What Has Happened in Other States with High Tax Rates on Million-Dollar Incomes?

By Phineas Baxandall

Economic prosperity is built from the ground up. The states that are most successful in building strong high-wage economies have the best educated workers, and their prosperity relies on transportation systems that connect workers to jobs and housing.[1] Building and improving these systems requires revenue for investment.

Several states place high income tax rates on individual incomes that exceed an upper threshold. This paper considers the economic experience of the eight states with the highest top tax rates on high incomes – rates comparable to the "Fair Share Amendment" proposed in Massachusetts for incomes over $1 million. These states do not contain fewer taxpayers with million-dollar incomes by any measure. Nor have these high top-tax states seen less growth of million-dollar incomes.

While some recent commentary on tax policy in Massachusetts has focused on the possibilities that individuals with annual incomes over $1 million might leave the state, the most thorough studies of this issue have determined that millionaire-tax flight occurs "only at the margins of statistical and socioeconomic significance."[2]

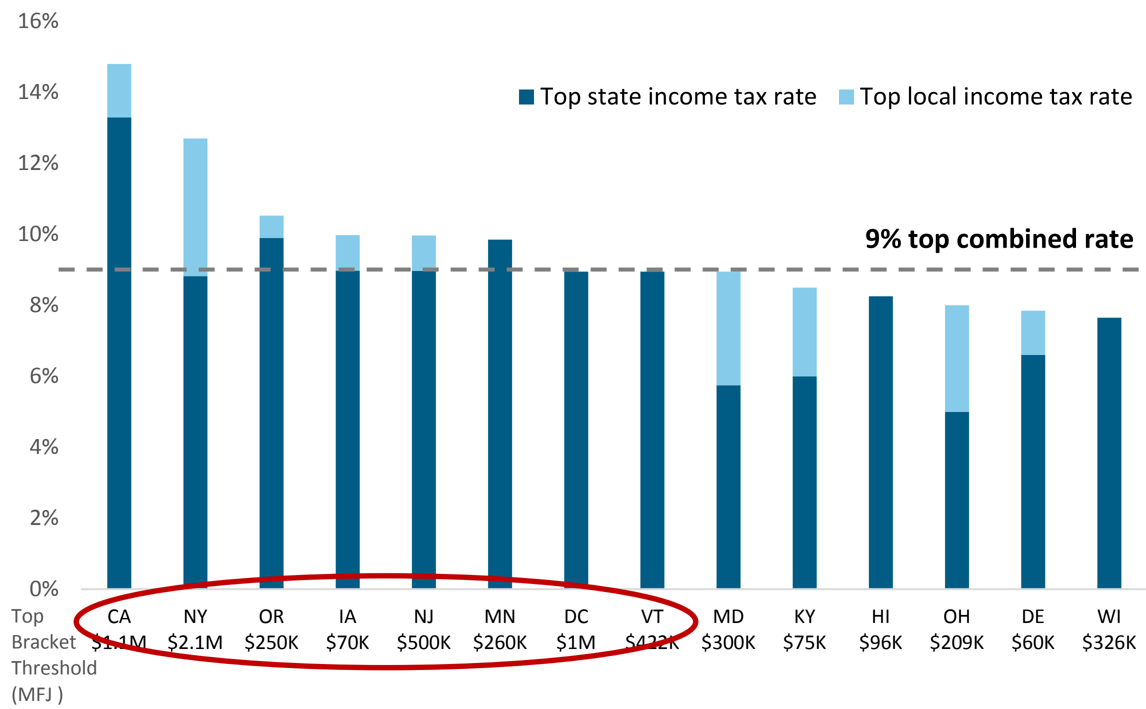
How Well Have States with High Top-Tax Rates Grown Million-Dollar Incomes?

Seven states and the District of Columbia have statewide taxes of approximately 9 percent or more for their highest income tax bracket: California leads the pack with a statewide 13.3 rate on income of $1.1 million or more, with an additional gross receipts and payroll expense tax levied on employers in the Bay Area. New York similarly has an 8.8 percent state income tax on income over $2.1 million that reaches 12.7 percent when New York City local income taxes are included.[3] Iowa, Minnesota, New Jersey, Oregon, Vermont, and the District of Columbia also have state income taxes that reach about 9 percent or more on the top income bracket.[4] This paper uses the familiar term "millionaire tax" to describe the top-tax rates in these states. The taxes, of course, are placed on income, not a household's accumulated wealth.[5]

Massachusetts is scheduled to vote on a ballot question that would fund investments in education and transportation through a 4 percent tax on income over $1 million. If approved, the measure would leave the first million dollars of personal income filed by an individual taxed at the current 5 percent rate, while bringing the rate, starting with a tax filer's "second million" in a single year, to 9 percent.

