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## Business



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### Tax haven

More of state's wealthy residents could make move to Nevada

By Dale Kasler -- Bee Staff Writer

Published 2:15 a.m. PST Friday, January 31, 2003

INCLINE VILLAGE, Nev. -- Bob Goff made the switch to Nevada seven years ago, leaving behind Silicon Valley for semiretirement in a land of tranquility and natural beauty.



Bob Goff, who moved to Nevada seven years ago, may soon be joined by more Californians who want to escape higher taxes.

Sacramento Bee/José Luis Villegas

And no state income taxes.

"A lot of people come here for reasons other than California's state income tax," Goff said, gesturing at a stunning view of Lake Tahoe from the wood-paneled study of his Incline Village condominium. "But I would quickly say all of us are aware of the tax advantages of Nevada versus California.

"The tax benefits are a very significant frosting on the cake."

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moved

to Nevada in recent years. Many have come to exclusive Incline Village, a sort of low-tax Shangri-La overlooking Tahoe's north shore.

Now, with Gov. Gray Davis urging the California Legislature to raise income taxes on the well-to-do, some experts believe the migration to Nevada -- and other low-tax states -- will pick up in earnest.

"We'll definitely see more individuals moving to Nevada," said Matt Woodhead, a Reno tax attorney whose clients include many former Californians. "There are people who have been on the fence; if anything this will be the increase that will finally push them to make the move."

True, Nevada is considering raising a variety of taxes, too, including higher taxes on property, cigarettes and alcohol, in an attempt to erase its own budget deficit. But Woodhead and others believe that won't halt the migration out of California.

Indeed, some economists say California could be in danger of losing many of its wealthiest citizens -- people who, because of California's progressive income tax structure, contribute a major share of the state's revenue.

In 2000, when stock market gains helped fill the state treasury, fewer than 44,000 Californians accounted for more than one-third of the \$40.37 billion the state collected in personal income taxes, according to Franchise Tax Board data.

Those Californians paid an average of \$346,000 that year in state income taxes, the numbers show. Raising their taxes will drive some of them away, said economist Nada Eissa, a tax-policy expert at the University of California, Berkeley.

"The rich are simply going to move out and go to Texas or wherever there's no state income tax," she said.

Perhaps more importantly, those leaving California for Nevada aren't just wealthy retirees. More and more of the expatriates are relatively young entrepreneurs, said Dan Schwartz, an Incline Village real estate agent.

Goff, who heads a start-up funding organization called the Sierra Angels, said Incline Village, Reno and the rest of northern Nevada are becoming hot spots for technology people. He said they're drawn by the lifestyle first and the tax consequences second.

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"In many respects this region reminds me very much of the early days of Silicon Valley," said Goff, who began marketing semiconductors in the 1960s.

Eric Severance, 49, a former Southern Californian who's founded a tech company in Incline Village, said he's having no problem recruiting top-quality employees.

"There's quite a bunch already here," said Severance, whose company, SoundPix, creates tools for merging audio with digital photos. "Either they are here, or are willing to move here."

Davis, faced with a budget deficit he pegs at \$34.6 billion, would add two new brackets to the current income tax structure, which currently tops out at 9.3 percent.

Under his plan, Californians at the new top bracket would pay 11 percent on income earned above \$272,230 for individuals and \$544,460 for couples.

The higher brackets would add \$2.58 billion to the state treasury in the fiscal year that begins July 1, according to the Department of Finance.

Davis' aides say the governor's proposal, which faces stiff opposition from legislative Republicans, won't spark a mass exodus to Nevada or other low-tax havens.

Although some will leave, "a small increase in taxes isn't enough for someone to forsake all that California offers and jump over the border," said Davis spokesman Steve Maviglio.

California will do what it can to stop the jumpers. State law puts the burden on taxpayers to prove they've truly moved out of state, instead of just buying property as a means of establishing residency.

The California Franchise Tax Board, the agency that collects state income taxes, occasionally challenges a taxpayer's residency, combing through utility bills, doctor's bills and so on.

One contentious case, involving semiconductor tycoon Gilbert Hyatt, now living in Las Vegas, is headed to the U.S. Supreme Court in late February.

In another case, professional golfer George Archer bought an Incline Village condo in 1989 and spent years fighting with the Franchise Tax Board over his residency. The board contended that Archer was still a Californian.

The matter ended in 1999 when Archer went to a hearing of the California Board of Equalization, which hears appeals from taxpayers, and tearfully declared that he was truly a Nevadan.

"Thirty-five years I've played golf, I've never been accused of cheating once," Archer said, according to the hearing transcript. "Yet the FTB ... just decided I'm a liar and a cheat."

The equalization agency sided with Archer. He didn't return a call seeking comment for this story.

Nonetheless, the Franchise Tax Board defends its practice of challenging residency switches.

"When we issue assessments like that, we're always going to be at odds with

the taxpayer," said board spokesman Pat Hill. "We are thorough in what we do, and we do the best job we can to collect the state's revenue and taxes, and we operate within the spirit of the law."

Nevada is the state of choice for ex-Californians, according to Internal Revenue Service data, and Incline Village (population 9,952) is the community of choice for many of the well-to-do.

Sometimes known jokingly as "Income Village," it is home to such former Californians as Michael Milken, the one-time junk bond king, and David Duffield, the founder of Bay Area tech firm PeopleSoft.

The town's toniest residential thoroughfare, Lakeshore Drive, is 17-Mile Drive in miniature, with giant mansions tucked behind security gates. The town's median home price is \$691,000.

