

Eight Reasons to Question Professor Cristobal Young's Conclusions about Millionaire Migration

By Greg Sullivan



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Table of Contents

Introduction	4
Background	4
Eight Reasons to Question Professor Cristobal Young's Conclusions about Millionaire Migration	5
Reason 1	5
Reason 2	7
Reason 3	8
Reason 4	8
Reason 5	9
Reason 6	10
Reason 7	11
Reason 8	12
Conclusion	15
Appendix	17



Introduction

This November, Massachusetts voters are scheduled to decide whether to adopt an amendment to the state constitution that would add a 4 percent tax on all annual income over \$1 million. The language of the ballot initiative, known as Proposition 80, calls for revenue from the surtax to be used to fund state education and transportation needs.

As debate over Proposition 80 heats up, one question that is receiving a great deal of attention is whether approving the amendment would prompt high earners to leave Massachusetts, which would reduce the amount of revenue the surtax would generate and potentially harm the overall economy. The initiative's sponsors, Raise Up Massachusetts, a coalition of community organizations, religious groups, and labor unions, argue that the measure would simply force the Commonwealth's wealthiest citizens to pay their "fair share." Opponents argue that it would endanger the long-term economic well-being of Massachusetts by prompting current high-income residents and businesses to relocate to states that have no income tax and discouraging high-income individuals and business from coming to Massachusetts in the first place.

In arguing for adoption of the constitutional amendment, advocates frequently cite the research of Stanford University Assistant Professor Cristobal Young¹ to demonstrate that similar taxes in other states have had little impact on migration of millionaires. Professor Young and his colleague Charles Varner of the Stanford Center on Poverty and Inequality have published numerous papers on the subject and Young published a 2016 book, *The Myth of Millionaire Tax Flight—How Place Still Matters for the Rich*.²

Young and Varner are the go-to source for refuting "the myth of millionaire migration." As of early May 2018, a Google search for "Cristobal Young" and "millionaire" yields 9,390 hits. A paper advocating for adoption of the initiative petition, entitled "The Evidence on Millionaire Migration and Taxes," was published by Kurt Wise and Noah Berger of MassBudget on January 18, 2018. Their report cites Young and Varner's research no fewer than 22 times in 11 pages.

In fact, it is nearly impossible to find a news story on millionaire migration published within the past five years that has not included a reference to Professor Young's research. Here is a sampling:

The Myth of the Rich Who Flee From Taxes.³ *New York Times* – Feb 15, 2013

States debate millionaires' taxes.⁴ *USA TODAY* – Jul 16, 2014

Do higher taxes really drive millionaires to flee?⁵ *CBS News* – May 25, 2016

Higher Taxes Don't Scare Millionaires into Fleeing Their Homes After All.⁶ *Bloomberg* – May 25, 2016

Are Millionaires Moving to Dodge Taxes?⁷ *U.S. News & World Report* – May 26, 2016

Rich tend to stay put despite high taxes⁸ *Bankrate.com* – May 31, 2016

Chris Christie says high state taxes drive millionaires away. Here's why he's mistaken.⁹ *Washington Post* – June 9, 2016

False business narrative on millionaire's tax¹⁰ *CommonWealth Magazine* – May 6, 2017

Taxes don't make millionaires move.¹¹ *CommonWealth Magazine* – June 18, 2017

Millionaires might complain about new tax, but they probably won't flee, studies show.¹² *The Boston Globe* – June 22, 2017

If you tax the rich, they won't leave: US data contradicts millionaires' threats.¹³ *The Guardian* – Nov 20, 2017

Millionaire flight from tax reform may be exaggerated.¹⁴ *CNBC* – Dec 11, 2017

Deduction Rollback Hurts High-Tax States, But Exodus Isn't Assured.¹⁵ *Wall Street Journal* – Dec 18, 2017

Professor Young makes the case that "millionaire's taxes" enacted by other states that are similar to the one being proposed in Massachusetts have had little impact on millionaire mobility. This paper looks at that research and raises eight issues about its reliability with respect to the initiative petition.

Background

In recent decades, Massachusetts policy makers have worked hard to shed the "Taxachusetts" label that plagued the Commonwealth into the 1990s. In the midst of dire budget crisis during the 1990–91 recession, lawmakers voted to hike the state income tax to 6.25 percent. But by last year the rate had fallen to 5.1 percent. Between 1977 and 2012, Massachusetts saw one of the largest tax reductions in the country, with residents' state and local tax burdens dropping from 12.3 percent to 10.3 percent.¹⁶

This tax restraint helped foster an environment that yielded a quarter century of strong growth in Massachusetts, including a gain of 627,829 jobs, an increase of 21.4 percent, from 1990 to 2016.¹⁷ Over the same period, total wages increased state-wide by 233.0 percent.¹⁸

If Proposition 80 is adopted, Massachusetts' top nominal

income tax rate would be the fifth highest in the country at 9.1 percent, but its effective tax rate could rank even higher because Massachusetts does not allow many itemized deductions offered by the four states with higher nominal rates (California – 13.3 percent, Oregon – 9.9 percent, Maine – 10.15 percent and Minnesota – 9.85 percent). For example, all four allow taxpayers to deduct home mortgage interest, while Massachusetts does not. Minnesota, the state that currently has the fourth highest nominal state income tax rate, allows tax-

If adopted, Massachusetts' top nominal tax rate would be fifth highest in the country, but its effective tax rate could rank even higher.

payers to deduct federal taxes on their state income tax returns, thereby substantially decreasing its effective tax rate. While Proposition 80 would make Massachusetts' top nominal tax rate the fifth highest in the nation, its effective tax rate could actually rank higher because

Massachusetts would become the only state among the five highest income tax states that does not link state income taxes to either federal adjusted gross income or federal taxable income.

The initiative would also have an outsized impact on long-term capital gains taxes, hiking the state's top marginal rate from 30th highest in the country to the fifth highest. Looking globally, the Commonwealth's top marginal capital gains tax rate would become the sixth highest in the world.

Proposition 80 would introduce an important difference between how the federal government and Massachusetts treat capital gains. The Internal Revenue Service essentially treats capital gains as separate from income taxes in that capital gains income cannot push a taxpayer into a higher income tax bracket.

But Proposition 80 would apply a 4 percent surtax to all annual income over \$1 million, including income from wages,

The initiative would have a huge impact on long-term capital gains, hiking the state's top marginal rate from 30th to the fifth highest in the country, and sixth in the entire world.

long-term capital gains, gain from the sale of a personal residence, interest, dividends, partnership distributions, income from pass-through entities, and all other sources of income.¹⁹ For this reason, capital gains can push a taxpayer into the higher Massachusetts bracket. This includes capital gains from the sale of a principal

residence, after exclusion of \$250,000 for a single filer and \$500,000 for a married couple.

In addition, Massachusetts is the only state with a separate

and higher rate for short-term capital gains applicable to sales of securities within 12 months of purchase. If Proposition 80 is adopted, Massachusetts top marginal tax rate of 16 percent would be the nation's highest.

Most economists agree that keeping taxes low on investment is critical to economic growth, job creation and rising wages. A study by Nobel laureate Robert Lucas estimates that if the U.S. eliminated its capital gains and dividend taxes, the capital stock of American plant and equipment would be fifty percent larger.²⁰

Eight Reasons to Question Professor Cristobal Young's Conclusions about Millionaire Migration

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.