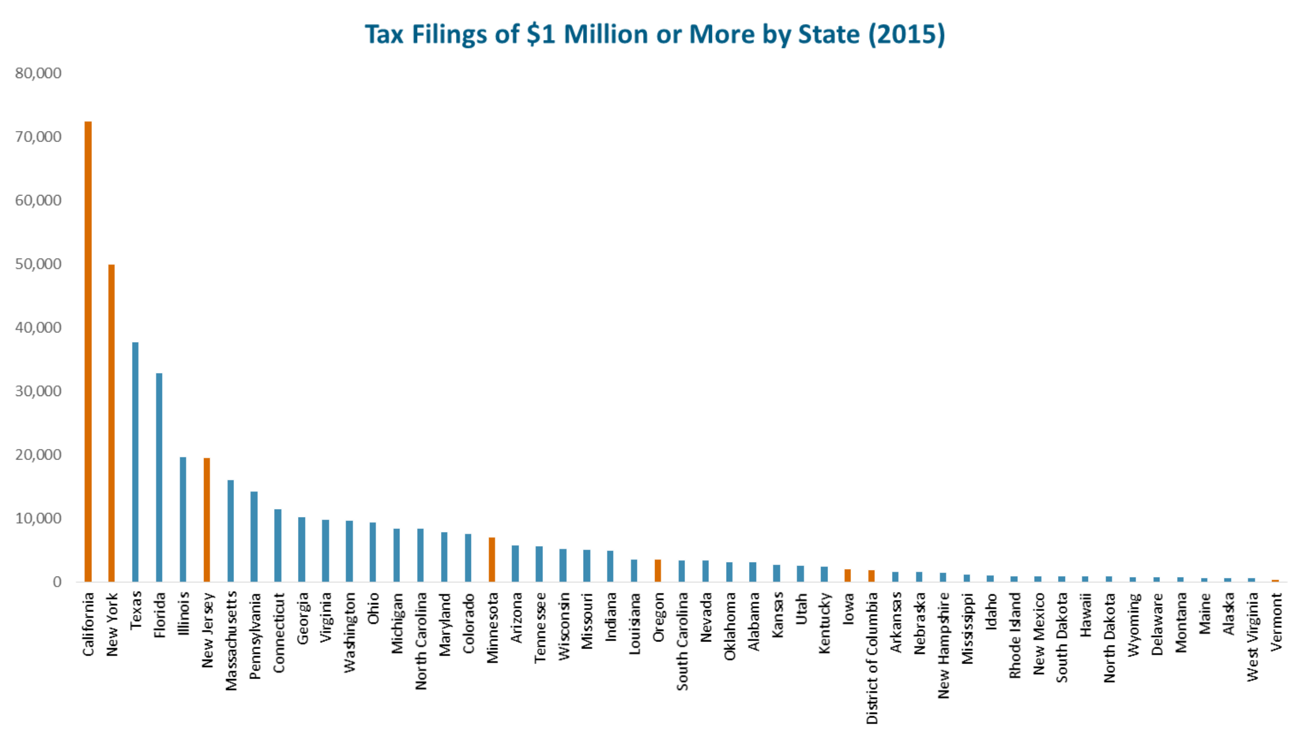
Eight States Have Tax Rates of About 9 Percent Statewide on Top Incomes

Top personal income tax rates (state + local, 2016) for states where top combined rate exceeds 7.5 percent

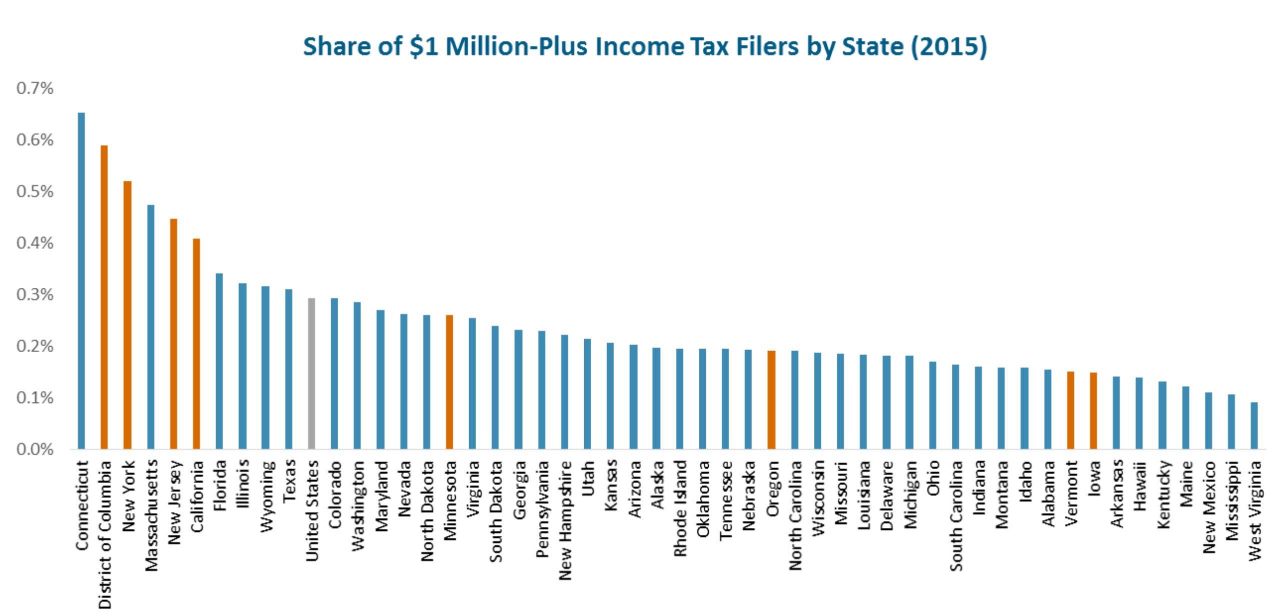


Do Millionaire-Tax States Have Fewer Million-Dollar Incomes?

