

Facebook windfall to help California fill budget hole

May 18 2012, by Michael Thurston

Facebook's initial public offering will make lots of its staff in California rich -- and should therefore help the perennially cash-strapped state fill a whopping \$16 billion budget hole.

According to official estimates, the record-setting IPO Friday will make a windfall of some \$2.1 billion dollars for California, whose governor just this week proposed a series of spending cuts to help cut its deficit.

The extra revenues will come from taxes on various forms of income linked to the market launch of the social [media giant](#), based in Menlo Park, south of San Francisco, said the state's Legislative Analyst's Office.

"The bulk of income that will be attributable to Californians due to the IPO will be classified as a type of wage income, although there likely will be substantial capital gains activity as well," it added in a study this week.

"The IPO will result in a [market capitalization](#) approaching or even exceeding \$100 billion and well over \$10 billion of income will be generated for California residents," it added.

Even better, while much of the extra revenues will come from Facebook's 3,500-plus staff and other California residents paying extra taxes, a reduction in corporate taxes the company has to pay will mostly impact elsewhere.

"The Facebook IPO apparently will generate significant [tax deductions](#) for the company, which will effectively reduce federal [tax](#) revenues and [tax revenues](#) in various states below what they otherwise would be," it said.

"Facebook's state tax obligations, however, are spread across the entire country. This means that while California will receive the vast majority of state personal income taxes resulting from the IPO (as most [Facebook](#) employees appear ..to be California taxpayers), only a small portion of corporate tax losses related to the IPO are likely to be attributed to California," it said.

It is not the first time that California, which would have the world's eighth largest economy if it were a country, has benefited from Silicon Valley windfalls.

Search giant Google's IPO in 2004 led to extra tax revenues estimated at \$7 billion over the following three years -- very welcome, in particular after the financial devastation left by the tech bubble bursting a few years earlier.

California governor Jerry Brown on Monday proposed a swathe of spending cuts, including shutting down state offices one day a week, as well as tax rises to curb an estimated \$16 billion budget deficit.

His updated draft budget included proposed cuts in Medi-Cal, the state's healthcare program for the poor. Schools and universities could also be hit, as could other services like lifeguards at public beaches, he said.

Last year California adopted its budget on time for the first time in years. Brown's predecessor, Republican Arnold Schwarzenegger, introduced several tax measures with which he hoped to cut into the state's colossal deficit, at one point valued at \$25 billion.

In 2009, a budget crisis pushed California to the brink of bankruptcy, sending its credit rating plunging and forcing it to pay bills with IOUs.

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