New State Millionaire Taxes

The millionaire tax trend:

                       California (2012)

States have traditionally had relatively flat income taxes.
The Tax Response Hierarchy

1. Real economic behavior
2. Avoidance
3. Income shifting
   - Timing
   - Moving

Joel Slemrod
Evidence from Prior Research

- No migration response among general population
  - Canadian provinces
  - Swiss cantons
  - U.S. multi-state cities

- Economies of place
  - Moving costs: Brokerage fees
  - Social costs: Leaving friends and social networks
  - Agglomeration economies: People do their best work when working with highly talented others.
Flight of the Millionaires?

States making competitive bids for high-income residents?

Millionaires shopping for the lowest tax?

**Empirical question:**
Do changes in top tax rates affect migration?
The California Millionaire Tax (2005)

Varner and Young, October 2012.
“Millionaire Migration in California: The Impact of Top Tax Rates.”
Annual Change in California Millionaires

Change in Millionaires: -10,000, -5,000, 0, 5,000, 10,000, 15,000, 20,000
Millionaire Migration is barely visible.
California Net Migration Rates, 2001-2007

- $500K - $1 million
- Millionaires

2005 tax increase

Expected millionaire pattern
Observed Out-Migration Rates by Income

Out-Mig Rate

Income Group

- $500K
- $550K
- $1M
- $1.8M
- $7M+

2001-04
2005-07
Observed In-Migration Rates by Income

In-Mig Rate

Income Group

$500K

$650K

$1M

$1.8M

$7M+
New Jersey Study


- Income over $500,000
- +2.6 percentage points, effective 2004

- Most likely scenario
  Easy to change states without losing social and economic ties
New Jersey Net Out-Migration Rate by Income

Per 1,000

New Jersey taxable income (2007$), log scale

2004-2007
2000-2003
Main Findings:

1) Despite out-migration, growing millionaire population: Domestic production

2) Tax flight: 1 per 2,000 millionaires

3) Higher for retired people, living on investments

4) $16 million in lost revenue from flight

5) $1 billion in new revenues
Income Dynamics of Millionaires

1) How many years are people in the millionaire bracket?

2) How much of their lifetime income is subject to the tax?
CA Millionaires’ Income Profile Over Time

Includes Focal Years 1996-2003
Conclusion

- There is little evidence for migration response to new top tax brackets in California and New Jersey.

- Millionaire taxes can help to bridge budget gaps with minimal risk of tax flight.

- Like most people, the wealthy depend significantly on economies of place.