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# Is California facing a tax exodus? Thanks to Trump's tax law, more may start to flee

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Naveen Jain, a 37-year-old entrepreneur and lifelong Bay Area resident, last month put his San Francisco home up for sale and moved to Nashville.

The reason was simple: taxes.

“Tennessee has no state income tax and generally has lower property taxes,” said Jain, who is co-founder of cryptocurrency startup Tari. “I was born in San Francisco and have lived in the Bay Area for over 30 years. It is deeply unfortunate that we cannot seem to figure out our chronic housing challenge and overall cost-of-living challenge.”

To be sure, from CEOs to entrepreneurs to middle-class families, a lot of people have grumbled for years about California’s heavy tax burden and high cost of living. Some have almost certainly left as a result.

What’s different now is this year’s federal tax legislation that caps the amount of state income tax and property taxes that can be deducted from the federal bill. It could hit this state’s high earners and owners of expensive properties particularly hard — and there are fears it will kick a California tax exodus into overdrive.

A tax exodus centered on the economically successful would have profound implications for the Bay Area, given the region’s dependence on its entrepreneurs, investors and other business leaders to fuel the region’s growth and job creation.

“The pace of departures in our social circle is accelerating,” Jain said. “The goal for any early stage startup is to not die before you are able to find product-market fit and scale to a point where you are sustainable or able to raise money.

“This is becoming harder and harder to do in Silicon Valley,” Jain said. “I believe the early-stage-startup ecosystem is at risk in Silicon Valley.”

‘A final straw’

Even one of the most iconic figures of Bay Area business, Charles Schwab founder and Chairman Chuck Schwab, sees more people leaving California as a result of the tax changes, and not just at the upper end of the income scale.

“A lot of companies will be moving their people out of here, unless something happens,” Schwab told the Business Times after his company’s annual meeting in May. “They can move to Nevada or other places with a lower cost of living. That’s really important if you’re raising a family.”

Others are eager to see whether solid numbers reflect that a more upscale out-migration is actually underway. California saw an estimated net loss of almost 138,195 residents to other states in 2017, but that figure was more than offset by foreign immigration into California, according to the Census Bureau’s data on state-to-state migration. That’s a long-running trend involving California out-migration.

At this point, most evidence on who is now leaving California is largely anecdotal. Bay Area wealth managers, accountants and others say they expect the pace of relocations to rise as the full impact of the new tax law becomes apparent next spring.

“Some clients have moved out of California and others are considering a move to a lower-tax or no-tax state,” said Christine Leong, market manager for J.P. Morgan Private Bank in Northern California. While the limit on tax deductions “is certainly a factor, it’s arguably more of a final straw for some taxpayers as opposed to the sole reason for their move.”

Others echo that assessment.

“I don’t see the 2018 federal law change as the main cause of despair. Many of my clients moved after Gov. Brown’s Prop. 30 passed and raised the top state income tax rate to 13.3 percent in 2012. Several billionaires moved out of California because of that,” said Paul Bleeg, a partner with the accounting firm EisnerAmper in San Francisco.

Some accountants say the tax overhaul will have little impact on their clients, that lower federal rates and a larger standard deduction will outweigh the changes to state and local taxes. Plus, the Bay Area economy still offers unique opportunities for networking and jobs, especially in tech, said Michael Kaplanidis, founder and managing director of Water Street Associates.

The early adopters

But others see signs that a tax exodus is looming — or already underway.

Jeff Pera, regional managing partner for Northern California at the accounting firm Marcum, estimates that 20 percent of his California clients are considering moving out of state.

“I often have to dampen their appetite for moving,” said Pera. Marcum bought another firm in Texas last month, following clients who’d already moved there from California.

A U.S. Trust survey of business owners found that half the respondents want to sell their companies in the next three years. One way these business owners can save on taxes is to move out of California before selling.

Marcum's Pera said some clients, whom he dubs "early adoptors," are selling their Bay Area homes now and renting, believing that home prices will tumble when the full impact of lower federal subsidies for homeownership, especially in pricey urban areas, becomes more apparent next year.

Their concerns aren't baseless.

"It's clear that the way we view our home will change over the next few years. Buying a bigger house won't reduce your taxes," said Diane Kennedy, an accountant with US TaxAid Services in Sparks, Nev., who has several Bay Area clients. An estimated 80 percent of Americans will no longer itemize deductions, meaning that deductions for mortgage interest, property taxes and charitable deductions will be irrelevant for them, Kennedy writes in her new book, "Taxmageddon 2018: How to Brace for the Trump Tax Plan."

Even the California Association of Realtors is warning today's Bay Area home buyers that they may see a drag on prices appreciating over the next four to five years as the market absorbs the tax changes.

Moody's Analytics predicts that Bay Area counties will see less appreciation than if the tax overhaul had not been approved, ranging from 3.6 percent less price appreciation in San Mateo and Alameda counties to 5.8 percent less in Contra Costa County. Those percentages translate into some rather hefty sums, given the Bay Area's high home prices.

In addition, many Bay Area residents will hit the $10,000 cap on the deduction for state and local taxes with their property-tax bill alone. Presumably, these residents are also paying taxes on their substantial incomes needed to pay those property taxes.

Almost 25 percent of residential taxpayers in San Francisco and San Mateo counties have property-tax bills exceeding $10,000, according to a report by Attom Data Solutions. It's almost 35 percent in Marin County and nearly 29 percent in Santa Clara.

The full impact on these taxpayers will not be evident until next year as they file their taxes.

"There's going to be a rude awakening next spring," predicted Vanessa Bergmark, owner and president of Red Oak Realty in Oakland.

Goodbye, California. Hello, Arizona

Those selling homes in the Bay Area might be among the growing number of Californians that are shopping for houses in Nevada and Arizona.

"We're seeing more Californians looking to buy in Incline Village, Nev.," said Peg Augustus, an agent with Incline Village Real Estate Experts. "Another change that we're seeing this year is that more people from California are shopping for a primary residence rather than a second home."

In Arizona, Rod Cullum, CEO of Scottsdale-based Cullum Homes, said he's also seeing more Californians this year, with more of them actually buying. He saw a similar lift in California buyers following the state's 2012 tax hike on big earners.

Adding to a prospective tax exodus is the fact that high earners are often the decision makers on where their job, or their company, will be located.

Marcum's Pera said his clients are often owners of private companies that have long been courted by other cities and states, often willing to pay generous incentives for the jobs these business owners will bring with them.

But it's senior executives, including chief executives, who may feel the most pain, given how much of their income is taxed as ordinary income, with far fewer deductions than before the tax overhaul.

Some see these executives placing pressure on their employers to move them, and sometimes the entire company, out of state. Such talk is likely to escalate during next year's tax season.

Accountants express little hope that California will respond by easing the tax burden on its wealthiest residents.

Steve Mayer, founder and managing partner of the San Francisco accounting firm SD Mayer & Associates, relayed a conversation he had with a California legislator on what steps the state might take to lighten the tax burden on wealthy Californians.

"He didn't seem to understand the question. I asked three times, without getting an answer," Mayer said.

Other accountants are even more blunt.

"California lawmakers are going to drive this bus until the wheels fly off and it goes over a cliff," said EisnerAmper's Bleeg.