A simple first question is whether states with high taxes on top incomes have fewer million-dollar income tax filings compared to other states. Internal Revenue Service data show that a relatively large number of million-dollar income tax filings come from these top-tax states. California and New York have the highest combined tax rates and the most taxpayers with incomes over $1 million. Their lead in the raw number of millionaires is largely because of their size: much of the difference in number of million-dollar tax filings is driven by the number of people and size of the economy for each state. But together the eight top-tax states contain 26 percent of all U.S. taxpayers and contain 36 percent of all taxpayers with incomes of $1 million or more. The concentration of millionaires in high tax states certainly doesn't prove anything about causation – it could be that states with more very high-income taxpayers are more likely to tax such people at higher rates – but it does make clear that states can have higher taxes on millionaires and still have high concentrations of millionaires.

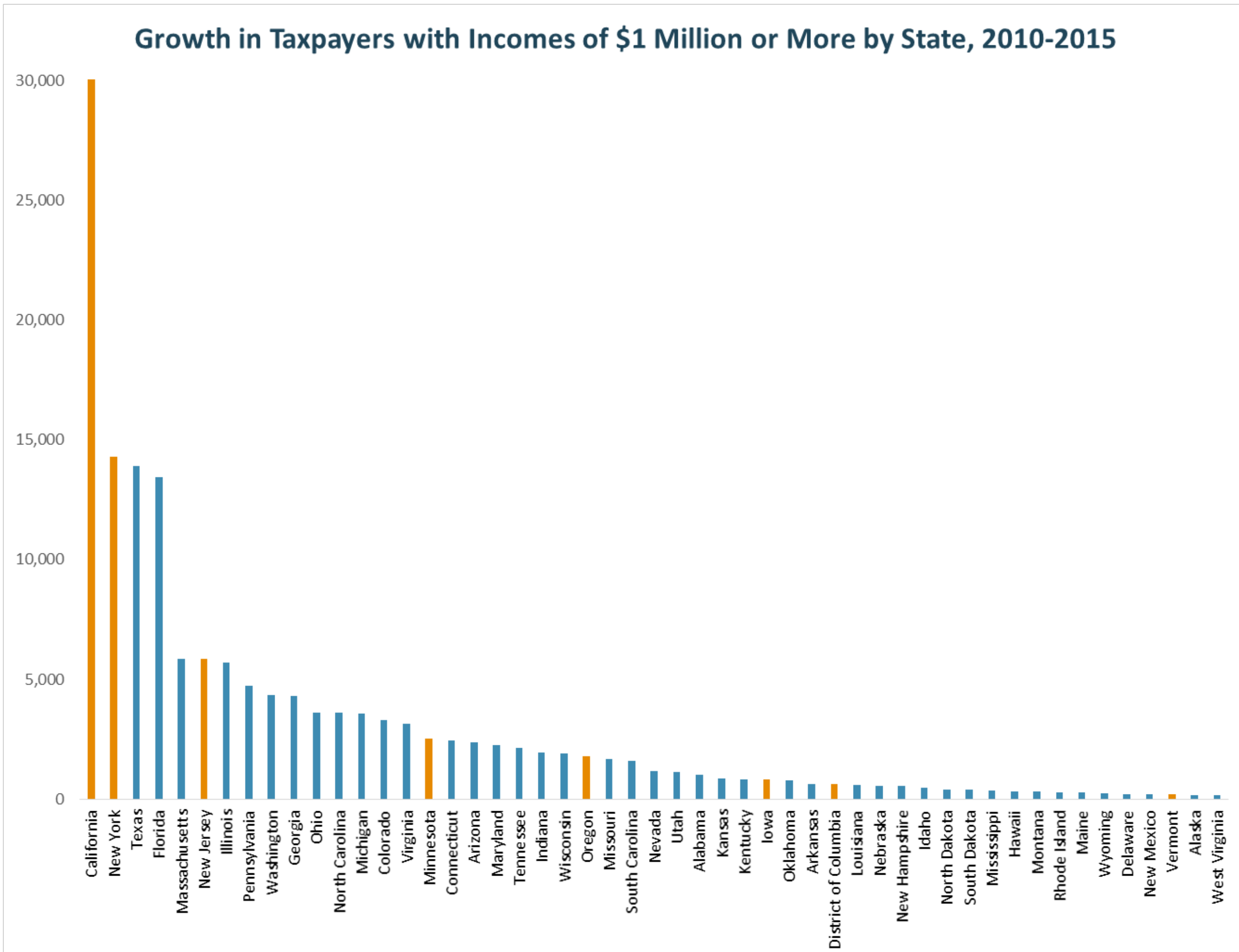


When comparing the *percent* of taxpayers with incomes of $1 million or more, the pattern is broadly similar: several of the states with higher taxes on millionaires are among the states with the highest share of millionaires. Less than one-percent of taxpayers in any state have annual incomes over $1 million, and the national figure is less than 0.3 percent. Four of the top-tax states rank among the ten states with percentages of millionaires above the U.S. average. Vermont and Iowa, on the other hand, are states with top tax rates of 9 percent but a relatively low share of millionaires.



