effect."

The Brown administration did not calculate higher revenue based on the assumption that Facebook will go public, said Brown's finance

spokesman, H.D. Palmer. But the Democratic governor is counting on a prosperous year for the wealthiest California residents, estimating \$56 billion in personal income taxes for the fiscal year that starts July 1.

The legislative analyst has a lower projection, estimating the state will raise \$53.1 billion from personal incomes taxes in that same period. The wealthy are essential to funding California state government: The top 1 percent of income earners pay about 40 percent of all income tax, the dominant source for the state's general fund.

California, whose budget revenue slides up and down with changes in capital gains and stock options, has in years past benefited from outsized income tax filings from a handful of tech executives to help balance its budget.

Last decade, the state had Google Inc. to thank.

Mega-sized tax filings from Google executives began flowing into state coffers in 2006, two years after the company went public. The receipts helped fuel a tax windfall that allowed former Gov. Arnold Schwarzenegger to pour money into roads, classrooms and other popular programs, pleasing political enemies and helping smooth his path to re-election.

After cashing in more than 9 million shares valued at \$3.7 billion that year, 16 Google insiders owed the state as much as \$380 million in taxes. At the time, that was enough to cover the salaries of more than 3,000 state workers.

In addition to paying California's 9.3 percent capital gains tax, the state's millionaires pay an additional 1 percent income tax to underwrite mental health programs, the result of a voter approved ballot initiative.

Taylor, California's legislative analyst, said a Facebook offering could be four times as large as Google's IPO, making it the largest public offering ever by a California company. Google's closing market capitalization in its first day of public trading in 2004 was \$27 billion. There has been widespread speculation that Facebook's IPO might value the company at more than \$100 billion.

"It could have a significant effect," Taylor told reporters Wednesday.

Facebook declined comment.

"As is our typical practice, we just don't get into speculation about an IPO," according to an email statement to The Associated Press from the public relations firm representing Facebook.

Gadi Behar, a venture capitalist in [Silicon Valley](#), said the impacts of a potential Facebook IPO might not be felt for a couple of years.

"Once it goes public, they can't sell the shares right away, so it will take a while for the money to be released," said Behar, the founding director of Los Altos-based Silicom Ventures, a venture capital investment forum that provides funding to high tech start-up s.

"But from an investment perspective, I can see that people are more eager to invest in startups when a company like that goes public. It does have some kind of impact."

Based on his contacts at Facebook, Behar said he thought the company could go public within two months, but he said he could not be certain about a specific timeline.

©2012 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Calif. stands to reap windfall from Facebook IPO (2012, January 12) retrieved 25 April 2024 from <https://phys.org/news/2012-01-calif-reap-windfall-facebook-ipo.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.