Data from the Federal Reserve Board shows that only a small subset of high net worth taxpayers (i.e., those with net worth of \$1 million, \$5 million, \$10 million, \$100 million, \$1 billion, etc.) earn more than \$1 million in income per year.²¹

In his research publications, Professor Young defines millionaire migration as “people who earned \$1 million or more in year t , and changed their state of residency between years t and $t + 1$.”²²

Professor Young's limited definition is problematic for two reasons: first, because only a small proportion of high net worth taxpayers earn more than \$1 million; and second, if they do, they do so irregularly.

Young uses IRS data to suggest that 438,370 individuals filed tax returns with income of \$1 million or more in 2015. This number represents Professor Young's definitional count of U.S. millionaires in that year. The problem with this definitional limitation is that it ignores estimates by the Federal Reserve Board 2016 Survey of Consumer Finances that in 2016 the U.S. had 14.7 million households with net worth of \$1 million or more, 5.8 million with net worth of \$2.5 million or more, 2.9 million with net worth of \$5 million or more, and 1.3 million with net worth of \$10 million or more. Figure 1 shows that the definition of millionaires used by Professor Young in his research on millionaire migration (i.e., taxpayers with annual incomes of \$1 million or more) captures only a small percentage of the number of millionaire households estimated by the Federal Reserve Board.^{23, 24}

Young overlooks a vast proportion of millionaire migration.

Is a millionaire someone who makes a million dollars once?

Other leading financial analysts define millionaires by net worth, not annual income. *Money* magazine published a report in November 2017 entitled “One out of Every 20 Americans Is Now a Millionaire: Report.”²⁵ It describes a report by Credit Suisse in its annual series on the state of global wealth.²⁶ Credit Suisse says the “1.1 million new millionaires were created in the U.S. in 2017. That brings the total number of millionaires in the U.S. up to approximately 15,356,000, or about one in every 20 Americans.” Credit Suisse defines millionaires by net worth, or “wealth” in excess of \$1 million owned by households, minus their debts.

Federal Reserve Board data demonstrates the extent to which Professor Young’s millionaire migration research overlooks migration of high net worth individuals who do not earn \$1 million in income in the year before relocating to another state or nation. Figure 2 reports data from its 2016 Survey of Consumer Finances showing the income break down of high net worth individuals.

Individuals with annual incomes of \$1 million or more represent just a small fraction of high net worth taxpayers. For example, in 2016 only 6.8 percent of households with net

worth of \$1 million or more had annual income of \$1 million or more; 7.7 percent of households with net worth of \$2.5 million to \$10M had annual income of \$1 million or more; 16.7 percent of households with net worth of \$2.5M or more had annual income of \$1 million or more; 31.0 percent of households with net worth of \$5M or more had annual income of \$1 million or more; 46.9 percent of households with net worth of \$10M or more had annual income of \$1 million or more; and 70.2 percent of households with net worth of \$1 billion or more had annual income of \$1 million or more.

The Tax Foundation study helps explain why Professor Young’s exclusive focus on the migration of “annual income” millionaires as opposed to “net worth millionaires” makes his data relatively unreliable for policy makers considering the adoption of millionaire’s taxes. The Federal Reserve Board estimates that 698,645 U.S. households had a net worth of \$10 million or more and an annual income of less than \$1 million in 2016. It would be difficult to conclude that taxpayers with a net worth of \$10 million are not millionaires. The average annual household income of this group was estimated by the Federal Reserve Board to be \$498,151 in 2016. This is well below Professor Young’s \$1 million definitional cut-off for millionaire designation, so these households would be excluded from his 2016–17 millionaire migration analysis. This

Figure 1. Number of U.S. Millionaires, Federal Reserve Board (2016) v. Professor Young (2015)

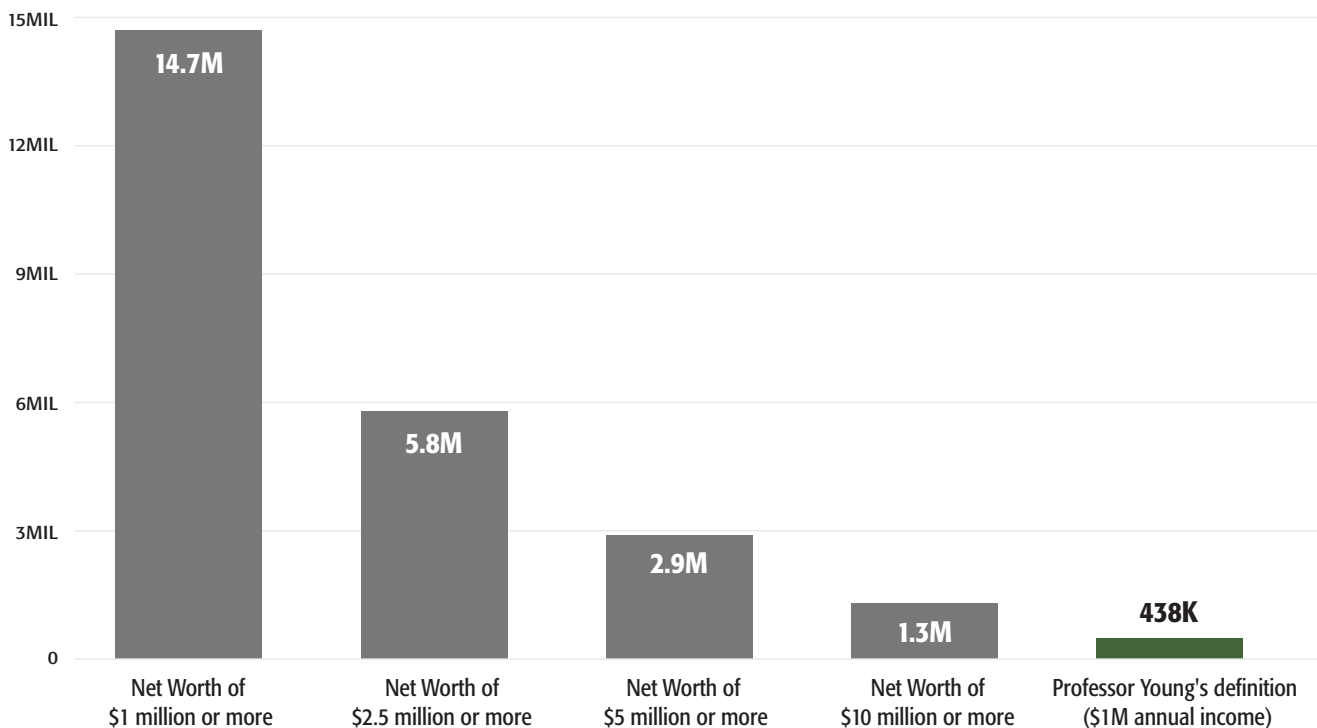


Figure 2. Household Net Worth Estimates, Federal Reserve Board 2016

Household Income	Category	Net Worth of > \$1M	Net Worth of \$2.5M~\$10M	Net Worth of > \$2.5M	Net Worth of > \$5M	Net Worth of > \$10M	Net Worth of > \$1B
< \$1M	# of Households	13,736,819	4,094,240	4,792,885	1,969,632	698,645	142
	% of Households	93.2%	92.3%	83.3%	69.0%	53.1%	29.8%
	Total Net Worth (\$T)	\$45.22	\$18.6	\$31.32	\$21.78	\$20.87	\$0.146
> \$1M	# of Households	1,008,817	343,359	959,509	886,238	616,151	334
	% of Households	6.8%	7.7%	16.7%	31.0%	46.9%	70.2%
	Total Net Worth (\$T)	\$23.23	\$2.29	\$23.16	\$22.89	\$12.72	\$0.401
Total Households	# of Households	14,745,636	4,437,599	5,752,394	2,855,870	1,314,796	475
	% of Households	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Total Net Worth (\$T)	\$68.44	\$20.89	\$54.48	\$44.67	\$33.59	\$0.547

excluded group of 698,645 households had estimated unrealized capital gains of \$4.61 trillion and net worth of \$12.7 trillion in 2016, according to Federal Reserve Board estimates. By comparison, the entire federal budget for 2016 was \$4.04 trillion.

