LAO

January 27, 2026

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative that would change the state's residency rules for state personal income tax purposes (A.G. File No. 25-0039, Amendment #1).

Background

California Residents Pay Tax on All Their Income. California residents pay state income taxes on all their income, including wages, investment income, and capital gains, even if the income was earned outside the state.

Nonresidents Pay Tax on California-Earned Income. Residents of other states pay California income tax on income from work they did or investments they made in California. These commonly include wages for temporary work performed in the state, owner income from businesses based in the state, and capital gains from selling real estate they own in the state. Nonresidents pay about 5 percent of all state income taxes.

Determining Residency. The state does not have a single rule for determining whether a taxpayer is a resident or nonresident for tax purposes. Instead, the state takes a detailed look at each taxpayer's professional, personal, and social connections to determine residency.

Proposal

New Residency Rule. Taxpayers who spend less than half of the year in the state and have their driver's license and voter registration in another state would be nonresidents for tax purposes.

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New Tax on High-Income Nonresidents Who Spend More Than Two Months in the State. Nonresidents who spend more than two months in the state would owe California income tax on all income above $2 million, including income earned outside the state. The amount of new tax owed would be in proportion to the amount of time they spend in the state.

Fiscal Effects

Decreased State Income Tax Revenues From New Residency Rules. Some current resident taxpayers (and taxpayers who were residents for part of the year) would become nonresidents under the new rules. Others resident taxpayers may change their behavior, for example by spending more time out of the state, to qualify as nonresidents under the new rules. Taxpayers who become nonresidents under the new rule would pay less state taxes as a result. This would result in decreased state income tax revenues of an unknown amount.

Increased State Income Tax Revenues From New Tax on High-Income Nonresidents. High-income nonresidents who spend more than two months in the state would pay increased state income taxes. This is because the state would collect taxes based on all their income and not just their California-earned income. This would result in increased state income tax revenues of an unknown amount.

Overall Fiscal Effect Unknown. The combined effect of the new residency rules and the new tax on high-income nonresidents is unknown.

Summary of Fiscal Effects. The measure would have the following major fiscal effects:

- Change in state revenues of an unknown amount.

Sincerely,

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for Gabriel Petek
Legislative Analyst

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for Joe Stephenshaw
Director of Finance