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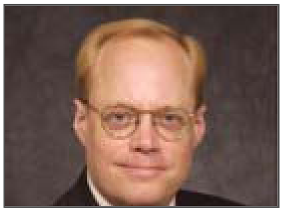

**Robert W. Wood**
THE TAX LAWYER

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# Forget France's 75% And 100% Tax, Tax Rate In Hawaii Hits 367,000%

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If you are paying high taxes, you know it can always get worse. But as pointed out here, Hawaii's Top Marginal Tax Rate: 367,100%, some tax rates are worse than others. We're not talking about broad tax rates applying to lots of income. We're talking about tax cliffs, where one dollar of additional income gets hit with downright confiscatory rates.

The study is called Marginal Tax Rates Around the Hawaii Itemized Deduction Cliff, and is by Terrance Jalbert, Gary Fleischman and Mercedes Jalbert. It's technical, and as is often true with studies, you must read carefully. The quirk they describe is about income levels, itemized deductions, limits and phase- outs. They create what's known as a tax cliff.

How can you pay 367,000%? One more dollar of income from $199,999 to $200,000 triggers a loss of your entire deduction for the taxes you've paid. Plus, that pivotal extra dollar of income triggers a $50,000 cap on any itemized deductions you can claim, no matter how high your deductions are otherwise. Results vary, but the authors claim this weird provision ends up triggering a marginal tax rate for income at the $200,000 tax cliff as high as 367,100%!

*taxes (Photo credit: 401(K) 2013)*

If that percentage is incomprehensible, put it this way: One dollar of additional income increases your tax bill by $3,671. That's one expensive dollar. And $1 taxed at $3,671 well, gets you into the stratosphere. It's similar to the story from France that over 8,000 French households paid taxes topping 100%. Yes, that sounds impossible, but this figure was according to French Finance Ministry data. It showed that [taxes on some wealthy French top 100% of income].

In France, the 100% quirk was due to a one-time levy in 2011 on incomes for households with assets over 1.3 million euros ($1.67 million). 8,000 families paying 100% may seem like a small number in all of France. Still, the French government said that nearly 12,000 households paid more than 75%. These percentages sure do grate.

There was bitter controversy when President Francois Hollande's Socialist government imposed the tax surcharge shortly after taking office. It lead to some well-publicized departures, including actor Gerard Depardieu. He became a Russian citizen, including dinner with Vladimir Putin. The 75% tax was struck down by a top French court but then re-enacted. More recently, President Hollande has sounded more in favor of cutting taxes, though the proof will be in the pudding.

Even with the IRS, marginal or effective tax rates can be debated and applied in strange ways. Indeed, it is possible to be taxed on more money than you actually get. A good example is the alternative minimum tax, under which many deductions are disallowed.

For example, suppose that you win a lawsuit and collect $1,000,000, from which your attorneys take $700,000 for fees and costs (yes, that's possible, especially in cases that go up on appeal). Depending on the circumstances, you may be taxed on the full $1M and not be able to deduct the $700,000 in legal fees. Your tax bill could be more than your $300,000 take-home.

There are many state oddities too. Perhaps no one will leave Hawaii over a crazy tax cliff. But people do leave California over taxes. In California, capital gains are taxed as ordinary income, and that gets expensive. Indeed, for $1 million-plus-earners, California's rate is 13.3%, up from a prior top rate of 10.3%.

By comparison, the top state and local rate in New York is 12.7%. Combined with federal rates and even sales taxes, the mix is causing some even outside the professional sports and entertainment stratosphere to think critically about where to live. That applies to moving states, and even to people leaving the U.S.

Remember when Facebook's Co-Founder Eduardo Saverin flew away to tax-friendly Singapore? There have been many exits from the U.S. since then. Yet even decamping is not as easy as it looks given America's tough and complex tax system. There is already a U.S. exit tax on people who give up their U.S. citizenship or green card. Saverin's exit prompted a bill in Congress to *increase* the exit tax, although the bill did not pass.

For many, taxes are way too complex and riven with special rules, tricks and traps. And while no system is perfect, we could sure use a simpler and more transparent tax system. Herman Cain, where are you?

*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.*