

California Proposes New Law To Deal With Underground Economy

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California Senate Bill 1185 (SB 1185) is a new effort aimed at the underground economy in the State, estimated to be valued at between \$60 billion and \$140 billion each year. Underground transactions prevent the State from collecting tax revenue and also expose consumers and businesses to counterfeit or illegal goods.

The underground economy includes, among other things, “pirated movies and music, counterfeit pharmaceuticals and untaxed tobacco and alcohol”. [[VICA](#)]

The proposed Bill establishes a pilot project, until January 1, 2018, under which various state entities create a Centralized Intelligence Partnership to combat illegal underground operations and also authorizes members of the partnership to exchange information for that purpose. [[Legislative Counsel’s Digest](#)]

As such, the primary focus of the Bill is to institutionalize collaboration among state agencies in dealing with the problem.

Specifically, the partnership, along with other state agencies that participate in an advisory capacity, are authorized to “exchange intelligence, data, documents, information, complaints, or lead referrals for the purpose of investigating illegal underground operations.” [Section 15918 (d)]

But as the Bill notes, “each participating and nonparticipating agency retain jurisdictional authority over whether to pursue partnership strategies or collaborative investigative leads based upon the direction of their respective governing structures or available resources.” [Section 15918 (a)(4)]

If enacted, this Bill will complement existing State efforts to combat underground operations and could result in increased tax revenue for the State, a welcome result as California deals with a struggling economy and budget shortfalls.

Local companies that operate above ground and play by the rules would also benefit to the extent that their operations are currently undercut by competitors who operate underground, or traffic in counterfeit goods.

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