If you tax the rich, they won't leave: US data contradicts millionaires' threats

Does raising taxes on the rich really trigger their migration to more obliging states or countries? This study of every million-dollar earner in the US shows otherwise

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In the classic Ayn Rand novel Atlas Shrugged, the rich go "on strike" – withdrawing their services and disappearing from society in protest against taxes and regulation. Weary of carrying an ungrateful world on their shoulders, business leaders and other top income earners finally shrug, and leave the world without them.

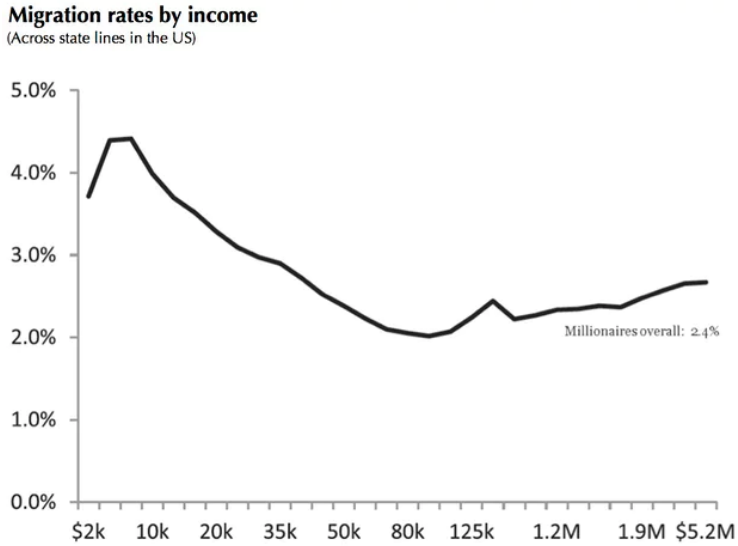
The book’s metaphor inspires political rhetoric to this day: if you tax the rich, they will leave. Variations on the threat are issued by well-off individuals all over the world - not least in the United States, where each state sets its own tax policies, and periodic warnings are issued that taxes on the rich will lead to millionaire migration to more obliging US states.

When Oregon voters passed a millionaire tax at the start of this decade, for example, the state’s richest resident, Nike CEO Phil Knight, warned the tax would set off a “death spiral ... in which thousands of our most successful residents will leave”. As California considered similar taxes, policymakers cautioned “nothing is more mobile than a millionaire and his money”. In New Jersey, governor Chris Christie simply stated: “Ladies and Gentlemen, if you tax them, they will leave.”

But does this rhetoric stand up to statistical scrutiny? To better understand elite migration across state lines, I analysed tax return data from every million-dollar income-earner in the United States. The dataset includes 3.7 million top-earning individuals, who collectively filed more than 45 million tax returns over more than a dozen years - showing where millionaires live and where they move to.

And it turns out that place still matters for the rich - much more so than we might think.

Only about 2.4% of US-based millionaires change their state of residence in a given year. Interstate migration is actually more common among the US middle class, and almost twice as common among its poorest residents, who have an annual interstate migration rate of 4.5%.



Source: US Department of the Treasury (1999-2011)

While travel may be a classic "luxury good", migration is not. Moving one's home, life and family to a different place is mostly about people who have a poor economic fit with where they live, earn below-market incomes, and are struggling to find a livelihood. Higher income earners show low migration levels because they are not searching for economic success - they've already found it.

When millionaires do move, they admittedly tend to favour lower-tax states over higher-tax ones - but only marginally so. Around 15% of interstate millionaire migrations bring a net tax advantage. The other 85% have no net tax impact for the movers.

Furthermore, almost all of the tax-migration moves are to just one low-tax state: Florida - where low-income taxes comingle with sun, sand and palm trees. Other low-tax states such as Texas, Tennessee and Nevada do not pick up any net tax-migration. So while some millionaires have moved to lower tax states over the years 1999-2011, the flows have been too small to change the geography of the economic elite in America.