"A lot of our clients are Californians, or from other high-tax states, for the obvious reasons," said Schwartz, the real estate agent. "They know that tax-wise, they have to be in Nevada. We get a lot of referrals from attorneys, CPAs."

Davis' tax plan has quickened the pulses of Schwartz and other Incline Village real estate agents, who suffered through a couple of soft years following the tech-economy slump.

"For certain people in higher tax brackets, there's a lot of savings," said Brian McGeever, a Tahoe real estate agent who works both sides of the state line. "It could even pay for the house."

All is not idyllic on the Nevada side. The influx of money into Incline Village has sparked a backlash among some longtime residents. The joke is that the billionaires are driving out the millionaires. There are nasty fights over building restrictions between some property owners and the Tahoe Regional Planning Agency.

In addition, there is grumbling about soaring property taxes and Nevada Gov. Kenny Guinn's recent call for \$980 million in higher taxes over the next two years -- although he didn't recommend the imposition of an income tax.

"We have our share of interesting economic challenges as well," said Lawrence Lieberman, a former Bay Area tech executive who moved to Incline Village three years ago.

But for young Incline Village entrepreneurs such as Robert Gryphon, it almost seems foolish to be anywhere else.

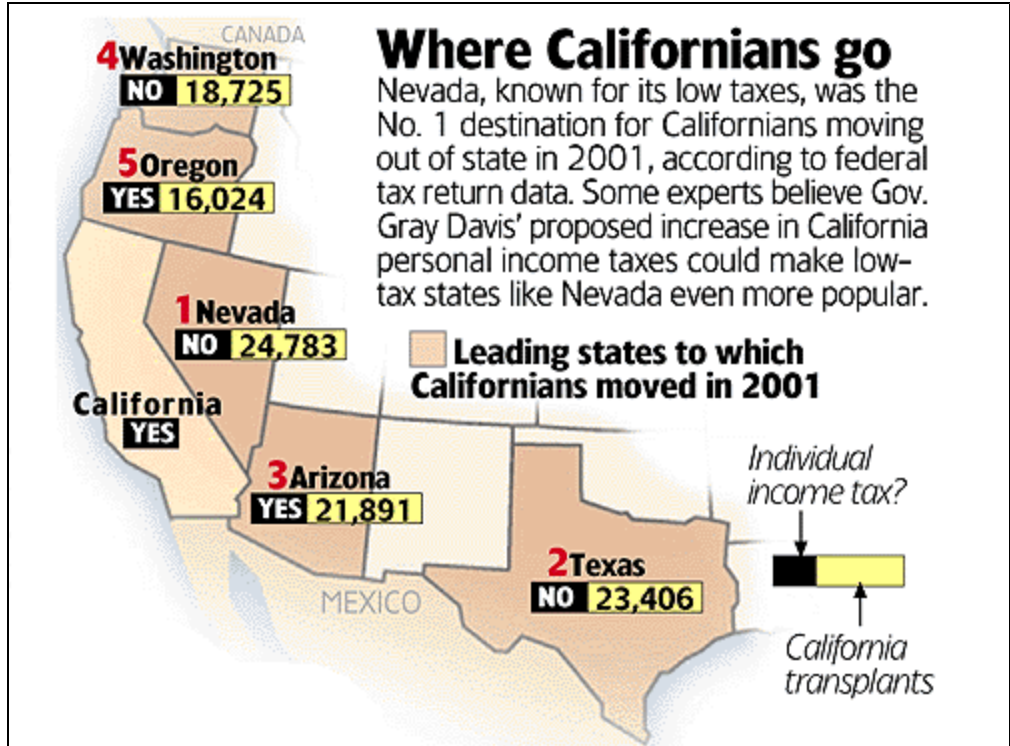
Gryphon, 32, made a fortune in the 1990s in high tech. He's lived in California, Hawaii and other states and moved here two years ago because he wanted to start a company in a state with no income tax. Gryphon Labs develops software and is busily recruiting Californians.

"The question is not, 'Why do people move away from California when these things occur?' " said Gryphon, who doubles as an independent filmmaker and favors black leather pants and boots. "I want to know, 'Why do people stay?' I am not kidding."

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**About the Writer**

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## Who pays the taxes?

Californians paid \$40.37 billion in state income taxes in 2000, the most recent year for which data are available. People earning more than \$1 million, who represented less than 1 percent of taxpayers, paid more than one-third of that total. Here's a sampling of how much tax was paid in 2000 by groups at different income levels - and what percentage of the total burden was paid by those groups.

Income level	Percent of taxpayers	Average tax paid per taxpayer	Percent of total tax burden paid by this bracket
\$20,000-20,999	1.6%	\$105	0.1%
\$39,000-39,999	1.1%	\$677	0.2%
\$70,000-79,999	3.8%	\$2,400	3.0%
\$200,000-299,999	1.5%	\$16,000	7.9%
\$1 million-plus	0.3%	\$346,000	37.6%

Sources: Internal Revenue Service, Franchise Tax Board, Bee research



Bob Goff, above, who heads a start-up funding organization, says technology companies are drawn to the area by the lifestyle first and the tax benefits second.

**Sacramento Bee/José Luis Villegas**



Nevada real estate agent Dan Schwartz, above, stands in an Incline Village home with a panoramic view of Lake Tahoe. Schwartz says more Californians moving to the area are young entrepreneurs, rather than retirees. Some experts predict that Gov. Gray Davis' plan to add two upper brackets to California's income tax structure would drive more wealthy residents to Nevada.

**Sacramento Bee/José Luis Villegas**

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