POLICY BRIEF

PIONEER OPPORTUNITY

Will The Wealthy Leave? They Already Are and Proposition 80 Will Only Make it Worse

By Gregory Sullivan

Introduction

Proposition 80 is an initiative petition scheduled to appear on the November 2018 Massachusetts ballot that proposes to add a 4 percent surtax on any annual taxable income in excess of $1 million and use any additional revenue from the tax hike to fund transportation and public education. While the initiative's sponsors, Raise Up Massachusetts, a grassroots 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," the data show that its passage would endanger the long-term economic well-being of Massachusetts, with more current residents and businesses moving to states that have no state income tax.

Wealth migration is the entrance and exit of taxpayers between states. Beginning with 2011–12 data, the Internal Revenue Service's Statistics of Income Division (SOI) has produced tabulations that show aggregate migration flows by amount of adjusted gross income (AGI) and age of the primary taxpayer. Passing Proposition 80 would likely accelerate AGI migration out of Massachusetts, particularly to Florida and New Hampshire, both of which have no state income tax.

Massachusetts Net AGI Out-Migration

Figure 1 presents IRS data showing Massachusetts' net migration of AGI from 1992–93 to 2014–15 for all tax returns regardless of income level. It shows that Massachusetts experienced a cumulative net outflow of $15.9 billion in AGI over this period to other states and nations. Income tax-free Florida and New Hampshire were the biggest beneficiaries; together they accounted for 74 percent of Massachusetts' net out-migration of AGI over this period. Massachusetts had a net out-migration of AGI to Florida of $7.5 billion, representing 47.4 percent of Massachusetts' total net out-migration.[1] According to records from the Massachusetts Department of Revenue, 8 percent of MA out-migrants to Florida between 2010 and 2014 accounted for 48 percent of out-migrated AGI. The Commonwealth had net out-migration of AGI to New Hampshire of $4.2 billion, or 26.7 percent of Massachusetts' total net out-migration. Other states and nations accounted for the remaining $4.1 billion of Massachusetts' net AGI out-migration, representing 26.0 percent of its total net loss over this period.

PIONEER INSTITUTE
PUBLIC POLICY RESEARCH

Gregory 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 and was a 17-year member of the Massachusetts House of Representatives. Greg holds degrees from Harvard College, The Kennedy School of Public Administra-tion, and the Sloan School at MIT

