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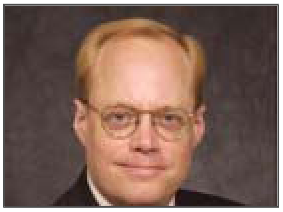

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With California Taxes.....Who Wants To Be A Millionaire?

Photo credit: Wikipedia

Rhetorical question? Perhaps, for surely ***everyone*** does. But increasingly, successful people are taking a harder look at residency. The notion that a moneyed Californian would even ***consider*** it provokes outrage among some. Remember the public reaction to Phil Mickelson's remarks?

The question whether "making it" in California requires ***staying and paying*** may be a debate with no answer. Yet the tax laws recognize it has always occurred state to state and even country to country. Moreover, the income tax is uniformly an annual reckoning. This fundamental fact about income taxes itself belies the notion that one cannot earn, pay tax and leave before paying more.

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%.

As a tax lawyer for 30 years, I have long witnessed tax-motivated moves. Still, the recent pace of migrations is notable. Top rates on ordinary income are factors, but top capital gain rates are even more so.

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 imposed by the healthcare law known as Obamacare and you have 23.8%. That's a far cry from the 15% applicable in 2012.

State tax moves must be planned. The state regulates them. See FTB Publication 1031. Although Californians pay federal income tax too, that is likely to seem more inevitable. So Californians consider state income, property and sales taxes.

California taxes 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. In fact, 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.

That will hit you in your pocketbook, but experts say the impact is bigger than you might expect. Such a high tax rate has long-term negative implications for the economy. The result, we are told, is that people save and invest less. Meanwhile, they say, capital seeks higher returns in other places.

Take a look at how California stacks up from The High Burden of State and Federal Capital Gains Taxes. Whatever you think about California, many states on this list from the Tax Foundation have surprisingly high ***long-term capital gain tax rates***:

1. Denmark 42%
2. California 33%
3. France 32.5%
4. Finland 32%
5. New York 31.4%
6. Oregon 31%
7. Delaware 30.4%
8. New Jersey 30.4%
9. Vermont 30.4%

10. Maryland 30.3%
11. Maine 30.1%
12. Ireland 30%
13. Sweden 30%
14. Idaho 29.7%
15. Minnesota 29.7%
16. North Carolina 29.7%
17. Iowa 29.6%
18. Hawaii 29.4%
19. D.C. 29.1%
20. Nebraska 29.1%
21. Connecticut 29%
22. West Virginia 28.9%
23. Ohio 28.7%
24. Georgia 28.6%
25. Kentucky 28.6%

Inevitably, some complaints about taxes will come from those who pay a lot of them, often after having toiled over a long career. Yet perhaps complaining about taxes is part of the human condition, regardless of income level and other circumstances. Increasingly, perhaps complaining about those who complain is too.

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.*