California

#49

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
49 ▼ 1	39 ▼ 1	49 ▲ 1	47 –	28 ▼ 3	24 ▲ 2

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 (which is seeing a resurgence with the rise of generative AI), but a tax code that is uncompetitive and threatens to get worse is increasingly driving jobs to other states.

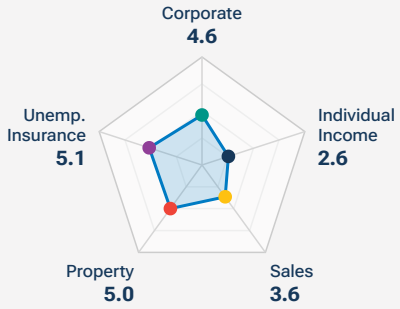
The state's top marginal individual income tax rate of 13.3 percent is compounded by a 1.3 percent uncapped payroll tax, bringing the all-in top rate to 14.6 percent. Additionally, nonresidents must file income taxes if they work even a single day in the state, and California is one of only four states 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, most recently through the end of 2026, 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. After years of conforming to the 2015 version of the federal tax code, California updated its conformity to the code as it existed on January 1, 2025 (with significant modifications). Even this conformity update was outdated from the start, predating changes adopted as part of 2025's One Big Beautiful Bill Act (OBBBA). Delayed conformity adds to tax complexity. Favorably, however, the state does not incorporate the tax on net CFC tested income under the OBBBA, 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.

Component scores

out of 10



California and its neighbors

Overall rank, 2027 Index, with change from 2026

Arizona	#17	▼ 3
Nevada	#21	▲ 1
Oregon	#37	▼ 1
California	**#49**	▼ 1