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entrepreneurs launch their own businesses.

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Twenty years ago, state lawmakers passed a tax break aimed at helping California entrepreneurs launch their own businesses.

But last year, after a state court of appeal decided the small-business tax incentives were unconstitutional, the state Franchise Tax Board figured it had only one option: retroactively collect an estimated \$120 million from hundreds of Californians who took advantage of the tax breaks.

In some cases, the surprise tax notices mean back taxes of \$60,000 to \$100,000, or more.

That's stirred up a bipartisan effort — by state Sen. Ted Lieu, D-Torrance, and Assemblyman Jeff Gorell, R-Camarillo — to stop what they call the FTB's unfair retroactive tax bills.

Amid a continuing chorus of critics who deride California as unfriendly to business, the two lawmakers said Wednesday they've co-authored measures that would unwind the FTB's retroactive tax bills and prevent similar situations.

“We want California to be an incubator for small businesses to ... become big businesses that supply jobs. The actions of the (FTB) bureaucracy undermine our desire to send that message,” said Gorell, who is vice chairman of the Assembly Budget Committee.

Lieu said it's wrong to penalize taxpayers who reasonably relied on state law. “It's critical, not just for individual taxpayers, but for the state's future business climate.”

SB 209 would eliminate the retroactive tax payments; AB 1203 would prohibit state

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Under a California tax law, passed in 1993, business owners and investors could exclude on their income taxes 50 percent of capital gains for stock in small companies — those valued below \$50 million — that have at least 80 percent of their employees and assets within California.

Those provisions didn't get past the state's 2nd District Court of Appeal, which ruled last August that California's QSBS tax treatment violated U.S. interstate commerce laws. That means the state's law is invalid going forward. A similar federal incentive is not affected.

Due to a statute of limitations, the FTB's retroactive tax applies only to those who claimed the QSBS credits in the 2008 tax year or later.

In a conference call Wednesday with reporters, Bay Area entrepreneur Mark Edwards said he started a small biotech-related company in the mid-1990s as the sole owner and shareholder. In 2008, after the company had grown to 25 employees, he sold it to launch a new venture.

Two months ago, Edwards said he got an unexpected notice of back taxes due, based on using the QSBS credits. He declined to state the exact amount owed, but said it was "very large."

"My frustration is that it really makes me question whether I can trust California tax policy going forward," said Edwards. "The rules can seemingly be changed at will."

While saying it has no choice but to enforce the tax collection, the FTB also appears to be inviting California lawmakers to act.

The FTB "has no discretion" to eliminate the tax burden, but the Legislature "is not similarly constrained," the FTB says on its website. "The Legislature may wish to consider corrective actions to provide relief to adversely impacted taxpayers."

Although some tax notices for 2008 have already been issued, the FTB said taxpayers

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