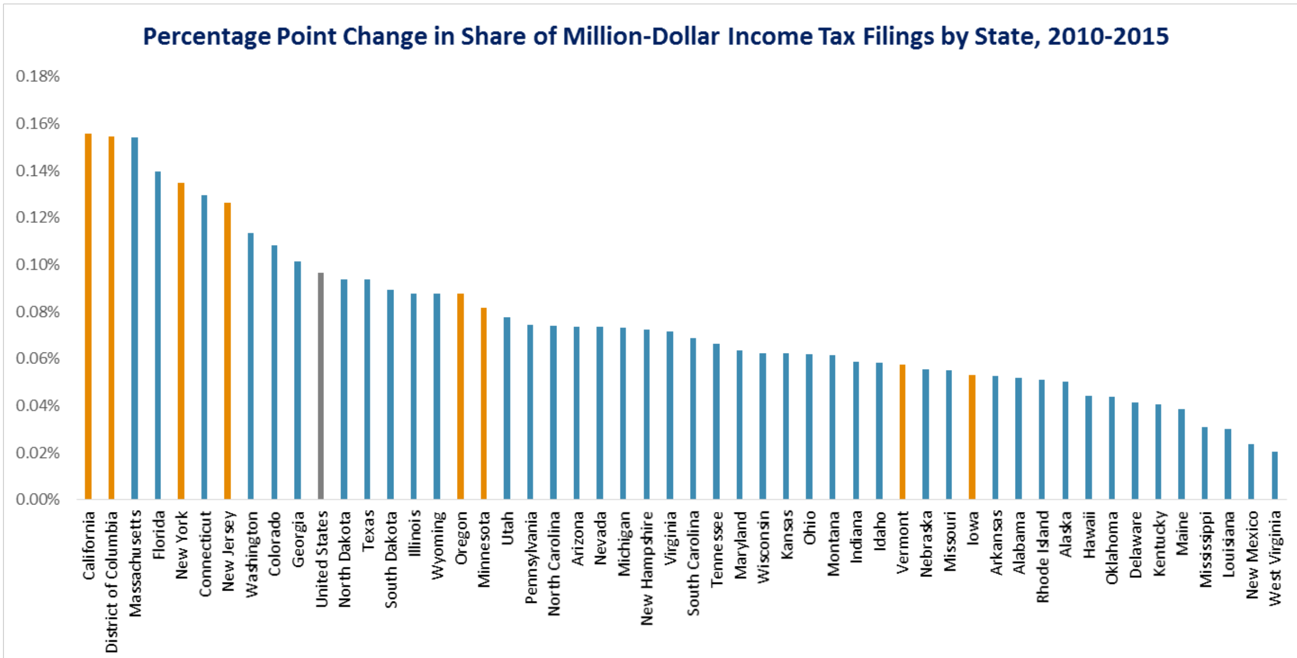
Do States With Millionaire Taxes See Less Growth in Millionaires?

If high "millionaire taxes" discourage the growth of incomes or drive away large numbers of high incomes from these states, then we would expect the chart below to show that the number of high-income tax filings in these states decreased over time or at least grew more slowly than in other states. Instead, the states with "millionaire taxes" have seen at least as strong growth in the number of million-dollar incomes as other states.[6] The two states with the highest millionaire taxes – California and New York – have seen the greatest gains in the number of millionaire taxpayers since 2010, the first year for which the IRS separately reports numbers of incomes exceeding the million-dollar threshold. The eight millionaire-tax states together, which contained 36 percent of U.S. taxpayers, saw 37 percent of the total increase in the number of million-dollar incomes across the country. Texas and Florida, two states with no income tax and the nation's second and third most taxpayers, also saw large numbers of new millionaires. No-tax Florida had 54 percent of California's taxpayer population in 2015, but the number of million-dollar tax filings grew only 44 percent as much.