The data yield the following conclusions: 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.

The 4.09 million households with incomes of less than \$1 million had a cumulative net worth of \$18.6 trillion. Only 7.7 percent of households with net worth of between \$2.5 million and \$10 million had incomes of more than \$1 million, with an average income of \$1.7 million. These 343,359 households with incomes of more than \$1 million had a cumulative net worth of \$2.3 trillion, compared to the \$18.6 trillion net worth of those with incomes of less than \$1 million. This demonstrates the extent to which Professor Young's research methodology fails to consider an overwhelming proportion of high net worth individuals by disregarding 92.3 percent of total households and 89 percent of the total net worth of households with net worth of between \$2.5 million and \$10 million.

In 2016, the U.S. had 14.7 million households with net worth of \$1 million or more. Of these households, 13.7 million (93.2 percent) had incomes of less than \$1 million in 2016, with a

cumulative net worth of \$45.2 trillion. Only 6.8 percent of households with net worth of \$1 million or more had incomes of more than \$1 million. These 1.01 million households (i.e., those with incomes over \$1 million) had a cumulative net worth of \$23.2 trillion, compared to the \$45.2 trillion net worth of those with incomes of less than \$1 million.

In 2016, the U.S. had 1.3 million households with net worth of \$10 million or more. The majority of these households (53.1 percent) had incomes of less than \$1 million, with a cumulative net worth of \$20.9 trillion. Less than half of the households with net worth of \$10 million or more²⁷, 616,151 (46.9 percent) had incomes of more than \$1 million, with a cumulative net worth of \$12.7 trillion, compared to the \$20.9 trillion net worth of those with incomes of less than \$1 million.

The 2016 Survey of Consumer Finances reports 475 households with net worth of \$10 billion or more, of which 30 percent (142 households) had income of less than \$1 million, with an average income of \$498,151, cumulative net worth of \$146.0 billion, and average net worth of \$1.03 billion. Additional data is presented in Appendix A.

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

According to the Tax Foundation's "Income Mobility and the Persistence of Millionaires, 1999 to 2007", the majority of U.S. taxpayers who reported gross annual income of \$1 million or more at least once over a nine-year period did so only once.²⁸ As Figure 3 shows, nearly two-thirds did so two or fewer times, and almost three-quarters did so three or fewer times. Less than 20 percent did so in a majority of the nine

years and less than 6 percent earned \$1 million or more every year.

The Tax Foundation's data on the persistence of millionaires demonstrates the danger of basing public policy decisions about potential millionaire migration on a subset who earned

more than \$1 million in the year before moving to another state. Given the Tax Foundation's data showing that nearly two thirds of "annual income" millionaires earned more than \$1 million two or fewer times over nine years and Federal Reserve Board data showing that 69 per-

cent of households with net worth of \$5 million or more had annual incomes of more than \$1 million in 2016, it would be practically impossible for Professor Young's methodology to accurately track millionaire migration.

Young's definitions overemphasize one-time millionaires – people who sell a home, a business or another once-in-a-lifetime asset they have been counting on.

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.

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.

Pioneer Institute asked Professor Young directly whether his definition of millionaire migration includes people who earn less than \$1 million in the year before they migrate to another state but earn more than \$1 million after they move. He answered that his methodology does not count such taxpayers as millionaire migrants. This is confirmed by his published definition: "Millionaire migration is defined as people who earned \$1 million or more in year t, and changed their state of residency between years t and t + 1."²⁹

To grasp the significance of this definitional limitation, consider that it excludes 13.7 million households in the U.S. 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 at 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.

Young's data does not include instances where high net worth taxpayers realize large capital gains and income distributions after moving to another state.

The 2016 Survey of Consumer Finances estimates that 29.8 percent of ultra-high net worth households (those with net worth of \$1 billion or more) had annual income of less than \$1 million in 2016, with an average income of \$547,271. The average unrealized capital gain of these 142 households was \$841.6 million. If one of these taxpayers moved to a state like Florida with no capital gains tax in 2017 to realize a large capital gain and pay no state tax on it, Professor Young would not characterize this as millionaire migration, since the taxpayer did not have income in excess of \$1 million in 2016, the year before he or she moved.

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

Perhaps the biggest caveat in Young's research concerns Florida, a state that has no income tax, capital gains tax, or estate tax, and is by far the biggest destination for U.S. millionaires. He writes 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."³⁰

Figure 3. Persistence of Millionaires, 1999–2007

Number of years with gross income of >\$1M	1 time	2 times	3 times	4 times	5 times	6 times	7 times	8 times	9 times	Total
Returns (1,000s)	338	102	54	50	29	23	24	17	38	675
Percent	50.1%	15.1%	8.0%	7.4%	4.3%	3.4%	3.6%	2.5%	5.6%	100%

Indeed, Florida accounts for nearly half of Massachusetts' out-migration of adjusted gross income, far more even than

Young concludes that “there is virtually no tax migration if you exclude Florida.” That’s like saying if you exclude Muhammad Ali, Louisville hasn’t produced any great boxers.

neighboring New Hampshire, another no-income-tax state. Yet in “Millionaire Migration and Taxation of the Elite,” Young and his co-authors conclude that “when Florida is excluded there is virtually no tax migration; when any other state is excluded, our core finding of tax-induced migration is supported.” This

is akin to saying that if you exclude Muhammad Ali, Louisville hasn’t produced any great boxers.

