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Part three of a five-part series

While many states have been struggling through the economic downturn, there's been a giant neon sign hanging over Texas that says "OPEN FOR BUSINESS."

California vs. Texas: Comparing a bust state to a boom state

Monday: Texas booms while California busts

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In 2008, 70 percent of all the jobs in the country were created in Texas. In 2009, all of America's top five job-creating cities were in Texas.

More recently, "Texas created 129,000 new jobs in the last year -- over one-half of all the new jobs in the U.S. In contrast, California lost 112,000 jobs during the same period," according to "Texas vs. California: Economic growth prospects for the 21st Century," a new report by the Texas Public Policy Foundation released in October.

Texas is home to 64 Fortune 500 companies -- more than any other state in the union. (California has 51 and New York has 56.) For five years in a row, Texas has topped Chief Executive magazine's poll of the best state to do business.

Meanwhile, California is ranked dead last in the Chief Executive's survey. California state treasurer Bill Lockyer even went so far as to pen a Dec. 20 op-ed in the Los Angeles Times denying "the claim that we have a hostile business climate."

So why are businesses flocking to Texas and fleeing California? Well, as a recent headline from The Economist put it, in California "They paved paradise and put up the parking taxes."

Texas has no personal income tax. With a top rate of 10.3 percent, California has the third-highest state income tax after Oregon and Hawaii.

The tax advantage goes much deeper. The Tax Foundation cites California as having the 33rd highest corporate income tax topping out at 8.8 percent -- much higher than Texas' modest 1 percent gross receipts tax on business.

California's capital gains tax is the highest in the country, whereas Texas levies no tax on capital gains. California's sales tax is the second highest in the nation and its energy taxes are the highest in the country.

And as California's taxes have gotten higher, the state's revenue has become more unstable.

"When you're taxing income that high you're not taxing wage income, your taxing capital gains and dividends, which is tying you to the most volatile form of taxation -- the corporate income tax," Kail Padgitt, economist and author of the Tax Foundations' annual State Business Tax Climate Index.

"That's the problem for California -- boom-time budgeting. Texas is more dependent on property taxes and stable forms of taxation and Texas' two year budget cycle requires more planning, and that's helped them."

The result is that California is inordinately dependent on taxing the wealthy, which has proven to be a poor economic strategy. The decline in tax revenues from households making over \$200,000 accounts for 93 percent of California's total decline in tax revenues since 2007.

When states tax wealthy earners too much, they often get up and move to where the tax burden is lower -- such as Texas.

While high-tax states like California are foundering, not-tax states are thriving. From 1997 to 2008, Texas and the other nine states with no personal income tax created 89 percent more jobs and had 32 percent faster personal income growth.

The lessons learned from California's progressive taxation apply to the whole country. A 2008 survey by the Organization for Economic Co-operation and Development found "taxation is most progressively distributed in the United States" -- even more so than socialist Europe.

If there are benefits of having high progressive tax rates, California shows that economic stability and job creation aren't among them.

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