

# Prop. 30 not creating an exodus of super rich from California

By Jim Christie and Peter Henderson, Reuters

SAN FRANCISCO – Warnings that a new millionaires' tax would send California's wealthy stampeding for the state line began before the results were final. But the super-rich may well stand their ground.

"Anyone know a good realtor in Incline Village?" Aaron McLearn, the spokesman for California's anti-tax campaign, tweeted early the morning of Nov. 7 as the votes against his cause streamed in.

California's vote raised its top rate by 3 percentage points to 13.3 percent, easily the highest in the nation, drawing howls of protests from critics who doubt the taxes will be well spent and who fear a Democratic supermajority will wreak further havoc. "At least Californians can still escape to Nevada or Idaho," a *Wall Street Journal* editorial concluded.

It's too early to look for signs of an exodus. But if history in California and New Jersey, another state with high taxes and its share of multi-millionaires, is any guide their won't be a run for the exits.

At high-end Incline Village real estate broker Chase International, a short hop from San Francisco into Nevada, the phones have not been ringing off the hooks, said Realtor Shari Chase.

Some wealthy retirees and mobile professionals called before the election, she noted, and nearby business owners in California expressed interest in a move. But Silicon Valley

executives will not be trying to telecommute from her side of Lake Tahoe, she said.

“We do have billionaires here,” said Chase. “But I’m not sure the 3 percent (state tax increase) is going to make as big a difference for them.”

Gov. Jerry Brown’s seven-year income tax hike, known as Proposition 30, looked poised for failure before Election Day, but it sailed through by a vote of 54.5 to 45.5 percent.

Brown promoted it as a temporary fix to the state’s big fiscal gap, which gave California time to make bigger changes and save schools and universities from \$6 billion in cuts.

Business groups from the Beverly Hills Chamber of Commerce to the tech industry policy group TechNet backed the tax, and the state Chamber of Commerce took no position.

A few defections are likely, said Jim Wunderman, president of the Bay Area Council business group, but many can’t and won’t. “California offers too much to too many,” he said.

Using tax funds for education scored with the wealthy. The state’s higher education system “is a large reason why we are the world’s technology leader,” venture capitalist and former state controller Steve Westly, a Democrat, wrote in an email.

“No. I don’t think high-income earners will leave the state,” he added.

Business has been good in Silicon Valley, and venture capital investment is pouring in, something even tax opponents could appreciate, said TechNet Senior Vice President Jim Hawley.

“I don’t think Prop. 30 itself was going to push anybody over the edge,” he said. “People look at the business climate in total.”

**Low-tax Texas beckons**

“We’ve decided to put the pedal to the metal and get out of California as soon as possible,” one Southern California businessman told *Reuters*.

He has not told his clients yet, and declined to be named. He and his wife decided after the election to sell their house at a loss, sell his advertising business and head to Texas.

The Lone Star State does not have an income tax and has clinched the No. 1 spot on Chief Executive magazine’s list of best states for business for eight consecutive years.

California politician Chuck DeVore abandoned California for Texas after he lost the Republican primary for the U.S. Senate. Entrepreneurs frustrated by business conditions – California perennially ranks dead last in polls of business friendliness – are sure to respond to the tax, he said.

“They may see this as the last straw,” DeVore said.

A September 2012 Stanford Center on Poverty and Inequality which looked at state tax records found the contrary.

In fact, more millionaires came to the state than left after California’s so-called Millionaire’s Tax was introduced in 2005 – adding 1 percentage point of tax to incomes over \$1 million. A 1996 cut to taxes for those earning \$110,000 and up did not spur migration into the state, either.

The number of millionaires has risen or fallen by about 10,000 a year, but that change has been almost entirely due to the state economy, not wealthy people coming into or leaving the state. Such migration accounted for about 47 people, net, on average.

The very richest, who were likely to have houses and properties in many parts of the world with creative means to finesse their taxes, were the least likely to move after the tax hike, but even those at the bottom end of the millionaires

scale did not pick up and leave, according to the September study.

The Stanford researchers found New Jersey millionaires also stayed put, despite plenty of nearby, relatively inexpensive alternatives, after the state hiked its top rate by 2.6 percentage points. There was a modest increase in migration among millionaires past retirement age and living mostly on investment income, they found.

A Manhattan Institute study published in September in the buildup to the tax vote, warned California's golden age of domestic migration was over, as jobs proved harder to come by, crowding increased and government cut services while increasing taxes. Immigration from abroad wasn't considered.

But former New York state chief demographer Robert Scardamalia, one of the co-authors of the Manhattan Institute report, pointed out that the U.S. census and Internal Revenue Service data he used did not get at the "why" for migration.

"Bottom line is that I think they find what many would expect – there are a lot of other reasons driving the migration decision other than taxes," he concluded in an email to Reuters.

### **If you go, sever ties**

Many find it hard to leave the good weather and vibrant cities of California, which offer an especially pleasant life for those of means. Tax authorities make it even harder.

Back in Incline Village, Chase has some advice for folks considering switching residency: don't fool around.

"You can't live in a \$10 million house in California and come up to Nevada and buy a million dollar house and call that a residence," she said.

California tax men and women go to great lengths to nail

“former” residents who have not really left. So the rich who leave California should not plan on coming back any time soon, said Scott Kauffman, a tax lawyer in Irvine.

“They’re extremely thorough,” he said. “They’re going to check your bank accounts, where you’re charging purchases and your cell phone records,” he added.

“What I tell people is to prepare to leave for two years,” said Kauffman. “You’ve got to sever all your California connections.”