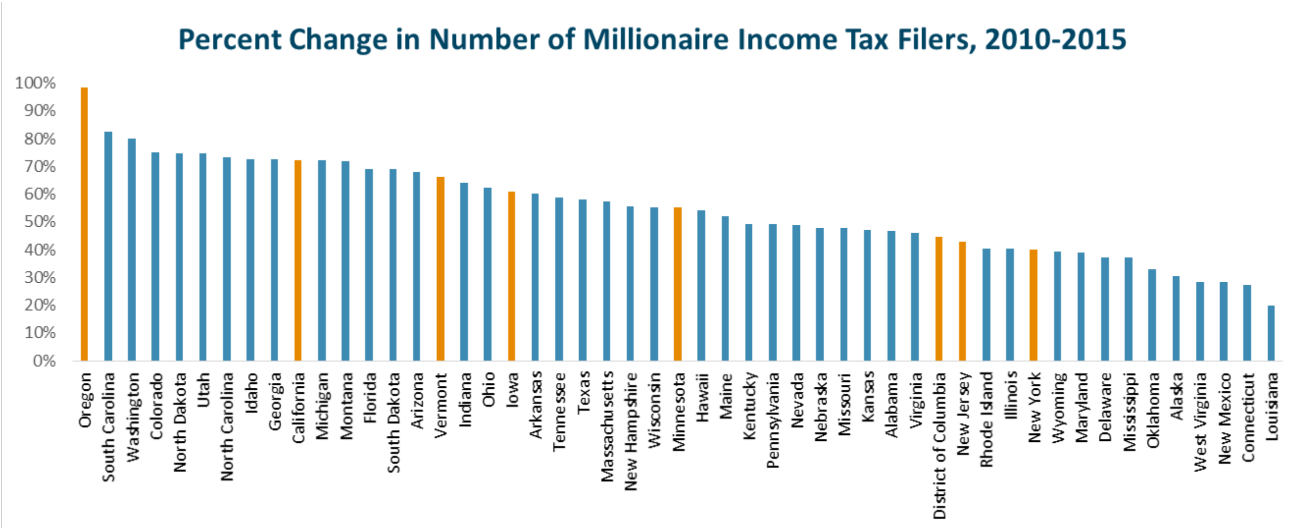


States with larger populations tended to experience more growth in million-dollar incomes because the vast majority of change in the number of millionaires results from *existing* residents' incomes rising or falling past the million-dollar threshold – not because high-income taxpayers are likely relocate to other states. In California, for instance, Stanford academics Charles Varner and Cristobal Young found that at least 98.8 percent of change in the number of millionaires was from income changes by existing residents.[7]

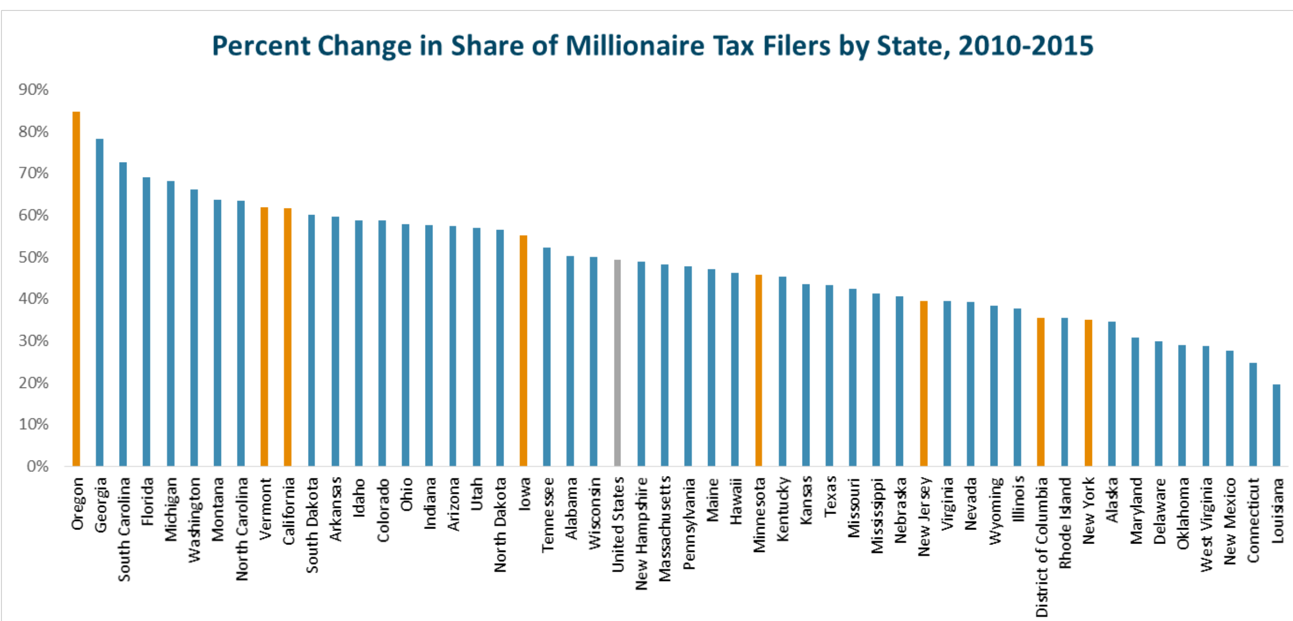
Because the size of the existing population largely determines growth in the number of millionaires, it is worth also comparing states based on change in the *share* of very high-income taxpayers over time. As the chart below shows, four of the top seven states with the biggest percentage-point increases in the share of millionaires had high top income tax rates. On the other hand, the relatively poorer and smaller states of Vermont and Iowa, which also have similarly high top tax rates, saw relatively slow growth in their share of millionaires. Overall, states with wealthier economies during this period tended to see larger increases in their share of millionaires. Other factors which make the economy prosperous largely determine the pace of change in million-dollar incomes in an economy.