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 (SOI) data.³³

The IRS’ addition of income categories to its migration data reporting beginning in 2011–12 allows researchers to calculate the percentage of AGI migration attributable to high-income taxpayers by state. The highest income category reported in IRS migration data is more than \$200,000. According to IRS 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 inflow returns was

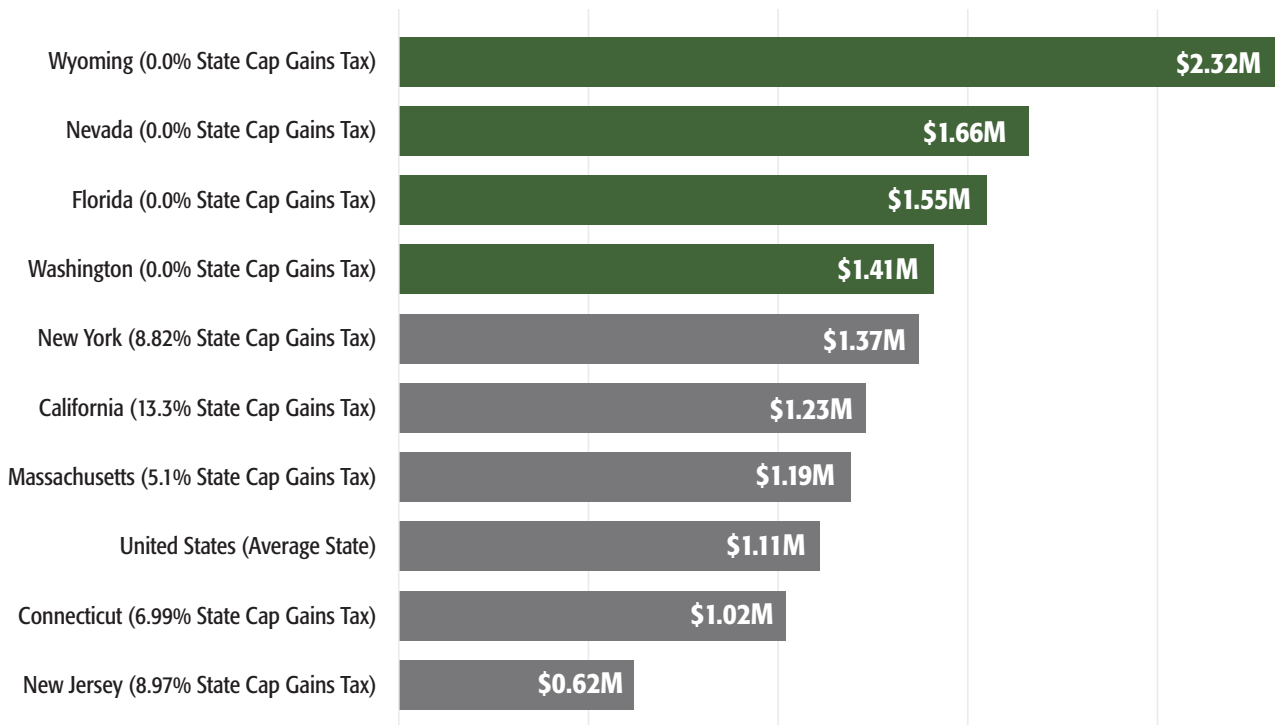
\$820,272. Florida’s inflow returns over this period totaled \$46.01 billion.

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. Income tax-free Florida and New Hampshire were the biggest beneficiaries; together they accounted for 73.2 percent of Massachusetts’ net out-migration of AGI. 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.

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.

IRS SOI reports for 2015 include state-by-state data about federal capital gains income reported by taxpayers with incomes of \$1 million or more.³⁴ As Figure 4 shows, the four states with the highest average federal capital gains income in this highest income category all had no state capital gains taxes.³⁵ Aside from this telling distinction, one would not expect these states (Wyoming, Nevada, Florida, and Washington) to be national leaders in the capital gains income of high earners. One might expect that 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

Figure 4. Average Capital Gains of High-Income Taxpayers, by State, 2015



Young's assertions fly in the face of common sense on capital gains – and lots of evidence.

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.

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

Professor Young makes the case that millionaires do not migrate to any significant extent to avoid paying state taxes, but his data does not include taxpayers who change residence to avoid paying estate taxes, which can be a powerful motivator. IRS data reveal that Florida, which does not impose an estate tax, has become the leading state from which taxpayers can avoid paying local estate taxes when they pay federal estate taxes. Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Tennessee, Vermont, Washington, and the District of Columbia impose estate taxes ranging from 12 to 20 percent of the value of a decedent's estate, above a state-determined exclusion amount.

In 2016, the average gross value of estates reported on federal estate tax returns by Florida taxpayers (i.e., on federal returns)

was \$22.7 million, highest of the 50 states.³⁶ Under federal law, only estates worth more than \$5.45 million are required to file a return. Nationwide, only 12,411 estate tax returns were filed in 2016. About one-third of the estates had gross values exceeding \$50 million.³⁷

Figure 5 shows that among the 10 states with the most taxpayers reporting adjusted gross incomes of \$500,000 or more on 2016 federal returns, Florida had the largest average estate size reported on federal estate tax returns.

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 2016.³⁸ 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)³⁹ caught up to and surpassed these states in the amount of federal estate taxes paid by state residents over two decades.

