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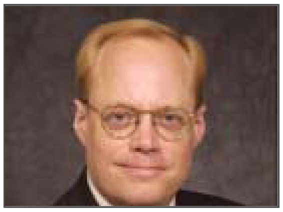

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California Ranks Last With CEOs, Toyota Goes, Now Worst In Taxes: Why California's Dreamin'

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For the Golden State, Toyota’s California Texas Two-Step left some mouths agape, but it shouldn’t have. The tax savings won’t just be the company’s, but employees’ too. The surprise was that it was a surprise. Just ask the more than 500 CEOs who recently ranked California Worst State For Business In New Survey.

Yes, 50th. Texas was numero uno, then Florida and Tennessee. And now, yet another study, this time by the Small Business & Entrepreneurship Council, has produced a Small Business Tax Index 2014. It ranks states best to worst in the cost of their taxes on entrepreneurship and small business. It’s an impressive bit of number crunching rivaling American Idol. Twenty one different tax measures go into a matrix that allows a comparative ranking of the 50 states. See Small Business Tax Index 2014: Best to Worst State Tax Systems for Entrepreneurship and Small Business.

(Photo credit: Wikipedia)

You might not think you could even *name* 21 taxes, but they include top personal rates, capital gain rates, corporate taxes, AMT, indexing rates for inflation, estate taxes, sales tax, gas tax and more. It's a pretty depressing list. And California's ranking is, well, also depressing unless you are loading the moving van. Yes, California came out dead last. 50th. Bottom. Worst. At the other end of the scale, the top 5 states were:

1. Nevada
2. South Dakota
3. Texas
4. Wyoming
5. Washington

Living in California has many perks, but tax rates 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 as the federal tax debate reveals, it isn't only top *ordinary* rates that are debated, but capital gain rates as well. At 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% applicable in 2012.

What about Californians? Although we may understandably focus primarily on federal taxes, most states have an income tax too. But exactly how they tax capital gain is another matter and can be surprising. California taxes capital gain like ordinary income. And that means adding state taxes on capital gains as high as 13.3%.

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. See The High Burden of State and Federal Capital Gains Taxes.

Silicon Valley is a bright spot, of course, especially the HBO show. And there will always be plenty for tax advisers to do. But on California taxes, maybe we should go green and cut back. Just a thought.

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.