



California

#48

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
48	41	49	46	23	25

California combines high tax rates with an uncompetitive tax structure, yielding one of the worst rankings on the *Index*. The state has a great deal going for it, with its mild climate, excellent research universities, and the ongoing agglomeration effects of Silicon Valley, but a tax code that is uncompetitive and threatens to get worse is increasingly driving jobs to other states.

The state's top marginal individual income tax rate of 13.3 percent is compounded by a 1.1 percent newly uncapped payroll tax, bringing the all-in top rate to 14.4 percent. Additionally, nonresidents must file income taxes if they work even a single day in the state, and California is one of only four states to still impose an alternative minimum tax.

California is the only state to deny all net operating loss carryforwards; the state's NOL provisions have been suspended on multiple occasions and are not currently in effect. It is also the only state to use the outmoded ACRS depreciation system rather than MACRS, and does not allow any accelerated first-year expensing. California has a throwback rule, exposing in-state businesses to additional corporate tax liability for certain out-of-state income that would not be taxed elsewhere. The state is also dramatically out of conformity with the federal tax code, which adds to tax complexity, though it has certain benefits: the state does not, for instance, incorporate global intangible low-taxed income (GILTI), which does not belong in state tax codes but has been incorporated by some states.

Property taxes in California are constrained by Proposition 13 and subsequent enactments that cap growth in taxable assessed value. This keeps property taxes lower than they would be otherwise—especially for long-time incumbent owners—but at the cost of significant distortions to property markets.