Eight more responses to Professor Young—nine really

Gregory W. Sullivan
May 22, 2018

Professor Young has issued a response to Pioneer Institute's "Eight Reasons to Question Professor Cristobal Young's Conclusions about Millionaire Migration." Pioneer's response follows.

Pioneer's Reason 1: Professor Young overlooks a vast proportion of millionaire migration in the U.S. because his research is limited to taxpayers who file federal tax returns with incomes of $1 million or more from one state in one year and then file a federal tax return from a different state in the following year.

Professor Young responds to Reason 1 by conceding that "The lead criticism is that I did not consider people who are millionaires by net worth. That is largely true." He continues by arguing that the initiative petition to amend the Massachusetts Constitution pertains to those earning $1 million or more. He adds that billionaires also have lower migration rates than the middle class or the poor.

Pioneer's Comment: Professor Young concedes that he does not consider people who are millionaires by net worth; this is a significant concession given that our paper points out that Professor Young's research methodology counts only 438,370 millionaires in the U.S. in 2015, a small fraction of net-worth millionaires. For example, the Federal Reserve Board estimates that in 2016, the U.S. had 4.43 million households with net worth of between $2.5 million and $10 million. Of these 4.43 million households, 4.09 million (92.3 percent) had incomes of less than $1 million in 2016, with an average income of $306,087, and therefore would not be counted as millionaires using Professor Young's methodology if they moved to another state in the following year. Our paper delineates similar data for five ranges of net worth. Pioneer's paper points out that Professor Young's methodology misses many high net-worth taxpayers who move to another state and then earn more than $1 million, as well as those who have earned more than $1 million in annual income in previous years. Losing these taxpayers would have a substantial economic impact that should not be ignored. Our paper also points out that nearly 30 percent of net-worth billionaires earned less than $1 million in income in 2016.

Pioneer's Reason 2: IRS data show that taxpayers who earn more than $1 million in annual income do so infrequently.

Professor Young responds to Reason 2 by stating that "We showed that highly persistent millionaires have lower migration rates – they are more tied to place than one-time millionaires. However, when they do move, they are more likely to make their destination a lower-tax state. These two effects largely cancel each other out."

Pioneer's comment: Professor Young's response ignores the point that Pioneer is making about persistence of millionaires, but in doing so he acknowledges that persistent millionaires are more likely to make their destination a lower-tax state. In a 2016 journal article he reported that taxpayers who earned $1 million or more once in a 13-year period had a migration rate of 3.2 percent, those who did so two-to-three times had a migration rate of 3.1 percent; four-to-seven times was 2.6 percent and eight or more times 1.9 percent. The most widely cited finding of Professor Young's research is that, overall, only 2.4 percent of millionaires relocate each year; i.e., those who earned $1 million or more in the year before relocating. This figure has been cited far and wide in newspaper and magazine articles. In his 2016 *American Sociological Review* article, Professor Young writes "In any given year, roughly 500,000 households file tax returns reporting $1 million or more (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."[1]

In 2015, the U.S. had 438,370 taxpayers with incomes of $1 million or more, according to IRS data. By Professor Young's estimate, 2.4 percent of these would be 10,520 millionaire migrants in 2015-16. The problem with this estimate is made clear by the "persistence of millionaires" data indicating that high net worth individuals do not earn $1 million or more very often, indicating that far more than 10,520 millionaires are likely to be relocating each year. To demonstrate the significance of the persistence of millionaires data consider that if 2.4 percent of the 4.8 million households in the U.S. with net worth of $2.5 million or more in 2016 (according to Federal Reserve Board data) relocated to another state, the total migration would be 115,200 per year, 10 times Professor Young's estimate of 10,520.

Professor Young misses the point by responding that less than 2.4 percent of persistent millionaires relocate each year, ignoring the significance of "persistence of millionaires" data, which is that 2.4 percent of a much larger number move each year. He does not report how many millionaire migrants this amounts to. According to Federal Reserve Data, the total net worth of 115,200 households in the U.S. with net worth of $2.5 million or more in 2016 is $501.6 billion. In other words, if Professor Young is reporting data about less than 10 percent of actual millionaire migrants, his research is overlooking migration of more than 100,000 households with a cumulative net worth of more than $450 billion each year.

Pioneer's Reason 3: Professor Young does not count taxpayers as being millionaire migrants unless they had filed a federal tax return with income of $1 million or more in the year before they moved, even if they changed domicile to a lower tax state to take a multi-million-dollar gain in a jurisdiction with lower taxes.

Professor Young responds to Reason 3 by writing, "My work has defined millionaires as those making a million dollars in the year that they moved. It is possible, however, that people can foresee when they are about to earn $1M+, and move to a low-tax state just before this happens." He adds that most millionaires are the "working rich," and earn most of their income is from wages and salaries.