The next two charts below compare the increase of millionaire incomes *relative to the preexisting number or share* of millionaire incomes in a state. The chart below shows states based on the percent change in the number of million-dollar income tax filings between 2010 and 2015. While all states saw an increase in million-dollar tax filings, the largest percent increase in the number of such filings was in Oregon, which almost doubled the number of millionaire taxpayers during this period. Oregon has one of the nation's highest top-income tax rates, which was at least 9.9 percent throughout this period. The rise in the concentration of millionaires in Oregon is particularly striking because the state shares a border with two states which have no income tax.[8] Oregon's biggest regional population centers also add an additional local tax of 0.6 percent on payroll. On the other side of the growth spectrum below, none of the ten states with the slowest percent growth in millionaires had high top tax rates. Three high-income states with high taxes rates – New York, New Jersey, and Washington, D.C. – perform less well ranked by this measure than in earlier charts. But overall, the existence of a high top tax rate does not show a clear connection to the percent change of millionaire growth.



Similarly, the chart below measures the growth in the share of millionaires between 2010 and 2015 relative to their share at the start of the period. This measure accounts for different rates of population growth and the possibility that it may be more difficult for states that start with a low percent of very high incomes to add an incremental share of tax filers beyond the million-dollar income threshold. For example, Oregon increased in its share of million-dollar tax filings by 0.09 percent, compared to New York's increase of 0.13 percent. But since New York began the period with about four times greater percentage of millionaires, the relative change to Oregon's share of million-dollar tax filers by this measure is thus more than twice New York's. Measured this way, the chart below shows that half of the eight states with top income tax rates were above the average U.S. growth rate and half were below average.



These different ways of measuring trends in million-dollar tax filings can highlight the relative gains of different sets of states, but no measure suggests a connection between millionaire taxes and the presence or growth of million-dollar incomes. The only state that ranks in the top ten by all measures is

California. The top tax rate is notably higher in California than other states, especially when local income taxes are considered on top of the state's 13.3 percent rate.

California's income growth also does not appear to be limited to millionaires. The rate of total income growth, measured by the IRS' standard Adjusted Growth of Income measure (AGI), shows California income grew 42.4 percent during the decade between 2005 and 2015. This growth exceeded the United States rate of 37.8 percent during this period.[9] Meanwhile, no-income-tax Florida saw total income grow 27.3 percent between 2005 and 2015, well below the national rate, despite population growth far greater than the national rate.[10] Florida's per-capita personal income grew slower than the national average last year, and has grown slower than California every year since 2010.

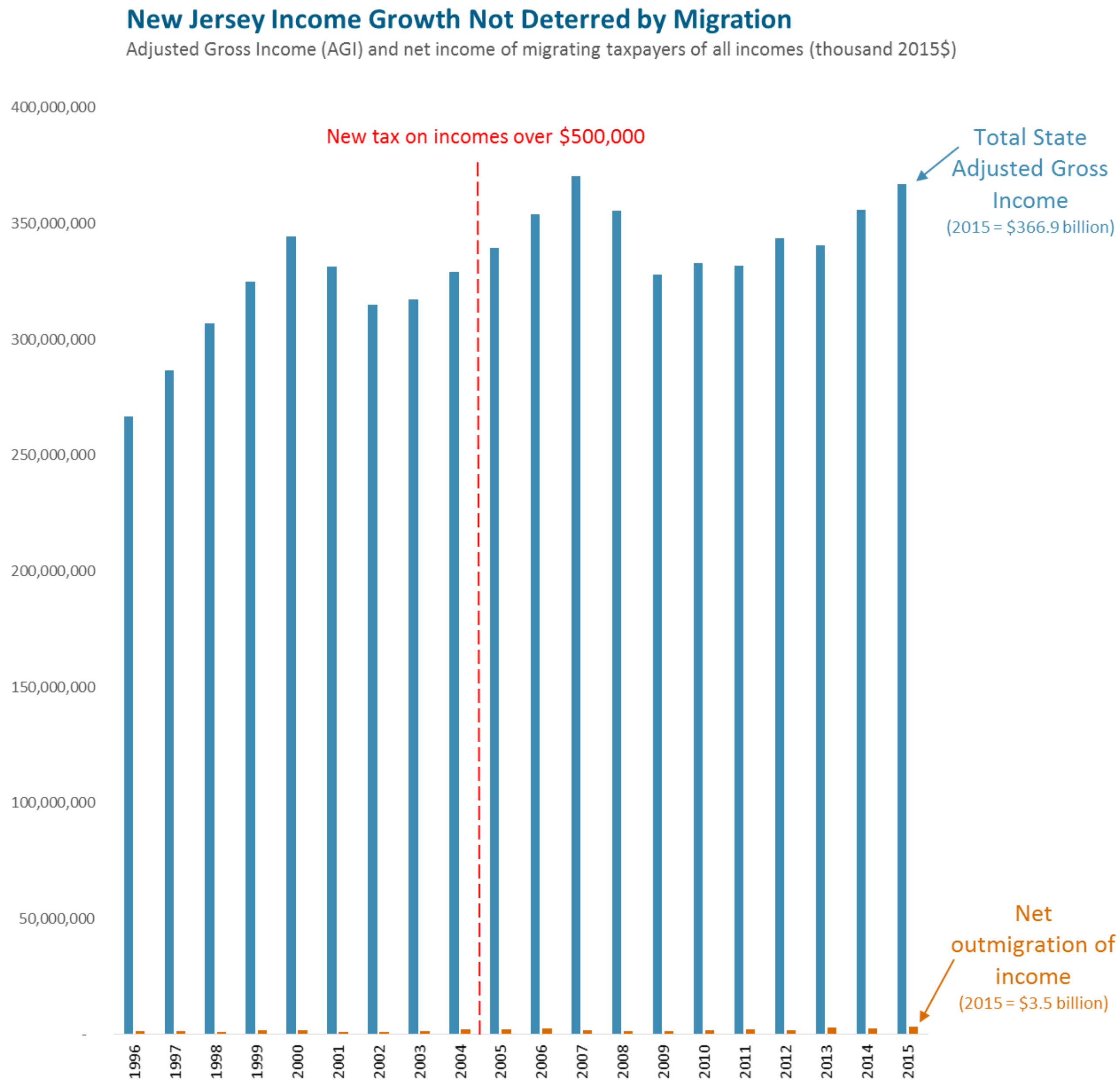
Millionaire Migration is a Relatively Minor Factor for State Economies