Figure 5. Average Gross Estate Values, Federal Tax Returns, by State, 2016

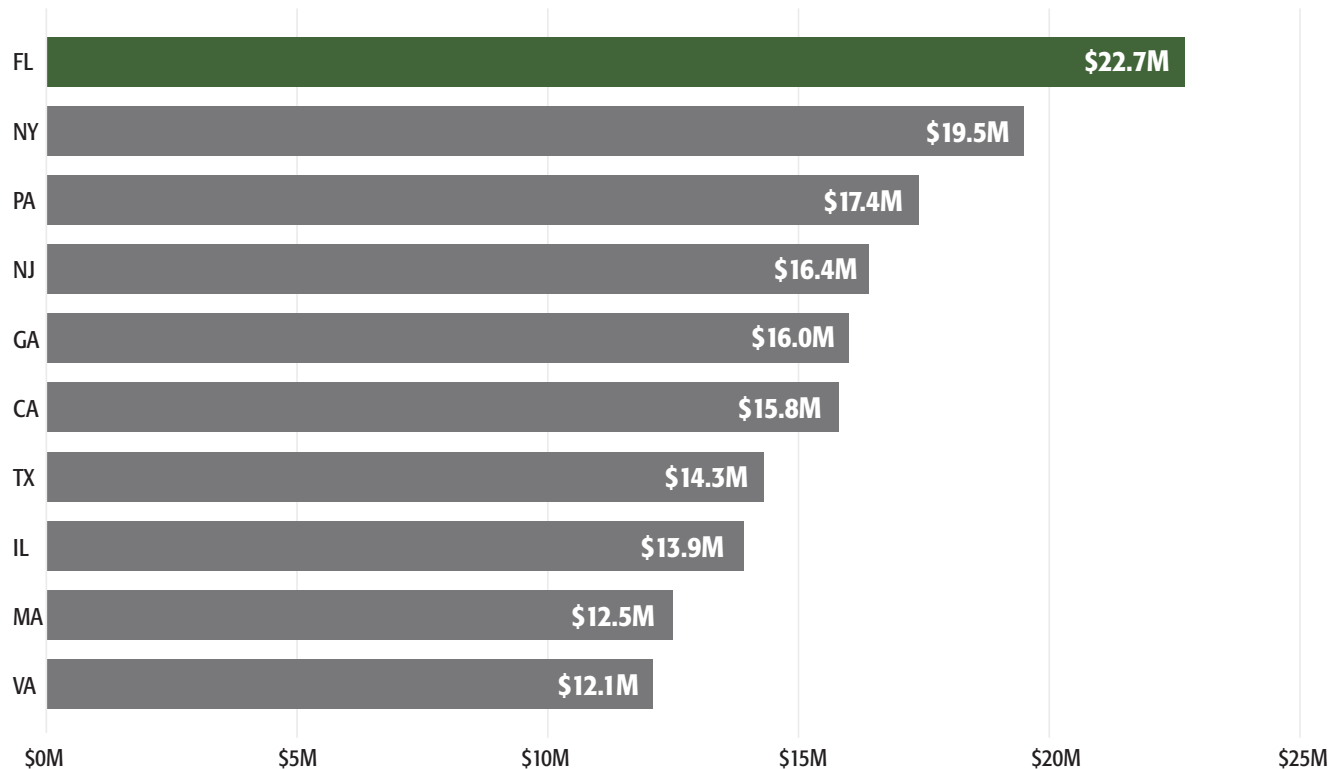
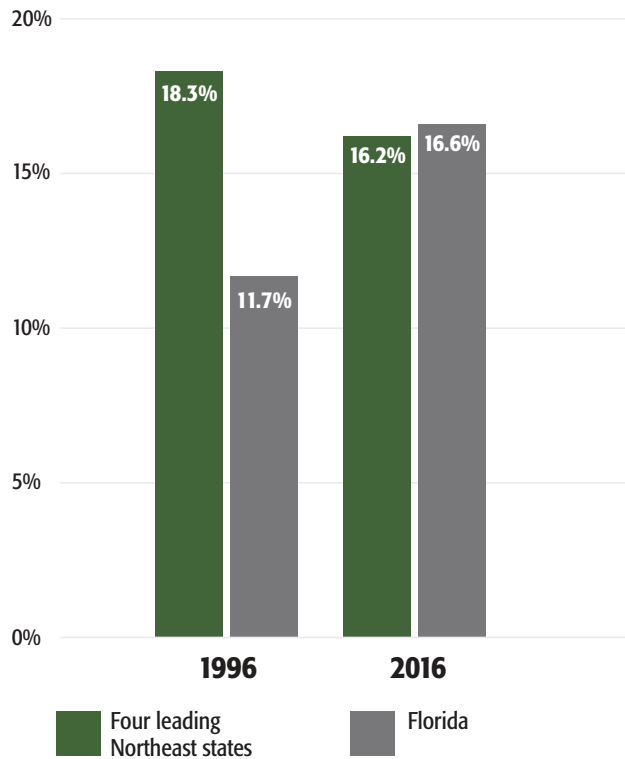
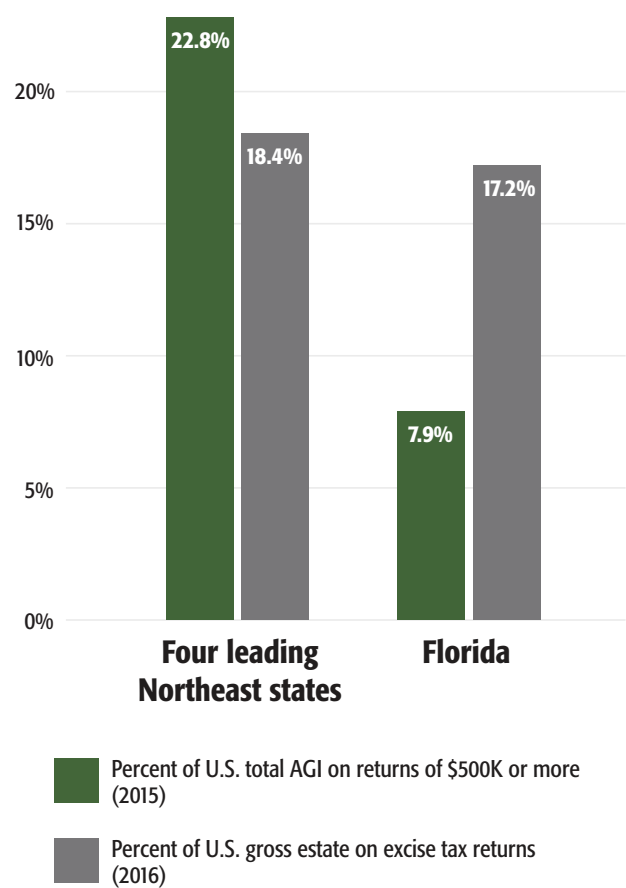


Figure 6. Comparison of National Share of Federal Estate Taxes, 1996 vs. 2016



IRS data gives further evidence that Florida's tax-free status is likely to have been a factor in the estate-tax planning decisions of high-income taxpayers. As Figure 7 shows, in 2016, high-income taxpayers (those with AGI of \$500,000 or more in the preceding year)⁴⁰ in the four leading Northeast states earned 23.4 percent of all AGI in this income category nationally, but taxpayers in these four states accounted for only 18.4 percent of the total value of gross estates reported on federal estate tax returns.⁴¹ By comparison, Florida's high-income taxpayers earned 8 percent of total national AGI in 2015, while its state taxpayers reported 17.3 percent of the total gross estates reported on federal estate tax returns in 2016. In other words, Florida taxpayers accounted for approximately the same amount of gross estate value on federal estate tax returns as taxpayers of New York, New Jersey, Massachusetts, and Connecticut despite having only one third of the total AGI of high-income taxpayers of the four Northeast states.

Figure 7. Comparison of National Share of AGI (2015) and Gross Estate Values (2016)



This estate tax data demonstrates an inherent weakness in Professor Young's methodology of measuring millionaire migration. By not taking estate taxes into consideration, his conclusions overlook a powerful motivating factor in the tax planning decisions of high-income taxpayers.

Reason 7: Professor Young includes important caveats to his conclusions.

One of the conclusions that can be readily drawn from the body of research about millionaire migration, including Professor Young's, is that not a lot of good data is available to researchers. Professor Young includes caveats in his published work that reflect this.

Young's conclusions come with a lot of caveats – which partisan researchers and the media have simply glossed over.

In his often-cited 2011 publication “Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment,”⁴² 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.

In his likewise often-cited 2016 publication, “Millionaire Migration and the Taxation of the Elite”⁴³ Young notes that “Little is known about the migration patterns of the rich and their broader demography.” In that same article, Professor Young advocates for a global millionaire tax. He writes:

The hallmark of tax policy coordination is the proposed global tax on wealth, as advocated by Piketty (2014). 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.⁴⁴

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.

In his April, 2014 article “Millionaire Migration and the Demography of the Elite: Implications for American Tax Policy,”⁴⁵ he writes, “The existing evidence on elite mobility and the likelihood of tax flight among millionaires is limited.”

In a 2016 study, “Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data,”⁴⁶ Young and three co-authors analyzed tax return data from every annual million-dollar earner in the United States. The dataset includes

3.7 million individuals who collectively filed more than 45 million tax returns over more than a dozen years to discover where millionaires live and where they move. The authors found that only about 2.4 percent of U.S.-based millionaires changed their state of residence in any given year, and that

migration was actually more common among the middle class and nearly twice as common for the poorest residents, who had an annual migration rate of 4.5 percent.

They concluded that other factors, like family and businesses they own, tended to keep high earners where they were. The authors acknowledged that, “Internationally, corporate ‘inversion’ strategies allow U.S. companies to shift their legal address to a foreign country with preferred regulatory and tax structures. . . Individuals with high incomes may deploy similarly sophisticated strategies to arbitrage state borders and locate in low-tax states.”

The authors also note that millionaires pay more attention to tax rates than the general population does and that there is an observable pattern of elite migration from high income tax to low income tax states. “When millionaires migrate,” he writes, “their relocation decisions are influenced by tax rates, in a way that we do not see in the general population.”