The world view

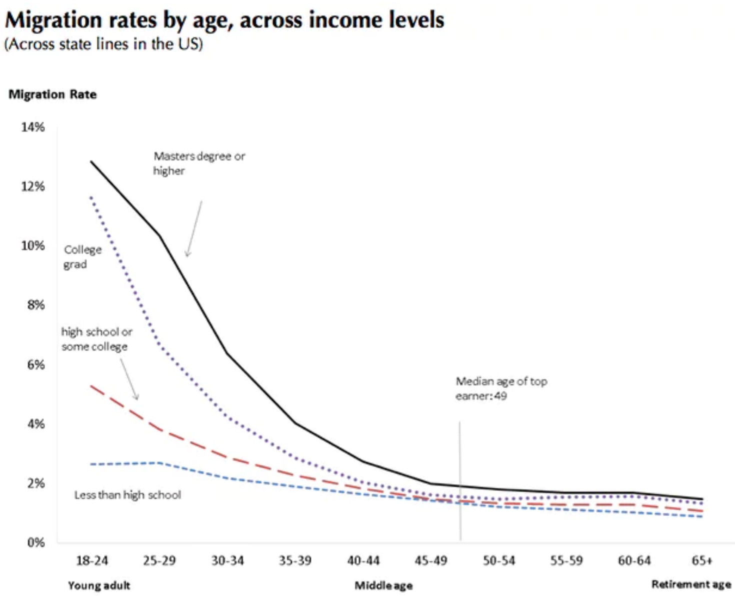
The Forbes list of the world's billionaires offers an international look at elite migration, and takes us higher up the food chain to the greatest corners of wealth.

Analysis of this list shows most of the world's billionaires - about 84% - still live in their country of birth. And among those who do live abroad, most moved to their current country of residence long before they became wealthy - either as children with their parents, or as students going abroad to study (and then staying).

Only about 5% of world billionaires moved abroad *after* they became successful. These individuals readily fit the stereotype of a "transnational capitalist class" - unplugged from their nation state, travelling the world for some combination of tax avoidance and cosmopolitan lifestyle.

Many of them can be found in London claiming "non-dom" status to avoid the tax laws of both their homeland and those that apply to British citizens. Others are located in tropical tax havens - such as Sir Richard Branson, who moved to the British Virgin Islands after becoming a billionaire.

These jet-setting billionaires generate a lot of headlines and cynicism about tax flight. But they are anecdotal exceptions. The world's billionaires largely live where they were born or where they began their careers. The British elite live in Britain, the Chinese elite live in China, and the American elite live in America. After making it on to the Forbes billionaire list, elites are actually more likely to die than to move to a different country.



Source: American Community Survey (2005-14)

Why do the rich have such low migration rates? And why is common intuition about elite migration so wrong? It turns out that education is a big part of the remaining puzzle.

People with high levels of education have very high mobility - but only for a short period after finishing their education. If you know people who have been geographically mobile, the chances are they have a higher-level education. However, once they have made a solid start to their career, the chances are also that they will not move again.

Migration is a young person's game, and moving overwhelmingly occurs when people are starting their careers. By the time people hit their early forties, PhDs, college grads and high school drop-outs all show the same low rate of migration.

Typically, millionaires are society's highly educated at an advanced career stage. They are typically the late-career working rich: established professionals in management, finance, consulting, medicine, law and similar fields. And they have low migration because they are both socially and economically embedded in place.

In the US tax data, while most of the millionaires' incomes come from wages and salaries, a quarter of them also own a business. Almost all of them are married, and most have children at home. For all these reasons, places are sticky - it is hard to move after making a career and family in a place.

If millionaires were mostly college-going twentysomethings not yet tied to place by career or family responsibilities, place-based income tax systems would face serious challenges. We would be trying to tax the rich exactly when they are most mobile. But this is not the case. Typically, people make decisions about where to live almost two decades before they hit their peak earnings.

This shows a kind of unexpected genius behind taxes on the very highest incomes. A tax on million-dollar income serves as an intergenerational transfer, since those who pay it are the late-career working rich: socially and economically embedded in the place.

In contrast, most of the people who are mobile - early career professionals - do not really care about the “millionaire tax”, because if they ever pay it, it will be decades in the future, and only if they are wildly successful.

Millionaire tax revenues could be used to invest in things that matter to young people starting out: education, infrastructure, public services, urban amenities, quality of life. And this would help to attract and retain a pipeline of future top-earners, creating a virtuous tax circle.

This is why places with highly progressive income taxes - such as New York and California - still thrive as centres for talent and elite economic success. Their policies focus on the pipeline of future top earners. They invest in what attracts mobile young professionals - quality of life - and only send them the bill if and when they achieve their highest aspirations.

Cristobal Young is the author of The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich (Stanford University Press). He will be in conversation with Ed Miliband MP at the London School of Economics from 6.30pm today

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