The San Diego Union-Tribune

COMMENTARY

Chris Reed: The ‘Hotel California’ state tax proposal: You can check out, but you can never leave

Gov. Gavin Newsom brags about what he says is a $76 billion state surplus. But some Democratic lawmakers still want huge tax hikes.
(U-T)

Even with record surplus, some lawmakers want record tax hikes

BY CHRIS REED
MAY 28, 2021 10:49 AM PT

The news cycle has never seemed as 24-7-365 busy as it has in the last five years. Between the pandemic, UFOs, a national crime wave and the uniquely bizarre Marjorie Taylor Greene, there are many stories competing for our attention.

But I'd like to point out one story that in more normal times — say, 1995, 2005 or 2015 — would stand out for its lunacy. At a time when California is enjoying the largest budget surplus of any state in history, some Democratic lawmakers are *seriously proposing* what could be the largest tax hikes by a state in the nation's history. They probably won't get their way. But their wish list is stunning.

One proposal would raise the state income tax rate — already the highest in the nation. It would go from 13.3 percent for those making more than $1 million to 14.3 percent, to 16.3 percent for those making more than $2 million, and to 16.8 percent for those making more than $5 million.

Another measure would impose the nation's first wealth tax — a 1 percent assessment annually on net worth over $50 million and a 1.5 percent tax on net worth over $1 billion.

It's not as if the state is short on cash. Gov. Gavin Newsom said the surplus is $76 billion, and the respected, nonpartisan state Legislative Auditor's Office said the actual sum is $38 billion, because official mandates dictate that half of the figure Newsom cites is automatically diverted to state programs, starting with public schools.

But even if the lower figure is used, the case for massive tax hikes remains nonexistent. The seemingly counterintuitive fact that the pandemic era led to a huge stock market boom has produced a giant bump in capital gains for wealthy stockholders, especially in the Bay area and Silicon Valley, where stock options are a common perk in many tech firms. The result is a 2021-2022 budget from the Newsom administration that provides more subsidized health care, more money for the state's three college systems, rental assistance, small business relief and much more.

Yet some Democrats seem to see raising taxes not so much as about providing revenue for new or expanded programs but as a statement of values against what they see as the evil rich — amoral tycoons who both exploit a rigged economic system and are callous toward the less well-off.

They don't just cite America's widening income inequality. They have some social science to back them up. In 2012, Dacher Keltner, a psychologist at the University of California at Berkeley, oversaw research that showed people driving more expensive cars were more likely to ignore right-of-way laws at intersections and to be discourteous to pedestrians crossing roads. "It told us that there's something about wealth and privilege that makes you feel like you're above the law, that allows you to treat others like they don't exist," Keltner told The Washington Post.

So taxing these bums may seem like a karmic act to some. But is it good public policy? Or will it backfire? Remember, California lost population for the first time last year. Mega-billionaire Elon Musk has Tesla building its new Gigafactory near Austin, and Apple is building its second-largest campus in that city. When McKesson, the pharmaceutical giant, announced in 2018 that it was moving from San Francisco to a suburb of Dallas, it was the second-biggest company in the Golden State after Apple. And Hewlett Packard has left Silicon Valley for Houston. Clearly, the state is not the magnet it was for some people and businesses.

Yes, an analysis in The Atlantic last year showed no strong correlation between taxes going up and wealthy individuals leaving. But a study co-authored by a Stanford professor of what happened in California after the last time income taxes were raised in 2012 suggested there was some tax flight to other states — and tax avoidance by those who remained.

Whatever your view of the state, there is no question that high-profile California companies are leaving or expanding elsewhere. Maybe that doesn't matter because Silicon Valley, San Francisco and San Diego remain hubs of innovation creating new high-paying jobs, companies and industries.

Or maybe the climate emergency and the wildfires it creates decreases the California lifestyle advantage over other states and leads more individuals and companies alike to head to lower-tax, business-friendly states.

But that doesn't necessarily mean people will escape the Golden State's taxes. In an analysis by tax lawyer Robert W. Wood published this month by Forbes, Wood said the proposed wealth tax appears to allow state tax collectors to seek payments from those who left the state for up to four years — and that those who spend a significant minority of their time in California can be taxed as a "temporary resident."

Shades of "Hotel California." If some lawmakers get their way, when it comes to state taxes, you can check out any time you like. But you can never leave.

Reed *is deputy editor of the editorial and opinion section. Column archive: sdut.us/chrisreed. Twitter: @calwhine. Email: chris.reed@sduniontribune.com*