Pioneer's comment: Because Professor Young's research does not examine whether taxpayers earn more than $1 million after moving to another state, his data does not incorporate instances where high net-worth taxpayers realize large capital gains and income distributions after moving to another state. This constitutes a significant shortcoming of his analysis. To grasp the significance of this definitional limitation, consider that it excludes 13.7 million U.S. households with a cumulative net worth of $45.2 billion who had net worth of $1 million or more but incomes of less than $1 million in 2016, according to Federal Reserve

Board estimates. Among this excluded group are 698,645 households with net worth of $10 million or more but annual income of less than $1 million in 2016. These households had an average income of $498,151 in 2016. The cumulative net worth of this group was $12.72 trillion in 2016, an average of $18.2 million per household, including $4.6 trillion in cumulative unrealized capital gains, an average of $6.6 million per household. If one of these taxpayers moved to a state with no capital gains tax in 2017 to realize a large capital gain or distribution and pay no state taxes on it, Professor Young would not characterize it as millionaire migration.

Pioneer's Reason 4: Professor Young pays too little heed to the Florida effect.

Professor Young responds to Reason 4 by stating, "This is odd, because in Young et al (2016), the word Florida appears on 33 occasions, and there is a subheading in the article titled, "The Florida Effect." He adds that "A lingering question is, if Florida adopted a millionaire tax, would Texas or New Hampshire become the new destination for millionaire migration? Or would east coast elites continue to see Florida as an attractive location? I believe that at least some of the migration to Florida is strictly for tax purposes. But I also suspect that sun, sand, and palm trees would be attractive even if Florida had the same tax policies as New Jersey or New York."

Pioneer's comment: In our paper, we cite Professor Young's writing that "evidence for tax migration is largely driven by Florida as an attractive destination for U.S. millionaires" and that "[t]he uniqueness of the Florida effect is a very robust finding." His 2016 journal article states:

> Florida has no state income tax, but it is also attractive in other unique ways—for example, it is the only state with coastal access to the Caribbean Sea. It is difficult to know whether the Florida effect is driven by tax avoidance, unique geography, or some especially appealing combination of the two. Disentangling these factors for one specific state is beyond the scope of this research but is an important venue for future study.

Pioneer's paper points to the enormous scale of Florida's net in-migration. Making the case that millionaires are little affected by state tax policy is difficult with Florida in the mix. Florida was by far the most attractive destination for migrating U.S. taxpayers from 1992–93 to 2014–15. The Sunshine State added $133.65 billion in cumulative net adjusted gross income (AGI) over this period across all income levels, according to IRS Statistics of Income data. Florida had a total of 56,093 migration inflow returns of taxpayers with AGIs of $200,000 or more from 2011–12 to 2014–15. The average AGI of these returns was $820,272. Florida's inflow returns over this period totaled $46.01 billion. IRS data showing Massachusetts' net migration of AGI from 1992–93 to 2015–16 for all tax returns regardless of income level shows that Massachusetts experienced a cumulative net outflow of $15.9 billion in AGI over this period. Massachusetts had a net out-migration of AGI to Florida of $8.2 billion, representing 47.3 percent of Massachusetts' total AGI net out-migration.

Pioneer's Reason 5: Professor Young's conclusions do not take into consideration data showing that states with no state capital gains tax have the highest average capital gains reported on federal tax returns.

Professor Young responds to Reason 5 by stating:

> Capital gains taxes are of course interesting. However, few millionaires make their money from capital gains. Only 11 percent of millionaires make the majority (75 percent or more) of their income from capital (Young et al 2016:433). He adds that "Neither migration nor tax flight is notably different between 'capitalists' (those with high capital gains) and the working rich (those with high salaries) – as reported in Young et al (2016:433). Both have low rates of migration, and both have a level of tax flight that is essentially negligible for the millionaire population in a state. As noted above, I am conducting ongoing research on capital gains responsiveness.

Pioneer's comment: Professor Young side steps the criticism regarding his lack of consideration of capital gains taxes. To begin with, we do not accept Professor Young's contention that "75 percent or more of income"" is the correct definition of a majority of income. More significantly, we do not agree that capital gain income is an insignificant issue to consider when tracking millionaire migration because high net-worth taxpayers who earn less than $1 million in annual income hold an astronomical amount of unrecognized capital gains. According to the Federal Reserve Board, there were 13.7 million U.S. households with net worth of $1 million and annual income of less than $1 million. These households, which are not counted by Professor Young's methodology, had unrealized capital gains of $12.8 trillion. By comparison, the entire federal budget for 2016 was $4.04 trillion. We note also that the four states with the highest average federal capital gains income among those earning $500,000 or more in AGI all had no state capital gains taxes. Aside from this telling distinction, one would not expect these states (Wyoming, Nevada, Florida, and Washington) to be national leaders in capital gains income among high earners. One might expect that distinction would go to states that are considered national centers of finance, insurance, and industry like New York, New Jersey, California, Massachusetts, and Connecticut. Such evidence seems to make a common-sense case for the argument that taxpayers do in fact take state tax rates into consideration when deciding where to take capital gains income. Taxpayers who relocate to a zero-capital gains tax state in order to realize capital gains are effectively overlooked by Professor Young's methodology.