March 2018

Figure 1. Massachusetts Cumulative Net AGI Inflow/Outflow, 1992–93 to 2014–15

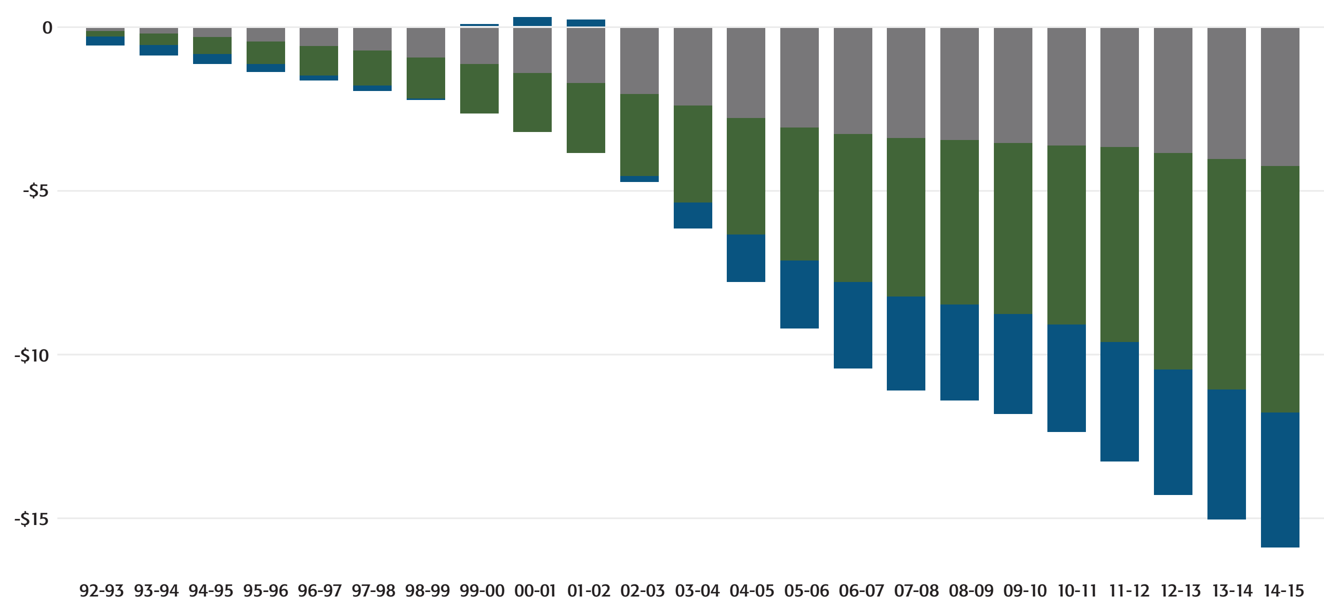


Figure 2. 20 states with which Massachusetts had significant net positive or negative AGI migration, 1992–93 to 2014–15