Other researchers have concluded that tax rates influence migration of high-income earners. According to *USA Today*, a 2011 study of migration patterns across the 50 states from 2004 to 2009 by Antony Davies and John Pulito of the Mercatus Center at George Mason University concluded that millionaires tend to leave states with higher income taxes for states with relatively lower ones.⁴⁷

“When you raise your tax rate expecting a certain influx of tax revenue, what you get is less tax revenue than expected because people will respond to what you’ve done,” said Antony Davies, one of the study’s authors. In an extreme case, he said, states could raise tax rates and actually end up with less revenue, although the study did not specifically look at the impact of millionaires’ taxes on state revenues.⁴⁸

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

Another major problem with Professor Young’s findings is that they disregard the cumulative effect of millionaire migration. While he estimates that approximately 2.4 to 2.6 percent of taxpayers with annual incomes of \$1 million or more will migrate to another state or nation each year, he does not take into consideration the cumulative, compounding impact of this annual migration. This shortcoming was alluded to by Cohen, Lai and Steindel in their response to Young and Varner’s New Jersey study in 2011.⁴⁹ That critique said, “[L]osses would cumulate over time. Our analysis of the New Jersey 2004 ‘millionaires’ tax” suggests that over time migration effects could offset a meaningful share of the revenue boost.”

One way to think about the cumulative effect of net migration

Elsewhere, Young notes that millionaires pay more attention to tax rates than the general public, and that there is a pattern of elite migration from high income tax to low income tax states.

Young’s call for a global wealth tax to “ameliorate the problem of capital flight” flies in the face of his argument that taxes do not drive millionaires away.

is simply to add up annual net migration year by year. Figure 8 shows this calculation for Massachusetts from 1992–93 to 2015–16.⁵⁰ By this methodology, Massachusetts’ annual net

Young estimates that 2.4 – 2.6 percent of “millionaires” will migrate to another state or nation each year.

out-migration totals \$17.3 billion over this time period, including \$8.2 billion net out-migration to Florida (47.3 percent of the total), \$5.5 billion to New Hampshire (25.9 percent), and \$4.6 billion to other states and nations (26.8 percent). This is the methodology used by Travis H. Brown in his website and book *How Money Walks*.⁵¹

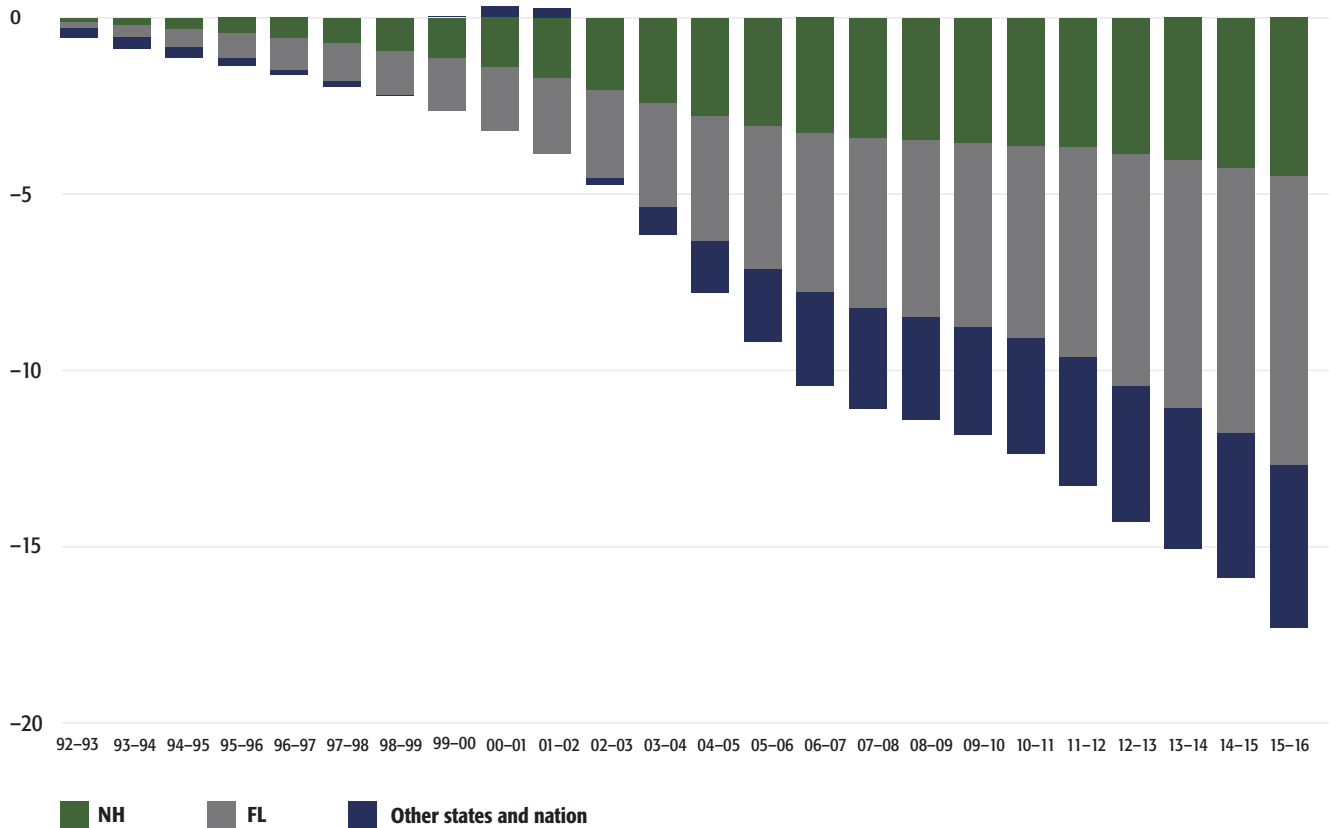
Critics have pointed out that no data has been produced by researchers to support the underlying idea that a migrated millionaire will bring all his income with him or continue to earn similar amounts in subsequent years. This may be a legitimate criticism, but Brown is right to be thinking not just about single-year migration, as Professor Young does, and instead try to figure out what is the effect of cumulative out-migration on states like Massachusetts.

Professor Young estimates that the annual millionaire migration rate is 2.4 percent.⁵² By this he means that 2.4 percent of taxpayers with annual incomes of \$1 million or more in a single tax year file a tax return from another state in the following

year, as explained earlier. This paper has already pointed out one major shortcoming of this measurement — that it measures only a small portion of millionaires. Professor Young’s research measures the migration pattern of a universe of 438,370 U.S. taxpayers in 2015, that being the number of tax returns with income of \$1 million or more in 2015, according to IRS data. As previously discussed, the Federal Reserve Board has estimated that six times as many taxpayers — 2.7 million — had net worth of \$5 million or more in 2016. Of these, 1.97 million households earned less than \$1 million in 2016. The cumulative net worth of those worth of \$5 million or more was approximately \$20.9 trillion in 2016, according to the Federal Reserve Board, which, for purposes of comparison, is more than five times the 2016 federal budget. No researcher, including Professor Young, has ever reported on the migration patterns of high net worth millionaires because no data is available from the IRS to calculate it.