We know a lot about the characteristics of millionaire income tax filers because of a research collaboration between Stanford University scholars Charles Varner and Cristobal Young and U.S. Treasury economists which provided access to detailed data on the tax returns of every million-dollar tax filer in every county of the United States over a 13-year period. They find that individuals with very high incomes are less likely than other people to relocate to other states. This is largely because they share characteristics with other people who are unlikely to relocate their lives across states: they tend to be married, to have children, and not be young. They are likely to own a business and to be embedded in business and social networks.[11] Moreover, they find that super elites with even more extreme high annual incomes over $10 million are no more likely to migrate than those with million-dollar incomes.[12]

People with million-dollar incomes migrate less often than other people. One benefit of having a lot of economic resources is that individuals can choose where they want to live based on the amenities and personal factors. Moreover, the success of people with very high incomes is often dependent on business and social networks which make them what Professor Young calls "embedded elites." People tend to migrate when they are young, and become much less likely to relocate during the late-career stage when they are most likely to have high incomes. While people with very high incomes may have ready access to travel, this is not the same as an inclination to uproot.

The New Jersey Experience

Opponents of high top tax rates for very high incomes in Massachusetts often choose to focus on New Jersey and its 8.97 percent tax on incomes over $500,000 that was enacted in 2004. Total net outmigration of income from tax filers with incomes over $200,000 was twice as high in New Jersey as in California. But, as the chart below shows, even the scary-sounding numbers totaling all net outmigration of income since 2004 are actually very small when compared to the entire state economy and its growth. In New Jersey, the annual net migration of adjusted gross income (AGI) is less than 1 percent of total income.



Even the disproportionately small amount of net income migration – relative to other changes in the New Jersey economy – can't be equated with lost income from high top tax rates. Firstly, the $3.5 billion figure for New Jersey net income migration includes migration of all income groups. IRS data does not report what portion is for tax filers with incomes exceeding $500,000 or $1 million, but they do report the migration of income over $200,000.[13] This is a much larger group of taxpayers, but includes millionaires. For this larger group, net income migration is $2.3 billion. Secondly, migration is often motivated by other factors besides taxes. Only a fraction of relocations are to lower-tax states.[14] And only a portion of those will be motivated by taxes, as opposed to family, job opportunities, weather, housing, long commutes, or other factors.[15]

And thirdly, statistics about the "loss" of income from migration overstate the economic impact because the relocation of high-income residents across state lines doesn't necessarily mean that their income fully leaves the state. Much of the income "lost" actually remains or returns in-state. For example, if a Massachusetts surgeon retires and relocates to Florida, other doctors will take the patients and be paid accordingly. Most people can't simply take their income stream with them, unless it is investment income.[16]

Thus, even in New Jersey, migration of high-income taxpayers in response to "millionaire taxes" has been relatively unimportant. A strong state economy depends chiefly on factors that support existing residents increasing their incomes, including strong education and infrastructure.

The author would like to thank the following researchers for their assistance with data sourcing or interpretation: Michael Mazerov at the Center on Budget and Policy Priorities, Meg Wiehe at the Institute on Taxation and Economic Policy, and Mark A. Price at the Keystone Research Center. Any errors are the responsibility of the author.

