



Robert W. Wood

THE TAX LAWYER

TAXES 01/03/24

California 13.3% Tax Is Now 14.4% In 2024 But Some Say Texans Pay More



If you live in California, you likely pay plenty of state taxes, particularly state income tax to the California Franchise Tax Board. The top California income tax rate has been 13.3% for a decade, but effective on January 1, 2024, the *new* top rate is an eye-watering 14.4%. There been several proposals in Sacramento to increase the top [rate as high as 16.8%](#), but a more modest 1.1%

increase passed in 2023. The new 14.4% rate is the result of no limit on California's 1.1% employee payroll tax for State Disability Insurance. It translates to a top 14.4% rate for those earning over \$1 million.

California's 13.3% rate still applies to [capital gain](#), which hardly sounds like a ['tax break' and that 13.3% tax on capital gain](#) has long been an irritant to California investors. At the federal level, the capital gain rate is 20% for higher income taxpayers. Add the 3.8% net investment tax under Obamacare, and you have 23.8%. By paying 23.8% plus 13.3%, Californians are paying more on capital gain than virtually anyone else in the *world*. Will more people move away? Probably not over this 1.1% increase, but moves before big stock sales, sales of a company, a lawsuit settlement, etc., will remain common.

So what is the tax debate? Texas famously has no individual state income tax rate. That makes it seem like an easy comparison if someone asks you who pays more. Yet, according to a [study](#) by the Institute of Taxation and Economic Policy. Texans whose salaries fall into the lowest 20% of income earners (making less than \$20,900 annually) pay about 13% of their income in state and local taxes.

Meanwhile, Californians in the bottom 20% (making less than \$23,200 annually) pay 10.5%. In Texas, the middle 20 percent of income earners (\$35,800-\$56,000) pay 9.7% in state and local taxes in contrast to middle income Californians (\$39,100-\$62,300), who only pay 8.9%. California officials seem to think this is a settling point for California, that those with low or modest incomes might pay more tax in Texas than California.

But many people who move out of California with tax concerns among their reasons are likely to be high income, for obvious reasons. The same study suggests that the top 1% of earners in Texas (\$617,900 or more) pay 3.1% of

their income in taxes, while in top earners in California (\$714,400 or more) pay 12.4% of their income in taxes.

Many people who consider taxes take income tax rates into account more than other taxes. No income tax in Texas (Florida, Nevada, Wyoming, Tennessee, Alaska, New Hampshire, South Dakota) makes them alluring. Washington also has not state income tax, though it does hit [capital gains](#) with tax at certain high income levels.

Still, the debate over who really pays more between California and Texas looks at sales tax, and property tax too. California sales taxes are higher than Texas, but property taxes are higher in Texas. Of course, as some have pointed out, home prices are lower in Texas, and many who can't afford to buy a California home can afford one in Texas. Texans have the fifth-highest property tax in the country, [according to a survey by WalletHub](#). California's effective overall property tax rate is just 0.75%. The Texas rate is neatly a full percentage point higher—1.74%.

Unemployment tax rates are higher in California, and California has other payroll taxes that are also higher. How about [gasoline taxes](#) tax? There's no comparison, at 53.9 cents a gallon in California for filling your tank, compared with only 20 cents a gallon in the Lone Star State. If you are a smoker, cigarette taxes in California are [double](#) those in Texas.

High six-figure earners in Texas—that is, those who rake in at least \$617,900 per year, the top one percent of earners in that state—pay [a relatively minuscule 3.1%](#) of their income in taxes, according to the The top one percent in California make \$714,400, but pay a whole lot more—a whopping 12.4%.

For anyone who is considering moving, it pays to consider your *own* numbers and your *own* circumstances. Run some actual numbers yourself, or with your accountant.

Check out my [website](#).