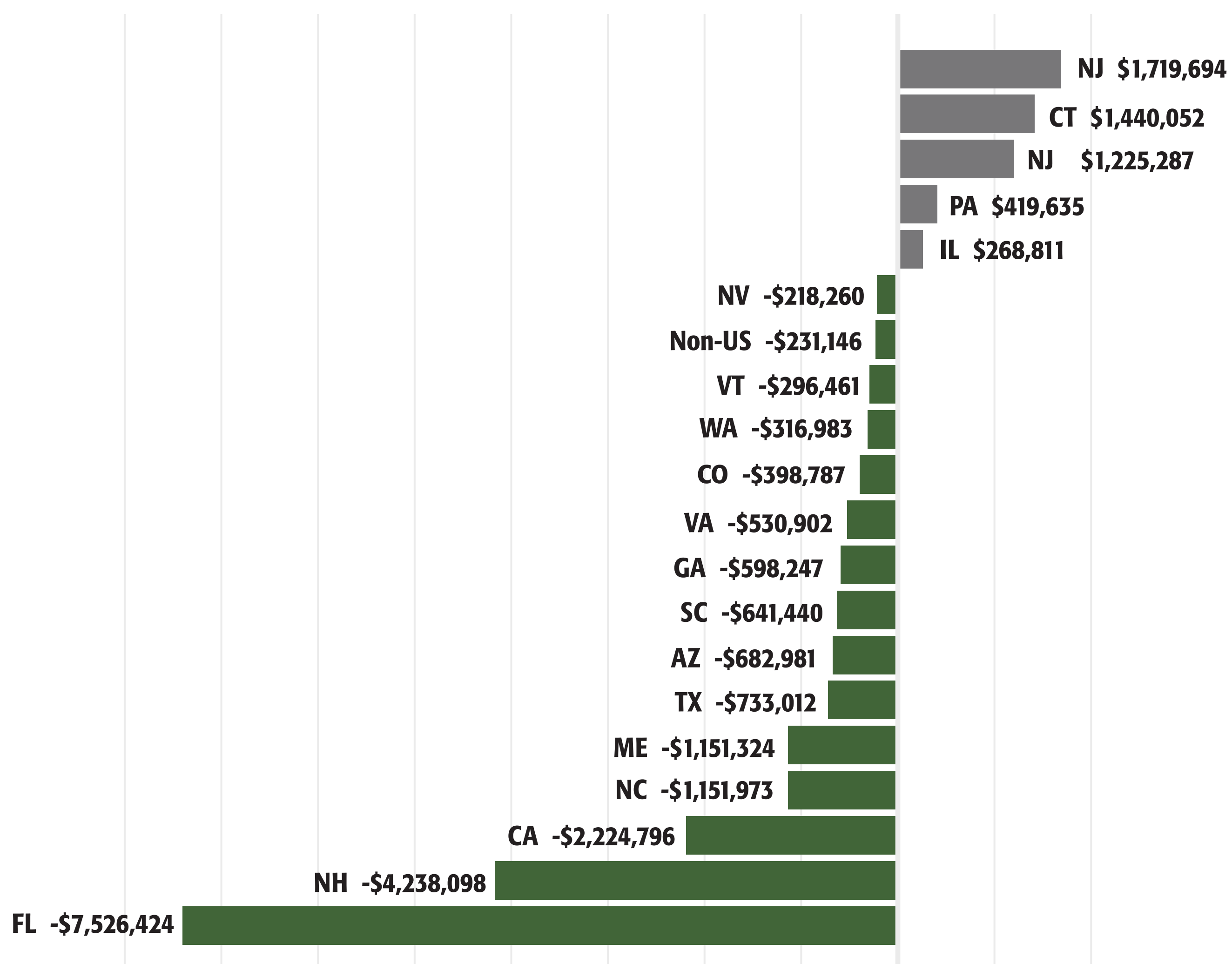


Figure 2 shows the 20 states with which Massachusetts had the most significant net positive or net negative AGI migration from 1992–93 to 2014–15 for taxpayers of all incomes. Cumulatively, these states accounted for 93.4 percent of Massachusetts net AGI migration over the period while the other 30 states accounted for 6.6 percent. Of the 20 states, Massachusetts had net AGI in-migration from New York, Connecticut, New Jersey, Pennsylvania, and Illinois. Massachusetts had the most significant net out-migration with Florida and New Hampshire, followed by California, North Carolina, and Maine.

The Florida Welcome Mat: Sun and Savings

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 AGI over this period across all income levels, according to IRS SOI data.

The IRS' addition of income categories to its income migration data reporting in 2011–12 allows researchers to calculate the percentage of AGI income migration attributable to high-income taxpayers by state. The highest income category reported in IRS migration data is annual AGI of more than $200,000. According to IRS data, Florida had a total of 56,093 migration inflow returns of taxpayers with annual 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.

Over the same period, Florida had 25,740 outflow returns of taxpayers with AGIs of $200,000 or more, with an average AGI of $699,874.

Florida's net AGI attributable to migration from 2011–12 to 2014–15 totaled $38.87 billion, of which 72 percent was attributable to taxpayers with AGI of $200,000 of more (Figure 4).

This massive net AGI migration in just three years came despite the fact that they constituted only 5 percent of total inflow returns over that period (Figure 5).

Over just four years, Florida's net AGI attributable to migration totaled $39 billion, of which 72 percent was attributable to taxpayers with AGI of $200,000 of more.

The Ripple Effect on Population Growth

Over time, migration has significantly affected not only the growth of total state AGI, but also state population. Since 1992, both Massachusetts and Florida have experienced growth of about 24 percent in claimed tax exemptions of their respective non-migrant populations. Figure 6 shows how much the cumulative effects of migration have dramatically changed the final outcomes. Over this period, Massachusetts lost 9.3 percent of its total exemptions through net negative migration, according to IRS data, reducing its "claimed tax exemption" growth from 24.7 percent (non-migrant taxpayers) down to 15.4 percent (all taxpayers). Florida, conversely, increased its "claimed tax exemption" growth from 23.6 percent (non-migrant taxpayers)

Figure 3. Florida Cumulative Net Annual AGI Migration, 1992–93 to 2014–15 ($000s)

