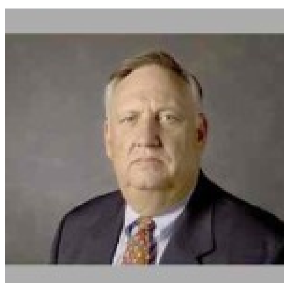
Opinion: Sale of $31M Tahoe estate should disturb Calif. politicians

By Dan Walters, CALMatters

The Wall Street Journal often features stories about multimillion-dollar homes and estates as they change ownership.

One recent article should disturb California politicians, particularly Gov. Jerry Brown and legislators who recently enacted a new state budget. Here's why.



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About 70 percent of the revenue for the $125 billion "general fund" portion of the budget – the part that supports schools, colleges, prisons and health and welfare programs – comes from the state's personal income taxes. And half of those income taxes are paid by the top 1 percent of taxpayers.

The bite on the wealthy has been increasing, thanks to an economic expansion that has put more money in their bank accounts, to the progressive nature of the income tax system and, finally, to sharp increases in their marginal tax rates through two voter-approved ballot measures.

There's been much speculation over whether those highest-in-the-nation tax rates would encourage the very wealthy to flee

California and establish residences in low- or no-income-tax states such as neighboring Nevada.

There have been some anecdotal reports of such moves, which Nevada officials have indirectly encouraged by vigorously defending expatriates from California's efforts to tax their incomes. But there's been, as far as one can tell, no mass exodus.

Nevertheless, it was one thing to have high marginal tax rates imposed temporarily, as a 2012 ballot measure sponsored by Brown did. It's another thing to make those rates at least semi-permanent, as did a 2016 ballot measure backed by public-employee unions and others with stakes in the state budget.

That brings us back to that brief Wall Street Journal article about the $31.1 million sale of a Lake Tahoe estate once owned by casino tycoon Steve Wynn to Michael and Nora Lacey. He's a pathologist and she founded a Silicon Valley bio-tech company that she sold in 2014 for $170 million.

Just two years ago, the Laceys bought a 30,000-square-foot Tudor mansion in Los Altos Hills, named "Morgan" for a previous owner, but it will no longer be their official residence. "The Wynn estate is our permanent home and our main home and the Morgan estate is a beautiful place when we want to get away," Mrs. Lacey told the Journal.

By joining other wealthy residents of Incline Village on the Nevada side of the lake, the Laceys will be able to shield at least some of their obviously high income, particularly investment earnings, from California taxes.

Just a few days before the article appeared, the Tax Foundation, a Washington, D.C., think tank, issued a bulletin about the fat contract that quarterback Derek Carr signed with the Las Vegas-bound Oakland Raiders. The contract is "back-loaded," meaning most of the money will be paid after the team relocates, and the foundation calculated that Carr would save

$3.2 million a year by plying his trade in Nevada.

Finally – and perhaps most ominously for California politicians – President Donald Trump and the Republican-controlled Congress are weighing whether to eliminate the federal income tax deduction for state taxes.

Without deductibility, the bite on the wealthy in California and other high-tax states – all of them true blue in their political leanings – would increase sharply.

It would create still another financial reason for them to emulate the Laceys, particularly if they also fear that state taxes will rise again to finance the universal health coverage that many Democratic politicians advocate, including the party's front-runner for governor, Gavin Newsom.

We live in interesting times.