Another major shortcoming of Professor Young’s methodology is that it does not measure the cumulative loss of state income tax revenue over time that results from net out-migration of high-income taxpayers. This is a significant drawback because high-income taxpayers pay a disproportionate share of state income taxes according to IRS data, and the loss of that income over time adds up. For example, the 438,370 U.S. taxpayers that Professor Young defines as millionaires in

Figure 8. Massachusetts’ Net Migration, 1992–3 to 2015–16



2015 amounted to 0.4 percent of all U.S. taxpayers but paid 27.7 percent of all federal taxes.⁵³ While 2.4 percent of these so-called millionaires sounds like a small amount, the income taxes paid by them are not small.

According to Massachusetts Department of Revenue (DOR) estimates,⁵⁴ the Fair Share initiative petition would generate approximately \$1.9 billion in 2019, the year it would take effect, if it is approved by the voters. DOR issued a caveat that its estimate did not include potential loss of revenue due to out-migration of millionaires.⁵⁵ If net out migration of high-income earners amounts to one to two percent each year going forward, the resulting loss of revenue would add up to a lot over time.

The so-called Fair Share initiative petition would generate \$1.9 billion in its first year (2019). If this amount declines 2.4 percent a year, the loss of revenue will add up fast.

According to data promulgated by DOR, more than half of Proposition 80 tax revenue is expected to come from 897 of the 19,565 taxpayers who would be subject to the tax increase, those with incomes of \$10 million or more, who would be on the hook for an additional

\$1.002 billion in taxes. These 897 taxpayers represent only 4.6 percent of taxpayers subject to the new tax but would be obligated to pay 53.2 percent of new Proposition 80 tax revenue. If a third of these taxpayers opted to move (299 taxpayers, or 1.5 percent of all taxpayers subject to the tax), Proposition 80 revenue would drop by as much as \$334.01 million, accompanied by a loss of as much as \$441.11 million in regular state income tax paid by these taxpayers.⁵⁶

Nevertheless, for purposes of discussion, the following graphs (Figure 6) present a sensitivity analysis showing potential cumulative loss of Fair Share initiative petition revenue and state income tax revenue from taxpayers with incomes of \$1 million or more if cumulative net out-migration results in a compounding loss of 1 percent, 1.5 percent, 2 percent, 2.5 percent, and 3 percent per year going forward.

These projections use DOR estimates of 2019 Fair Share surtax revenue and 2019 regular 5.1 percent state tax revenue that will be paid by Massachusetts taxpayers with incomes of \$1 million or more.⁵⁷ DOR estimates of 5.1 percent income tax revenue in 2019 are inflated by 2.9 percent annually in future years, in accordance with the average rate of increase of the federal Consumer Price Index for All Urban Consumers

between 1997 and 2015.⁵⁸ If net out-migration of taxpayers subject to the Fair Share surtax occurs, the Commonwealth will lose revenue not only from their Fair Share surtax payments, but also from their regular 5.1 percent income tax payments.

The sensitivity analysis reveals that if Proposition 80 is adopted and 2 percent net out-migration occurs, by 2035 the Commonwealth will receive less in total income taxes and surcharge taxes from taxpayers with incomes of \$1 million or more than it would have if Proposition 80 had not been adopted. Likewise, this projection methodology finds that if 1.5 percent net out-migration occurs, net revenue from the surtax will be eliminated by 2038. If 1 percent net out-migration occurs, net revenue from the surtax will be eliminated by 2044. These projections do not take into consideration other potential losses of state revenue from sales tax, corporate tax, or other revenues resulting from net out-migration of high-income taxpayers. Figure 9 presents a summary of these dates.

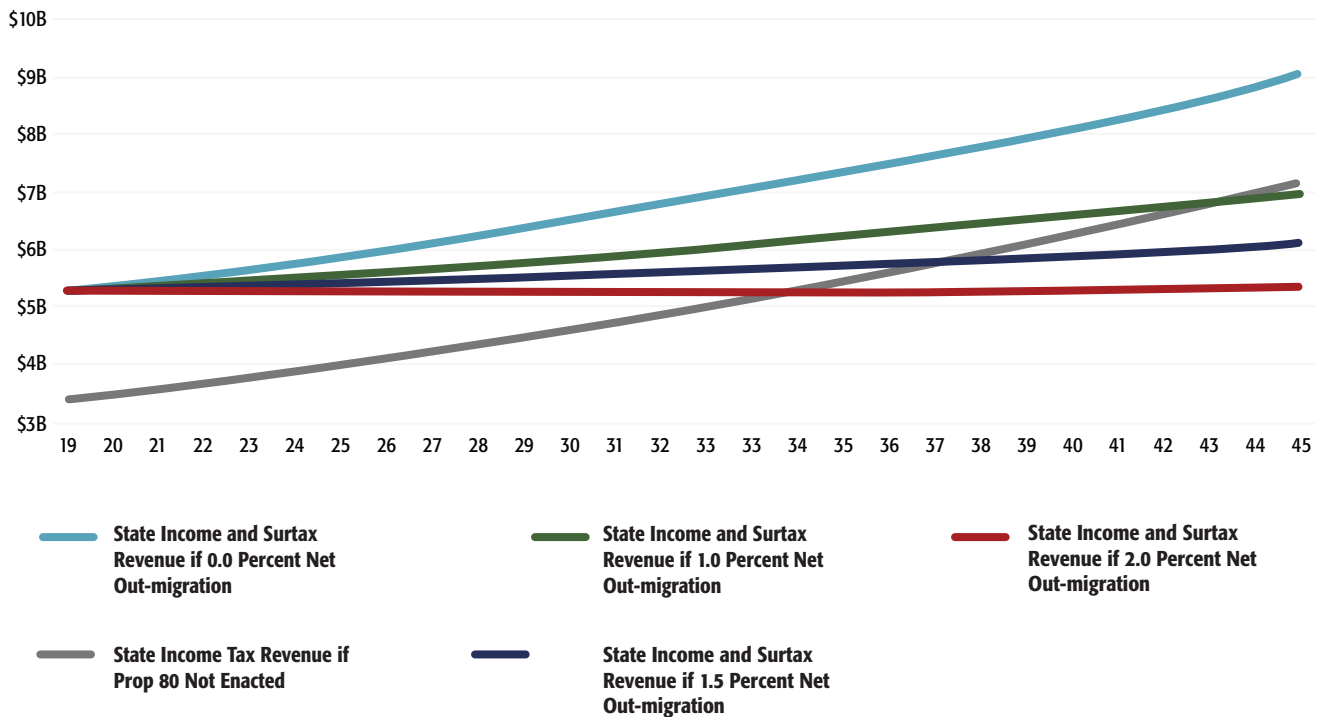
If net outmigration of “millionaires” were 2 percent annually, the state will lose more revenue than it gains by 2035; if it is only 1 percent, the state will lose revenue by 2044.

Figure 9. Projected Dates by which Massachusetts State Income Tax Losses Exceed Proposition 80 Revenues (sensitivity analysis)

Year	State Income Tax Revenue if Prop 80 Not Enacted	Net Out-Migration rate	State Income and Surtax Revenue after Out-Migration
2035	\$5.37 Billion	2.0%	\$5.25 Billion
2038	\$5.85 Billion	1.5%	\$5.81 Billion
2044	\$6.95 Billion	1.0%	\$6.87 Billion

Figure 10 shows the amount of state income taxes and surtaxes projected to be received by the Commonwealth under the five sensitivity scenarios previously described: 1) if Proposition 80 is adopted and no net-migration occurs; 2) if Proposition 80 is adopted and 1 percent net out-migration occurs; 3) if Proposition 80 is adopted and 1.5 percent net-migration occurs; 4) if Proposition 80 is adopted and 2 percent net out-migration occurs; and 5) if Proposition 80 is not adopted no net out-migration occurs. The graph demonstrates the cumulative effect of net out-migration over time as state revenue from the 5.1 percent income tax and the 4 percent surcharge paid by taxpayers subject to the surcharge gradually diminish.