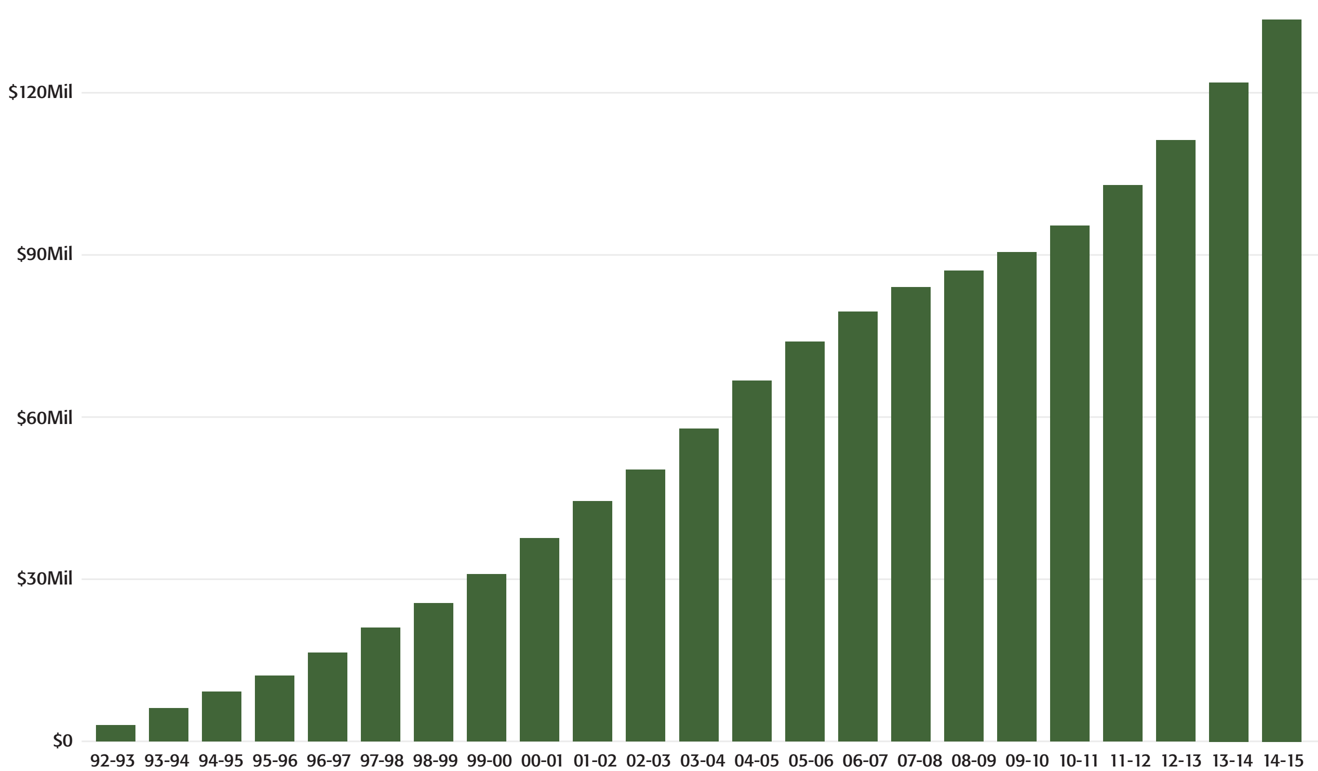


Figure 4. 72% of Florida's net migration AGI came from high-income taxpayers (000s), 2011–12 to 2014–15 annual AGI of $200,000 or more

