Why Mercedes Leaves Jersey For Georgia, Toyota Left California For Texas

Taxes aren't the only reason for these two big auto company moves, but they are a big part of it. And it is something high tax states can address. Already, New Jersey Republicans are calling for tax cuts after Mercedes-Benz's announced move of its U.S. headquarters to Atlanta. About 1,000 workers will move.

Some of them should be happy too. The top personal tax rate in Georgia is 6%, which compares favorably to 8.97% in New Jersey. Of course, business taxes are more in focus, and this is hardly the first move. Over the last two years, Hertz and Sealed Air Corp., have announced moves from New Jersey.

Gov. Chris Christie's spokesman, Michael Drewniak, has also noted Mercedes' announcement is underscoring the need for tax cuts. Yet New Jersey Democrats have argued for raising taxes at least on the highest-earning residents. The Mercedes-Benz U.S. President and CEO, Stephen Cannon, downplays taxes, noting that tax incentive are usually temporary.
Much of the same kind of talk unfolded when Toyota announced its move from California to Texas. It also wasn’t only about taxes, but about many other high costs and the red tape of regulatory compliance. They all add to the high cost of operating in the Golden State.

Texas must have been very happy when it unfolded that Toyota employees who were moving would also reap big tax savings themselves. The National Center for Policy Analysis notes its State Tax Calculator shows that the tax savings could be more than a million dollars in tax savings over a worker’s lifetime.

For example, take a 30-year old single California renter earning $75,000 annually. The study says he or she could gain an additional $14,909 in discretionary income by moving to Texas; if saved and invested this would amount to $1,513,727 over her lifetime. That’s impressive.

For a business or individuals, moving states can indeed produce impressive tax differences. Remember Phil Mickelson’s gaffe about taxes? The brouhaha died down, helped some by Tiger Woods, who admitted that he too left California because of tax rates. The Golden State now boasts a top tax rate of 13.3%. When you add California’s rates to federal, it can be punishing.
And understandably, high state tax rates are one of the key factors causing people to think critically about where to live. If you move, it pays to plan ahead and create a good record. Your old state may try to tax you even after you’ve left. Some states have presumptions based on your time there, but most state tax authorities and courts examine many connections.

You may be a resident even if you also have substantial connections with another state. Consider such factors as:

- The amount of time in versus out-of-state;
- The location(s) of your spouse and children;
- The location of your principal residence;
- The state that issued your driver’s license;
- Where your vehicles are registered;
- Where you maintain any professional licenses;
- Where you are registered to vote;
- The location of banks where you have accounts;
- The location of doctors, dentists, accountants, and attorneys;
- Where your church, temple, professional associations, social and country clubs are located;
- Where you are employed;
- The location of your real property and investments;
- The location of your business interests;
- Where your children attend school;
- Where you file tax returns;
- If you claim a homeowner’s property tax exemption;
- Any official statements of residency (such as on a federal tax return); and
- Any listings in state directories (phone, professional, etc.).

Toyota made its decision, and that counts for the company and for its many California-based employees. But if you are toying with moving, get some good professional advice. Finally, don’t assume every tax rule is logical. It isn’t.

*For alerts to future tax articles, follow me on Forbes. You can reach me at Wood@WoodLLP.com.*

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