Pioneer's Reason 6: Professor Young does not consider the impact of state-imposed estate taxes on taxpayer migration.

Professor Young responds to Reason 6 by stating:

> The proposed millionaire tax does not tax estates – nor do any of the other state millionaire taxes in the U.S. So, for this issue, there is no reason to be talking about an estate tax. Second, it is wrong to say I did not consider estate / inheritance taxes. I explored inheritance taxes at the state level, and found they had no effect on millionaire migration. Because readers have limited patience for null results, I left this to a footnote, saying "in alternative specifications, we included a coarse dummy variable for a state-level inheritance tax" (Young et al 2016: fn6). Currently, it is

> difficult estimate the actual level of inheritance taxation in different states, due to the complexity of state inheritance tax laws. Scholars are currently working on a formal state level estate tax calculator, which will allow more detailed research on this question in the future.

Pioneer's comment: Professor Young responds to this criticism of his methodology by focusing on the Massachusetts Fair Share initiative petition, a local issue. He is correct in pointing out that the Fair Share ballot question does not impact estate taxes, but Pioneer's critique of his research methodology is intended to pertain to his published research. In this broader context, it is a serious omission to overlook the impact of estate taxation on millionaire migration. This is demonstrated by estate tax-free Florida's amazing performance. Historical data published by the IRS shows that Florida's share of federal estate taxes paid by state residents has increased dramatically over the past 20 years from 11.7 percent in 1996 to 16.6 percent in 2016. By comparison, the four leading Northeast states of New York, New Jersey, Massachusetts, and Connecticut have experienced a decrease in their cumulative share of federal estate taxes paid by state residents from 18.3 percent in 1996 to 16.2 percent in 2016. Florida's lack of a state-imposed estate tax seems a likely contributing factor. Florida, with a population of approximately half the size of the combined total of the four leading Northeast states (20.6 million versus 39.1 million in 2016), caught up to and surpassed these states in the amount of federal estate taxes paid by state residents over two decades. This is common-sense evidence that avoidance of estate taxes should be considered when analyzing of millionaire migration.

Pioneer's Reason 7: Professor Young includes important caveats to his conclusions, including limitations on availability of informative tax data.

Professor Young responds to Reason 7 by stating:

> Of course, I am not describing my own evidence as limited. Indeed, my evidence comes from the IRS tax returns of every top income earner in the country over more than a decade. The data set is remarkable, including roughly 45 million observations. What I am saying in this quote is that past research on millionaire migration is limited.

Pioneer's comment: Professor Young has acknowledged the data limitations Pioneer cited in our paper. In his oft-cited 2011 publication "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," Young writes:

> The present difficulty in obtaining state income tax records is a severe constraint in developing knowledge about state tax policies. We were granted rare access to the New Jersey data, but could not obtain unique individual identifiers that would allow us to follow non-migrant tax filers over time. Nor have we been able to access micro-data from New York or Connecticut. We strongly advocate an initiative to "liberate" state tax data, by housing these data in a central location with a standardized confidentiality agreement and a process for IRB approval.[2]

Notwithstanding this caveat, the conclusions of that article were widely reported. The *Wall Street Journal* published an article headlined, "Millionaire Tax Didn't Chase the Rich from New Jersey, Study Says" that quotes Professor Young's report as follows, "This suggests that the policy effect is close to zero."[3] The *New York Times* wrote an article headlined "The Myth of the Rich Who Flee from Taxes" that quotes Professor Young as saying, "It's very clear that, over all, modest changes in top tax rates do not affect millionaire migration. Neither tax increases nor tax cuts on the rich have affected their migration rates."[4]

Pioneer's paper points out that these important caveats rarely make it into news articles. Professor Young describes his data set as remarkable, but ignores Pioneer's criticism that it does not include information about the migration patterns of more than 13.7 million net-worth millionaires in the U.S. who earned less than $1 million in 2016 and about whom no federal migration data is available, or about 1.9 million households with net worth of $5 million or more who earned less than $1 million annually, a fact acknowledged by Professor Young earlier in his response. Professor Young's data excludes high net-worth individuals with cumulative net worth of more than $45 trillion, as estimated by the Federal Reserve Board. His data does not include information about high net-worth individuals who relocate to another state and then take large capital gains, or about those who earn more than $1 million annually after relocating to another state, or those who migrate to avoid state estate taxes. Professor Young acknowledges that this information is not available, but brushes off Pioneer's criticisms by stating that his data set is remarkable. An objective assessment would conclude that it is very limited.

