



Robert W. Wood

THE TAX LAWYER

TAXES 2/11/2015

California State Tax Cops Hunt Millions: 'We Will Find You'

Living in California has many perks, but tax rates are not among them. In November 2012, California hiked its already high state tax rates retroactively, imposing 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%.

California taxes motivate some migrations out of state, but one of the key complaints from residents is about capital gain rates. You see, there aren't any—it's all ordinary in California. At the federal level, the capital gain rate rose to 20% for higher income taxpayers. Add the 3.8% investment tax that results from the healthcare law known as Obamacare, and you have 23.8% for many.



Although we may focus primarily on federal taxes, some states—and California is one of them—tax capital gains as high as 13.3%. It's one thing to compare states, but the comparisons can be even more depressing when one looks around the world. If you are paying up to a 33% combined federal and state tax on capital gains as you may be in California, you are paying more than virtually anyone else in the *world*. Experts say such a high tax rate has long-term negative implications for the economy.

Take a look at how we stack up:

Rank	State/Country	Rate
1.	Denmark	42.0%
2.	France	38.0%
3.	California	33.0%
4.	Ireland	33.0%
5.	Finland	32.0%
6.	New York	31.5%
7.	Oregon	31.0%
8.	Minnesota	30.9%
9.	New Jersey	30.4%
10.	Vermont	30.4%
11.	D.C.	30.4%
12.	Maryland	30.3%
13.	Sweden	30.0%
14.	Maine	29.8%
15.	Iowa	29.6%
16.	Idaho	29.4%
17.	Hawaii	29.4%
18.	Nebraska	29.1%
19.	Connecticut	29.0%
20.	Delaware	29.0%
21.	West Virginia	28.9%

22. United States	28.7%
23. Georgia	28.6%
24. Kentucky	28.6%
25. Missouri	28.6%
26. Rhode Island	28.6%
27. North Carolina	28.5%
28. Virginia	28.5%
29. Ohio	28.3%
30. Wisconsin	28.2%
31. Oklahoma	28.2%
32. Massachusetts	28.1%
33. Portugal	28.0%
34. United Kingdom	28.0%
35. Illinois	28.0%
36. Mississippi	28.0%
37. Utah	28.0%
38. Arkansas	27.9%
39. Montana	27.9%
40. Louisiana	27.9%
41. Kansas	27.9%
42. Indiana	27.8%
43. Michigan	27.8%
44. Colorado	27.8%
45. Arizona	27.7%
46. Alabama	27.4%
47. South Carolina	27.3%
48. Norway	27.0%
49. Spain	27.0%

50. Pennsylvania	26.8%
51. New Mexico	26.5%
52. North Dakota	26.3%
53. Tennessee	25.0%
54. New Hampshire	25.0%
55. Austria	25.0%
56. Germany	25.0%
57. Israel	25.0%
58. Slovak Republic	25.0%
59. Alaska	25.0%
60. Florida	25.0%
61. Nevada	25.0%
62. South Dakota	25.0%
63. Texas	25.0%
64. Washington	25.0%
65. Wyoming	25.0%
66. Australia	22.5%
67. Canada	22.5%
68. Estonia	21.0%
69. Chile	20.0%
70. Iceland	20.0%
71. Italy	20.0%
72. Japan	20.0%
73. Poland	19.0%
74. Hungary	16.0%
75. Greece	15.0%
76. Mexico	10.0%
77. Belgium	0.0%

78. Czech Republic	0.0%
79. Korea	0.0%
80. Luxembourg	0.0%
81. Netherlands	0.0%
82. New Zealand	0.0%
83. Slovenia	0.0%
84. Switzerland	0.0%
85. Turkey	0.0%

Meanwhile, California tax authorities are mounting a big campaign to track down those who earn in the state but didn't file a state income tax return with the Franchise Tax Board. Since the 1950s, the Franchise Tax Board has contacted people who earned income in California but did not file a tax return. In 2014, California collected more than \$715 million through this effort.

Each year, FTB receives more than 500 million income records from banks, employers, state government, the IRS, and other third parties. FTB matches these income records against its database of tax returns. The program detects others who earned income but did not file a return through sources such as occupational licenses and mortgage interest payments.

Those contacted by FTB have 30 days to file a state tax return or show why one is not required. For those who do not respond, FTB estimates a tax bill based on income records. The assessment includes interest, fees, and penalties that can total as much as 50 percent of the tax due.

For alerts to future tax articles, follow me on Forbes. 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.