



# Tax Increases Don't Prompt High-Income Households to Move Out of State

As Minnesotans debate an income tax increase on the highest-income households, they should do so knowing that a large and growing body of economic research makes it clear that such factors as job opportunities, housing costs, climate and being close to family are much more often behind moves from state to state - not changes in income taxes.

Targeted income tax increases under consideration include Governor Dayton's proposal to add a fourth income tax bracket on high-income Minnesotans and a House of Representatives proposal for a temporary tax surcharge on incomes above \$500,000 in order to reverse payment delays to Minnesota's school districts.<sup>1</sup> These measures provide resources to invest in strong communities with good jobs, safe streets and quality schools. Opponents of such proposals raise concerns that tax increases will cause large numbers of high-income Minnesotans to leave the state and take their tax dollars with them.

Analyses of states that have raised income taxes on high-income residents find these actions did not result in anything close to a dramatic change in the number of high-income households.<sup>2</sup> What follows are some examples.

## **New Jersey: Tax Increase Did Not Cause Millionaire Flight**

New Jersey's experience is that raising income tax rates on high-income households had a very small impact on whether those households chose to leave the state. In 2004, New Jersey created a new tax bracket on taxable income above \$500,000 a year. It was the largest marginal tax rate increase on high-income households passed by any state over a seven-year period. If tax changes have a strong influence on decisions to move, one would expect a substantial response. But researchers found otherwise, describing the tax increase's impact on whether high-income households moved out of state as "close to zero."<sup>3</sup>

Researchers reviewed state tax records from 2000 to 2007, encompassing years before and after the tax increase. Overall, movement from the state was not an important factor in the size of the state's millionaire pool. In each year, more residents with incomes over \$500,000 left New Jersey than moved in. But after the tax increase, upper-income residents left New Jersey at only a minimally higher rate than before — an increase of 5.2 households per thousand, or less than one percent annually. And the total number of New Jersey millionaires actually increased by 43 percent from 2002 to 2006.

The study also looked at moves by high-income residents not affected by the tax increase (incomes of \$200,000 to \$500,000) and found that they left New Jersey at approximately the same rate as those paying the new tax rate. This is further evidence suggesting that reasons other than income tax increases were driving relocation decisions.

## **Maryland: Economic Downturn, Not Taxes, Led to Drop in Millionaires**

Maryland created a temporary upper-income tax bracket on millionaires in 2008. The income tax increase stayed in effect for three years, expiring at the end of 2010. In 2009, Maryland had 2,324 fewer millionaires than the year before, leading some to conclude the tax increase drove millionaires from the state.

But that turned out not to be the true story. In reality, 1,960 of those "lost" millionaires, or 84 percent, did not leave the state.<sup>4</sup> They simply stopped being millionaires because their incomes dropped during the

economic downturn. (In fact, the number of households across the United States with annual incomes over \$1 million fell during the recession.) Only 364 Maryland millionaires who filed Maryland tax returns in 2008 did not file one in 2009, either because they moved out of state or died. The reduction was partially offset by 1,526 new Maryland millionaires in 2009, either because millionaires moved to the state or because current residents became wealthier.

The national economy, not state tax changes, was a more powerful influence on the number of high-income households in Maryland.

### **California: Moves Are Not the Major Driver of the Number of Millionaires**

Evidence from California reinforces the notion that tax increases are at most a small factor in people's decisions on where to live.<sup>5</sup> In 2005, California levied an additional tax on incomes above \$1 million. Researchers looked at households that paid the tax increase and a control group of high-income residents (incomes of \$500,000 to \$1 million) that were not affected by it. They found that the movement of millionaires out of the state actually slowed after the tax increase, even compared to the control group.

The study found that movement into or out of the state explains only a very small percentage of the fluctuation in the number of millionaires in California. Almost 99 percent of the change from year to year can be attributed to changes in income among these residents; many people who make \$1 million or more a year do so for only a short time. The researchers found that a major life change, such as a divorce, is a much stronger catalyst for interstate movement.

### **Policymakers Can Adopt Fourth Tier Without Fear of Flight**

The impact of taxes cannot be considered in isolation. Policymakers must also take into account what taxes pay for, such as police, teachers, librarians, public health nurses, roads and bridges, parks, an educated workforce and clean water. Strong and vibrant communities don't happen by accident, and they don't come for free. They come through wise public investments.

A state income tax increase on the most affluent residents will not cause them to leave Minnesota in significant numbers. What it will do is provide revenue for critical public investments that make people want to keep Minnesota as their long-term home.

---

<sup>1</sup> Governor Dayton's proposal would apply to taxable income above \$250,000 for married filing joint filers, \$200,000 for head-of-household filers and \$150,000 for single filers.

<sup>2</sup> Center on Budget and Policy Priorities, [Tax Flight Is a Myth: Higher State Taxes Bring More Revenue, Not More Migration](#), August 2011.

<sup>3</sup> Cristobal Young and Charles Varner, [Millionaire Migration and State Taxation of Top Incomes: Evidence From a Natural Experiment](#), *National Tax Journal*, June 2011.

<sup>4</sup> Institute on Taxation and Economic Policy, [Five Reasons to Reinstate Maryland's "Millionaire's Tax,"](#) March 2011.

<sup>5</sup> Charles Varner and Cristobal Young, [Millionaire Migration in California: The Impact of Top Tax Rates](#), 2012.