Pioneer's Reason 8: Professor Young disregards the cumulative effect of millionaire migration.

Professor Young responds to Reason 8 by writing, "This argument about cumulative effects comes, as Sullivan notes, from a critique and replication of my work on millionaire migration in New Jersey – in an a study by the then-Chief Economist of New Jersey, Charles Steindel and co-authors (Cohen, Lai, and Steindel 2015)."

Pioneer's comment: Professor Young's response never addresses the criticism raised by Pioneer; i.e., that his research analyzes year-by-year migration but does not report data about the cumulative effect of taxpayers who move to other states. Our paper states that if net out-migration of high-income earners amounts to 1-2 percent each year going forward, the resulting loss of revenue would add up to a lot over time. We present a sensitivity analysis showing that If 1 percent net out-migration occurs in Massachusetts, the resulting accumulating state loss of 5.1 percent income taxes and 4 percent surtaxes will virtually eliminate the net benefit of the surtax by 2044.

His much-publicized emphasis on the small percentage of millionaires who migrate does not come with an explanation that these taxpayers pay a hugely disproportionate share of total taxes. Our paper presented this statistic, which Professor Young chooses not to address in his response: "The 438,370 U.S. taxpayers that Professor Young defines as millionaires in 2015 amounted to 0.4 percent of all U.S. taxpayers but paid 27.7 percent of all federal taxes. While 2.4 percent of these so-called millionaires sounds like a small amount, the income taxes paid by them are not small." Professor Young instead chooses to characterize the criticism as coming from a 2015 study by the Chief Economist of New Jersey. That is incorrect. The criticism we raise about Professor Young's research goes far beyond the points raised in that paper.

Finally, Pioneer did not misrepresent Professor Young's own statements on global wealth taxes.

Professor Young also claims that we misrepresent his statements about global taxation:

> I do not advocate for a global tax on wealth. I mentioned that Thomas Piketty, in his famous book Capital in the 21st Century, advocates for a global tax. This is the complete opposite of a state-level millionaire tax. A central conclusion from my research is that this kind of coordinated tax policy is not necessary: "States can make policy choices that contribute to the reduction of inequality without waiting for national or international agreements" (Young et al 2016: 440). I do not understand why the author would make up criticisms that are refuted by the original paragraph he quoted from.

Pioneer's comment: Our paper cites Professor Young's advocacy for a global millionaire's tax by quoting his own words: "A global tax ameliorates the problem of capital flight by setting a worldwide minimum tax rate on the wealthy, narrowing the window for tax migration." This is taken directly from Professor Young's writing in 2016, representing his own conclusion, not that of another author by reference. Pioneer's paper calls out the apparent inconsistency represented by Professor Young's conclusion. We write, "Professor Young's call for institution of a global tax on wealth to ameliorate capital flight appears to contradict his foundational conclusion that tax policy has barely any effect on tax-induced migration."

Professor Young's 2016 journal article did cite Piketty's advocacy for global taxation, but in the same paragraph in which he did, the professor added his own conclusions, stating that a global tax on millionaires would ameliorate tax migration by narrowing the window for tax migration. He calls a global tax the "hallmark of tax policy coordination." A hallmark, according to the Oxford Dictionary, is a mark stamped on articles of gold, silver, or platinum by the British assay offices, certifying their standard of purity. Following his endorsement of the utility of global taxation, he concludes that a global tax is not likely to happen internationally or nationally for political reasons. He writes, "However, in the United States, political stalemate and growing polarization between red and blue states suggests that greater tax cooperation and harmonization is unlikely." He follows this by stating that "Our findings show that state—and by extension, national—governments have considerable leeway for independent tax policy. States can make policy choices that contribute to the reduction of inequality without waiting for national or international agreements." Thus, Professor Young response to Pioneer's point, i.e. that it is a made-up criticism, is contradicted by his own writing in which he states that global taxation would ameliorate tax migration by narrowing the window for tax migration but that it is politically unlikely to happen and therefore the next best alternative is a state-by-state adoption of millionaire's taxes.

---

[1] https://web.stanford.edu/~cy10/public/Jun16ASRFeature.pdf
[2] https://pdfs.semanticscholar.org/2a67/742688691371703cf3aa55d8c7677ca6490a.pdf
[3] https://blogs.wsj.com/wealth/2011/04/20/millionaire-tax-didnt-chase-the-rich-from-new-jersey-study-says/
[4] https://www.nytimes.com/2013/02/16/business/high-taxes-are-not-a-prime-reason-for-relocation-studies-say.html