Endnotes

[1] Across the country, the states with the economies that produce the highest median wages are those that have the best educated workforces. See "Educated and Encumbered," Chart 1 (MassBudget, Mar 2018). Comparing that chart to the third chart in this paper also shows the five states with the largest share of millionaires are all among the eight states (including Washington, DC) with the best educated workforces. See also Noah Berger and Peter Fisher, "A Well Educated Workforce is Key to State Prosperity" (Economic Policy Institute, 2013). On the importance of transportation to economic success see, "Building a Strong Economy: The Role of Education, Transportation, and Tax Policy," (MassBudget, Jan 2016).

[2] Cristobal Young, Charles Varner, Ithai Z. Lurie, and Richard Prisinzano, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," American Sociological Review 81, 3 (2016), p. 421.

[3] New York City and Yonkers have their own income taxes on individuals. In New York City, the rate varies from 2.9 percent to 3.6 percent. See The Balance, "U.S. Cities That Levy Income Taxes" (updated Feb. 2, 2017).

[4] While Hawaii increased its top tax rate to 11 percent this year, the tax has not yet been collected. And while Maryland has a combined state-and-local income tax rate of 8.95 percent in some counties, because the tax is not collected on individuals at these rates statewide. For examples of local rates, see NY State Department of Taxation and Finance, "New York City Tax Rate Schedule" (2017). Iowa School District taxes reach 17 percent of total tax bill (rounded to 1 percent total for this chart). See Iowa Department of Revenue, "Iowa Counties, School District Numbers, Surtax Rates for 2016." For tax rates, see "The Evidence on Millionaire Migration and Taxes, Massachusetts Budget and Policy Center, "Statistics", and Tax Foundation, "State Individual Tax Rates and Brackets for 2016." All rates presented for married filing jointly (MFJ).

[5] While almost 200,000 Massachusetts households are estimated to have investible assets over a million dollars, 17,230 had Massachusetts taxable *income* exceeding this threshold in 2014. For wealth-millionaires by state, see Wealth & Affluent Monitor, "Millionaires Ranking by State and Market Group Year-End 2017 Cycle" (2018), p. 7. For the Massachusetts Department of Revenue's most recent income tally see Department of Revenue, "Taxes on Adjusted Gross Incomes Over $1 Million by Municipality."

[6] The fact that all states saw an increase in million-dollar incomes between 2010 and 2015 is due in part to rising incomes, especially for those with the highest incomes during this period. It is also in part due to inflation: a dollar in 2015 had an inflation-adjusted value of 92 cents in 2010.

[7] Charles Varner and Cristobal Young, "Millionaire Migration in California: The Impact of Top Tax Rates," National Tax Journal 64, 2 (2012).

[8] In the counties along the Oregon border with zero-income-tax Washington State, there are greater concentrations of millionaires on the high-tax Oregon side. Stark differences in income tax rates between Oregon

and Washington have existed since the 1960s. Cristobal Young, *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich* (Stanford University Press, 2008), p. 30.

[9] U.S. Bureau of Economic Analysis, Table SA1, California's per-capita income growth from 2016 to 2017 was 3.5 percent, compared to 2.4 percent nationally and 2.2 percent in Florida.

[10] Florida's population grew 16.6 percent between 2005 and 2015, while the national increase was 11.2 percent (Census ACS data).

[11] Cristobal Young, Charles Varner, Ithai Z. Lurie, and Richard Prisinzano, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," American Sociological Review 81, 3 (2016).

[12] Young and Varner, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," American Sociological Review, June 2016, Vol. 81(3), pg. 433 (See statistically insignificant "Tax Migration Coefficient" for these households among "Economic Status" groups.)

[13] See Internal Revenue Service, "U.S. Population Migration Data"

[14] Among moves between states by tax filers with incomes of $1 million or more, some 32 percent of moves were to states where tax rates were more than 1 percent *higher* than the states they moved from; and 21 percent of moves were to states with tax rates within 1 percent of difference. For moves not involving Florida, the percentages were 35 percent and 27 percent, respectively. Cristobal Young, *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich* (Stanford University Press, 2018), pp. 23-26.

[15] The IRS does not publish data more specifically on migration of income over $1 million, but mathematically the income from this group must be a smaller percent than those with incomes over $200,000. A variety of research has shown that states experience different rates of population growth for reasons that may have little to do with the economy, much less taxes. For instance, some states have less available land and high housing prices that encourage people to locate elsewhere. Likewise, people tend to migrate toward states with better weather; and traffic congestion tends to limit population growth for metropolitan areas. See, for example, Jordan Rapaport, "Moving to Nicer Weather," Federal Reserve Bank of Kansas City, Research Working Papers (2006); "Productivity, Congested Commuting, and Metro Size," Federal Reserve Bank of Kansas City, Research Working Papers (2016).

[16] Michael Mazerov, "State 'Income Migration' Claims are Deeply Flawed," Center on Budget and Policy Priorities (2014).