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California Ranks 48th Of 50 States For Tax Climate, Hardly Golden

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California has the 48th best tax climate of 50 states, says the new [State Business Tax Climate Index](#) from the nonpartisan Tax Foundation. Put differently, it's almost the bottom of the barrel. This 2015 Index measures how well-structured each state's tax code is. The index takes into account more than 100 tax variables including corporate tax, individual income tax, sales tax, property tax, and unemployment insurance. Overly complex, burdensome, and economically harmful tax codes hurt a state's rank, while transparent and neutral tax codes help.

California's dismal rank is a composite of:

- California's overall state business tax climate: 48th
- Corporate tax structure: 34th
- Individual income tax structure: 50th
- Sales tax structure: 42nd
- Property tax structure: 14th
- Unemployment insurance tax structure: 14th



What should California aspire to fix? Take a look at these also-rans and victors in this tax beauty contest. The 10 *most* competitive states are: Wyoming (#1), South Dakota (#2), Nevada (#3), Alaska (#4), Florida (#5), Montana (#6), New Hampshire (#7), Indiana (#8), Utah (#9), and Texas (#10).

The 10 *least* competitive states are: New Jersey (#50), New York (#49), California (#48), Minnesota (#47), Vermont (#46), Rhode Island (#45), Ohio (#44), Wisconsin (#43), Connecticut (#42), and Iowa (#41). Check out the full report: [2015 State Business Tax Climate Index](#).

If this makes you want to become a policy wonk, do that. If it makes you want to move, consider that too. Living in California has many perks, but taxes are not among them. In November 2012, California ramped up its already high state tax rates retroactively to January 1, 2012. That meant a whopping rate increase of 30% for some high income taxpayers. Those earning \$250,000 to \$300,000 a year now pay 10.3%, up from 9.3%.

For \$1 million-plus-earners, California's rate is 13.3%, up from 10.3%. In some cases, California taxes are causing migrations out of state. See [FTB Publication 1031](#). But capital gain rates seem especially tough in California. Why? First consider the federal level. The capital gain rate remains 15% for some, but rose to 20% for higher income taxpayers. Add the 3.8% investment tax that results from Obamacare, and you have 23.8% for many. That's a far cry from the 15% federal capital gain rate applicable in 2012.

What about Californians? California taxes capital gain like ordinary income. And that means adding state taxes on capital gains as high as 13.3%. For someone selling a company, selling real

estate, or cashing in on an IPO, the temptation to move from California to tax-free Nevada, Texas, Washington or Florida can be enormous.

It is one thing to compare states, but the comparisons can be even more depressing when one looks around the world. In fact, if you are paying up to a 33% combined federal and state tax on capital gains, you might be in California. And that means you are paying more than virtually anyone else in the world. That will hit you in your pocketbook.

Plus, experts say the impact is bigger than that. Such a high tax rate has long-term negative implications for the economy, for people save and invest less. Meanwhile, they claim, capital will seek higher returns elsewhere. [Silicon Valley](#) is a bright spot, of course, especially the HBO show.

But California might want to take a cue from Texas and other pro-business states and ease up on taxes. Just a thought Governor Brown.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.