Plans to ‘tax the rich’ hold risks and rewards for California

By Kevin Yamamura, Sacramento Bee

Fueled by a backlash against the wealthy, Gov. Jerry Brown and left-leaning groups want voters to tax the rich next November.

Californians have shown strong support for the idea in polls so far, despite the fact that they haven’t passed a statewide tax hike since 2004. Brown said this month “the only tax that’s overwhelmingly popular is the tax on wealthier people.

“Partisans have feuded for years at the federal level over tax rates for the rich. Republicans argue that tax cuts spur investment and economic growth. Democrats say such “supply-side” theories are unfounded and that lower rates are merely a giveaway to the wealthy. As a state, California has particular considerations.

Chief among them are a fear that taxpayers will flee for lower-cost states, a widening gap between rich and poor, and a volatile income tax stream.

Critics say high-income earners and business owners will leave California for states with no income taxes, such as Nevada or Texas.

“There’s nothing more portable than a millionaire and his money,” said state Sen. Bob Huff, R-Diamond Bar, the ranking Republican on the Senate budget committee.

The concern is not limited to Republicans. In July, Democratic state Treasurer Bill Lockyer told the Sacramento Press Club he thought California was near its reasonable limit for taxing the rich.

California voters in 2004 opted to tax millionaires to pay for mental health programs. In 2006, they rejected a tax hike on the top 1 percent of earners to pay for public preschool.

A 2004 “millionaire’s tax” in New Jersey had little effect on migration, according to a study by Stanford University sociologist Cristobal Young and Princeton University sociologist Charles Varner published this year in the National Tax Journal. Moving from California to escape taxes is even more difficult.

“Many people in New Jersey could move 30 or 40 miles and find themselves in lower-tax Connecticut or Pennsylvania,” Young said in an email. “If you are in the Bay Area, it is a 500- to 700-mile move to competing urban areas such as Las Vegas or Phoenix. That is a tough move — you will be starting a new life.”The New Jersey Department of the Treasury issued its own research in October that countered the Young-Varner study. The department is led by an appointee of Republican Gov. Chris Christie, a vocal opponent of a new “millionaire’s tax.”

In a state with 8.7 million residents, the department said that all tax increases — not just those on the wealthy — resulted in 20,000 fewer taxpayers.For California business owners, such a change would be one more factor among many to consider when thinking about location. Businesses consider weather, transportation, regulations, market size and labor costs, among other factors, said Brad Williams, former chief economist for the Legislative Analyst’s Office.

“Businesses will need to think about what they’re getting for those taxes,” Williams said. “Do businesses think they’re getting something in return?”

Read the whole story