

## The Road *Not*Taken: Debunking Migration Myths

States are addressing huge, recession-induced revenue shortfalls by cutting everything from kindergarten funding to services for Alzheimer’s patients — and more deep cuts are on the way. Policymakers should ask those who can best afford it to pay somewhat more, knowing that despite assertions to the contrary, there won’t be a mass exodus from higher income taxes. In short, policymakers should make tax decisions based on meeting real needs, and not based on unfounded fears.

When proposals are made to increase state income taxes on the wealthiest households, some critics claim that higher-income people will flee from the state. **No such flight has occurred in other states that raised top rates**, but critics haven’t stopped with these attacks, as some recent examples show:

- A recent CNBC.com article (4/5/11) advanced the tax-them-and-they-will-flee canard, noting that the top three destinations of people who left California between 2000 and 2008 were Arizona, Nevada, and Texas — which it calls “low-tax states.” But it **failed to mention** that during the same period, the top destination for people who left Arizona, Nevada, and Texas was ... California.
- A Bloomberg News story (2/4/11) headlined “New Jersey Population Growth Slows as Taxes Push Some to Flee” noted that the Garden State’s population grew much more slowly between 2000 and 2010 than most other states. It suggested that New Jersey’s top income tax rate — now 8.97 percent — was to blame.

But the 8.97 percent rate affects only a tiny share of New Jersey filers — the 1.2 percent with taxable incomes over \$500,000 — and those folks aren’t leaving. In fact, there is strong population growth within that income bracket. During roughly the same time period (1999-2008), **the number of New Jersey filers with incomes over \$500,000 grew by more than two-thirds**. As two Princeton University researchers, Cristobal Young and Charles Varner, conclude in a new report about the 2004 measure in New Jersey that set the 8.97 percent tax rate:

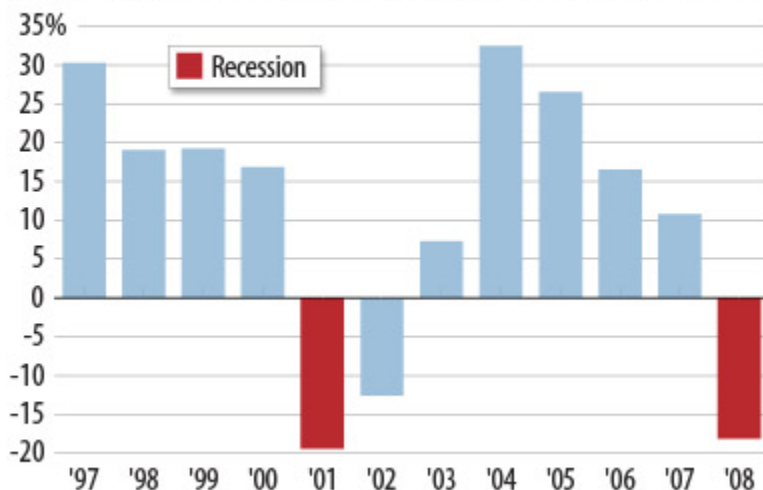
**“While in principle it is easier for tax avoiders to migrate out of state than out of country, the reluctance of people to do so gives states significant room to tax top incomes. Indeed, we estimate that New Jersey’s new tax raises nearly \$1 billion per year, and tangibly reduces income inequality, with little cost in terms of tax flight.”**

--Cristobal Young and Charles Varner, "Millionaire Migration and State Taxation of Top Incomes: Evidence From a Natural Experiment," *National Tax Journal*, June 2011, [http://www.princeton.edu/~varner/Millionaire\\_Migration.pdf](http://www.princeton.edu/~varner/Millionaire_Migration.pdf).

- A Connecticut Policy Institute report contends the state's top income tax rate of 6.5 percent is causing residents to flee. But as Robert Frank pointed out in the *Wall Street Journal* (2/14/11), **the state's population of top-income households is growing, not shrinking**. And many of those who leave go to New York, where tax rates are higher.
- Several states, including Maryland and Oregon, have reported a decline in their millionaire population after a tax increase, and advocates for cutting taxes have been quick to argue that this shows high-income residents are fleeing to other states with lower taxes. But IRS data call this claim into question, showing that **the number of households in the *entire country* with incomes above \$1 million dropped by 18 percent** in 2008 (see chart).

### Fewer Millionaires in 2008

Yearly Percentage Change in Income Tax Filers with Incomes Over \$1 Million



Source: IRS Statistics of Income (uses adjusted gross income).

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The logical explanation is the combination of the stock market collapse and the general economic downturn. The same thing happened close to a decade ago after the bursting of the dot-com bubble and the 2001 recession, as the chart shows. Those at the top of the income scale derive a large share of their income from investments. When the stock market crashes, their incomes take a big hit — if only temporarily. Incomes at the top took off again shortly after the 2001 recession, for example. So the next time you hear someone saying a state should cut taxes to keep the wealthy from departing, keep in mind that in difficult economic times like these, most of them are moving *down*, not *out*.