Figure 10. Projected Revenues of 4 Scenarios for Proposition 80 (net out-migration sensitivity analysis)



Conclusion

As Massachusetts voters consider how to vote on Proposition 80 in November, they should think about the serious potential adverse effects its enactment could produce on the Commonwealth's economy. When the state Department of Revenue issued its estimate of how much the surcharge would generate, it added an important caveat: no one knows the extent to which it will prompt out-migration of millionaires. While Professor Cristobal Young has assured voters that adoption of a surtax would spur at most a migration of approximately 2.4 percent of millionaires, voters should realize that the cumulative effect of an annual loss of high net worth taxpayers can add up to big numbers.

This paper calls into question some of the foundational assumptions used in Professor Young's research. A major weakness is that he counts only a small proportion of millionaires in the U.S. According to his definition, there are less than 500,000 millionaires. Yet the Federal Reserve Board estimates there are more than 14.7 million households with net worth of \$1 million or more, 5.8 households with net worth of \$2.5 million or more, and 2.9 million with net worth of \$5 million or more.

Professor Young does not count a billionaire moving to another state as millionaire migration unless the billionaire earned more than \$1 million in the year before s/he moved. The Federal Reserve Board estimates that nearly one third of

such billionaires did not earn \$1 million in income last year. His research methodology does not count more than 700,000 taxpayers with worth of \$10 million or more as millionaires because they did not earn more than \$1 million in annual income. This is a big oversight, because those taxpayers cumulatively have \$12.7 trillion in net worth, an average of more than \$18 million each.

It is not Professor Young's fault for not tracking the migration of more than 14 million millionaires, because no data is available from the IRS with which to do so. That is why it is important to consider the potential cumulative impact of millionaires who would move out of Massachusetts to avoid a tax increase that would effectively double their state taxes.

Voters should take little solace in Professor Young's assurance that only 2.4 percent or so of millionaires move each year. In this report, Pioneer presents a sensitivity analysis showing that if Proposition 80 is adopted and 2 percent net out-migration of high-income taxpayers occurs as a result, by 2035 the Commonwealth will receive less in total income taxes and surcharge taxes than it would have if Proposition 80 had not been adopted. Likewise, according to this projection methodology, if 1.5 percent net out-migration occurs, net revenue from the surtax will be eliminated by the year 2038. If 1 percent net out-migration occurs, net revenue from the surtax

will be eliminated by 2044. These projections do not take into consideration potential losses of state revenue from sales tax, corporate tax, or other revenues resulting from net out-migration of high-income taxpayers, which losses would make matters worse.

If Proposition 80 is adopted, Massachusetts legislators and executive branch budget administrators should be wary of counting on revenue from the initiative petition as they undertake program expansions or other financial obligations that would increase debt costs. Current revenue predictions may not pan out or might provide only a short-term increase, which

could leave the Commonwealth facing serious problems with bond rating agencies.

Massachusetts has already experienced tremendous net out-migration of taxpayers over the past 23 years, including those with \$17.3 billion in adjusted gross income, about three-quarters of whom moved to tax-free Florida or New Hampshire. The lure of tax-free states has already played a major role in constraining the Massachusetts economy. Voters should think twice before effectively doubling the state taxes of high-income Massachusetts taxpayers and entrepreneurs.

APPENDIX. Federal Reserve 2016 Survey of Consumer Finances

Households with Net Worth of >\$1M	Number of Households	Total Net Worth	Average Net Worth	Unrealized Capital Gains	Average Annual Income
Of such households, those with annual income of <\$1M	13,736,819	\$45.22 Trillion	\$3,291,677	\$12.8 Trillion	\$239,386
Of such households, those with annual income of >\$1M	1,008,817	\$23.23 Trillion	\$23,023,753	\$8.51 Trillion	\$2,738,269
Households with Net Worth of \$2.5M to \$10M	Number of Households	Total Net Worth	Average Net Worth	Unrealized Capital Gains	Average Annual Income
Of such households, those with annual income of <\$1M	4,094,240	\$18.6 Trillion	\$4,543,251	\$4.95 Trillion	\$306,087
Of such households, those with annual income of >\$1M	343,359	\$2.29 Trillion	\$6,674,511	\$.52 Trillion	\$1,725,681
Households with Net Worth of >\$2.5M	Number of Households	Total Net Worth	Average Net Worth	Unrealized Capital Gains	Average Annual Income
Of such households, those with annual income of <\$1M	4,792,885	\$31.32 Trillion	\$6,535,387	\$9.56 Trillion	\$334,084
Of such households, those with annual income of >\$1M	959,509	\$23.16 Trillion	\$24,137,503	\$8.5 Trillion	\$2,798,263
Households with Net Worth of >\$5M	Number of Households	Total Net Worth	Average Net Worth	Unrealized Capital Gains	Average Annual Income
Of such households, those with annual income of <\$1M	1,969,632	\$21.78 Trillion	\$11,055,475	\$7.21 Trillion	\$408,673
Of such households, those with annual income of >\$1M	886,238	\$22.89 Trillion	\$25,833,863	\$8.44 Trillion	\$2,890,197
Households with Net Worth of >\$10M	Number of Households	Total Net Worth	Average Net Worth	Unrealized Capital Gains	Average Annual Income
Of such households, those with annual income of <\$1M	698,645	\$12.72 Trillion	\$18,209,819	\$4.61 Trillion	\$498,151
Of such households, those with annual income of >\$1M	616,151	\$20.87 Trillion	\$33,869,000	\$7.98 Trillion	\$3,395,974
Households with Net Worth of >\$1B	Number of Households	Total Net Worth	Average Net Worth	Unrealized Capital Gains	Average Annual Income
Of such households, those with annual income of <\$1M	142	\$146.0 Billion	\$1.03 Billion	\$119.1 Billion	\$547,271
Of such households, those with annual income of >\$1M	334	\$401.1 Billion	\$1.20 Billion	\$222.1 Billion	\$48,586,839

Endnotes

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About the Author

Gregory W. Sullivan is Pioneer's Research Director, and oversees the Centers for Better Government and Economic Opportunity. Prior to joining Pioneer, Sullivan served two five-year terms as Inspector General of the Commonwealth of Massachusetts, where he directed many significant cases, including a forensic audit that uncovered substantial health care over-billing, a study that identified irregularities in the charter school program approval process, and a review that identified systemic inefficiencies in the state public construction bidding system. Prior to serving as Inspector General, Greg held several positions within the state Office of Inspector General, and was a 17-year member of the Massachusetts House of Representatives. Greg is a Certified Fraud Investigator, and holds degrees from Harvard College, The Kennedy School of Public Administration, and the Sloan School at MIT.

About Pioneer

Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to improve the quality of life in Massachusetts through civic discourse and intellectually rigorous, data-driven public policy solutions based on free market principles, individual liberty and responsibility, and the ideal of effective, limited and accountable government.

