Millionaire migration following tax hikes a myth, study finds

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(Phys.org)—Anti-tax advocates argue that millionaires will flee from states that raise taxes on their highest earners. But a study by Stanford and Princeton researchers shows no evidence of millionaire migration in response to recent tax rate changes. Other factors, such as personal and business contacts, seem to weigh more heavily in deciding where to live.

Embroiled in the California debate over Proposition 30's progressive income tax proposals, some politicians have argued that raising taxes on the highest earners will drive them to states with lower tax rates, taking businesses and jobs with them.

But a study released by the Stanford Center on Poverty and Inequality concludes that "millionaire migration" is simply a myth.

Stanford's Cristobal Young, an assistant professor of sociology, and Princeton's Charles Varner, a doctoral candidate in sociology, conducted the study at the request of the California Board of Equalization, allowing them unique access to California Franchise Tax Board income data.

The mountain of data included information from all state income tax records for California from 1992 to 2009. The result of all that data crunching? The migration of millionaires in and out of the state has almost no relationship to tax increases or tax cuts.

Young said that having access to such comprehensive data allowed him and Varner to contribute compelling evidence to the income tax debate. "I think it's important that we can bring really high quality data to these kinds of issues," Young said.

The immense dataset, though a goldmine, also represented a challenge for the researchers, who pored over more than 300 million data points. "It was an entirely different technical world," said Young. "You have to be extremely careful with this kind of data. Everything gets triple checked and code reviewed."

The findings are consistent with the results of a study the team led in New Jersey last year.

The reason the number of California millionaires varies from year to

year has almost nothing to do with taxes, the researchers found. Instead, the numbers change as incomes fluctuate, most likely because investments are sensitive to market cycles.

Varner and Young looked at millionaire migration after California's 2005 Mental Health Services Tax was enacted, as well as after state tax cuts in 1996.

They found that millionaires did not flee as a result of the tax increase (in fact, more millionaires moved into the state than out during that period), nor did millionaires from elsewhere move to California as a result of the tax cuts.

Evidence of tax flight 'hard to find'

What could account for the fluctuations in California's millionaire population? According to the study, it's not due to tax changes or rich people leaving the state. Almost all of the fluctuation comes from income dynamics at the top, with taxpayers falling into and out of the millionaire income bracket as their income rises and falls across the million-dollar mark from year to year.

The temporary nature of such high earnings may help explain why the additional taxes in the study didn't cause a noticeable flight of millionaires.

Personal connections seem to weigh more heavily than tax rates in deciding where to take up residence. "People are tied to states for different reasons," Young said. "They don't want to take their kids out of school, they want to stay connected with friends, with families … with business contacts." People crowd together, from Silicon Valley to New York City, because of the returns associated with collaboration, he said.

The study's findings seem to dispel the "market metaphor," in which states advertise their low tax rates in a competition to woo high-income individuals. "This is a poor representation of how people decide where to live," Young said.

Young added that looking at the tax flight issue only scratches the surface of state financial woes. "People need to think about the depth of California's budget problems," he said. "I think there's much, much bigger things to worry about than this issue of tax flight because it's really hard to find any evidence of it."

The researchers hope to perform similar analyses in Maryland, Oregon and Washington – eventually comparing trends across states.

"I hope people hear, listen to and absorb what the evidence says on this issue," Young said.

Provided by Stanford University

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