Report: Data shows that taxes have minimal significance on high earners' intra-state migration

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David M. Kall | Thursday, June 9, 2016

A June 2016 report published by the American Sociological Review, ***Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data*** dispels the myth that aggressive taxation of the wealthy will cause them to migrate to states with more favorable tax rules. Instead, the report concludes that millionaire tax flight is occurring, but only at the margins of statistical and socioeconomic significance. Indeed, the evidence for elite tax flight rests entirely on high migration rates into Florida, and not to any other low-tax state.

The study

Two Stanford University scholars, along with two economists at the Office of Tax Analysis of the U.S. Department of Treasury, examined whether top income-earners are "transitory millionaires" searching for lower-tax places to live, or "embedded elites" who are reluctant to migrate away from places in which they have been highly successful. Among other things, the authors looked at confidential IRS tax returns for all federal income tax filers with reported earnings of $1 million or more in any year between 1999 and 2011, which existed in 45 million tax records representing 13 years of data on 3.7 million unique tax filers. They also considered state-level data on characteristics relevant to residential desirability, such as state per capita income, unemployment rates, price of residential land, and sales and property taxes, which are the core revenue sources for states with low income taxes.

Additionally, the authors took account of certain core empirical facts of elite mobility, including the following:

- In any given year, about 500,000 households file tax returns reporting $1 million or more, in constant 2005 dollars.
- From this population, only about 12,000 millionaires change their state in a given year.
- The annual millionaire migration rate is 2.4 percent, which is lower than the migration rate of the general population of 2.9 percent.

Findings

Plotting the data on an income–migration curve over the whole distribution of income, the report reveals that low income tax filers have the highest rates of migration.

For people who earn around $10,000, the rate is the highest, at 4.5 percent. Migration is lowest, at about 2 percent, for people making around $90,000. For income levels above $90,000, migration rates begin to rise again, but only gradually; for people making $5 million or more, the rate is just 2.7 percent. Thus, the data divulge that higher-income earners show greater residential stability and geographic embededness than low-income earners.

Marital status and the presence of dependent children both play prominent roles in millionaire embededness. Single people migrate at about twice the rate of marrieds, or 4.1 percent versus 2.2 percent, and 90 percent of millionaires are married, relative to just 58 percent of the general population. In addition, 50 percent of millionaires have children at home, compared to just 40 percent of the general population.

Business ownership is another important embedding factor – 23 percent of millionaires own businesses, versus 4 percent of the general population. The migration rate among millionaires who own businesses is just 2 percent. For millionaires who do not own businesses, the migration rate is 2.6 percent.

State-to-state migration

The authors also examined whether there was a general pattern of millionaires moving from high to low tax states. Leaving Florida out, they found that differences in tax rates between states, including low-tax states like Texas, Tennessee, and New Hampshire, do not draw millionaires from high-tax states, and have no effect on elite migration. Similarly, millionaires do not tend to cluster on the low-tax sides of state borders, even after considering the effects of modest tax policy changes, such as millionaire's tax proposals like the one in Massachusetts that we recently **discussed**.

The only state that offered a statistically significant result for millionaire migration is Florida, which is a leading destination for the wealthy. The Sunshine State is unique because it has no state income tax and is the only state with coastal access to the Caribbean Sea. Because such a determination is beyond the scope of the report, the authors stated that they were unable to reach a conclusion as to whether the "Florida effect is driven by tax avoidance, unique geography, or some especially appealing combination of the two."

Conclusion

What the authors characterize as their "most striking finding" is how little elites seem willing to move to exploit tax advantages across state lines in the United States. Even so, although millionaire tax flight does happen, it is only at the margins of statistical and socioeconomic significance. This is largely because millionaires are not very mobile, in part because of family responsibilities and business ownership.

Ultimately, although the transitory millionaire hypothesis that the wealthy pay more attention to taxes than the general population contains a grain of truth, it is a misperception of both elites and the attractiveness of moving to a different state. Millionaires are not frictionless agents with little or no social ties to a place, and they do not use their higher income to move; they are more, not less grounded in their states.

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Team member bio