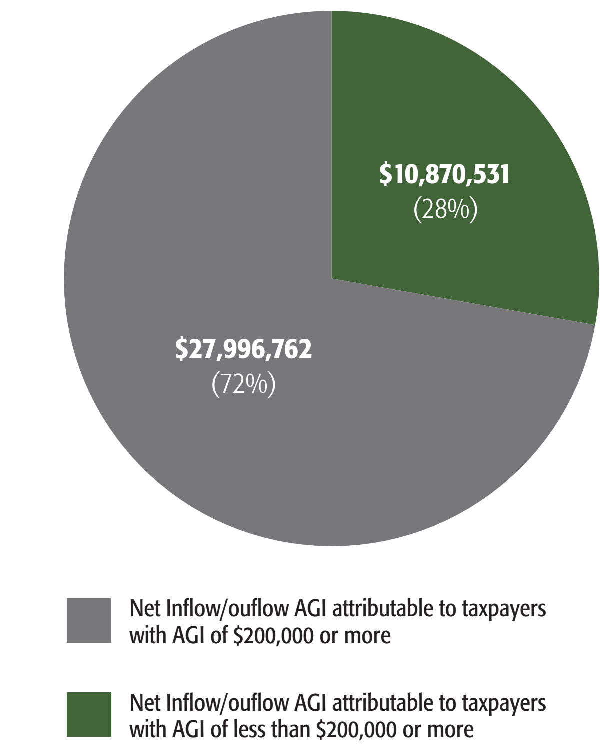
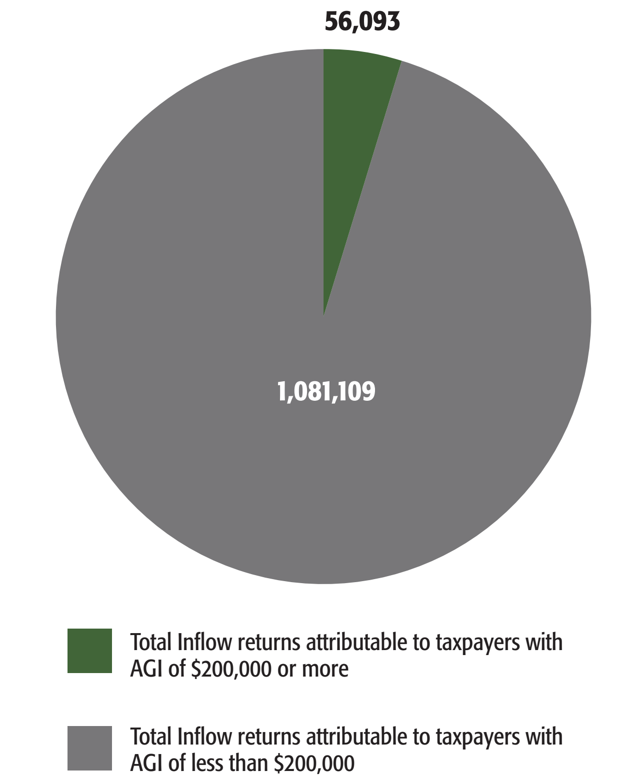


Figure 5. High-income taxpayers constituted only 5% of in-migrant returns, 2011–12 to 2014–15



to 46.5 percent (all taxpayers) because of net positive migration.

According to IRS SOI data, Florida had a net increase in the total exemptions reported on federal tax returns of 4.61 million over this period, from 10.14 million in 1992–93 to 14.64 million in 2014–2015.

Exemptions are considered to be a proxy for population, but understate it because IRS data is limited to "matched returns" of taxpayer filings, a smaller subset. There are two kinds of exemptions recognized by the IRS: personal exemptions for the taxpayer, including one for a single taxpayer and two for married couples filing jointly; and an additional one for each dependent. Over this period, by comparison, the U.S. Census reports that Florida's population increased from 13.71 million in 1993 to 20.27 million in 2015.

Based on matched IRS tax returns from 1992–93 to 2014–15, Florida added 2,320,005 exemptions as a result of net positive migration. This means the majority of Florida's 4,613,607 total increase in exemptions was attributable to net positive migration and 49.7 percent was attributable to an increase in non-migrant in-state residents.

Massachusetts had a net increase in the total number of exemptions reported on federal tax returns of 702,781 over this period, growing from 4.56 million exemptions in 1992–93 to 5.26 million in 2014–2015.

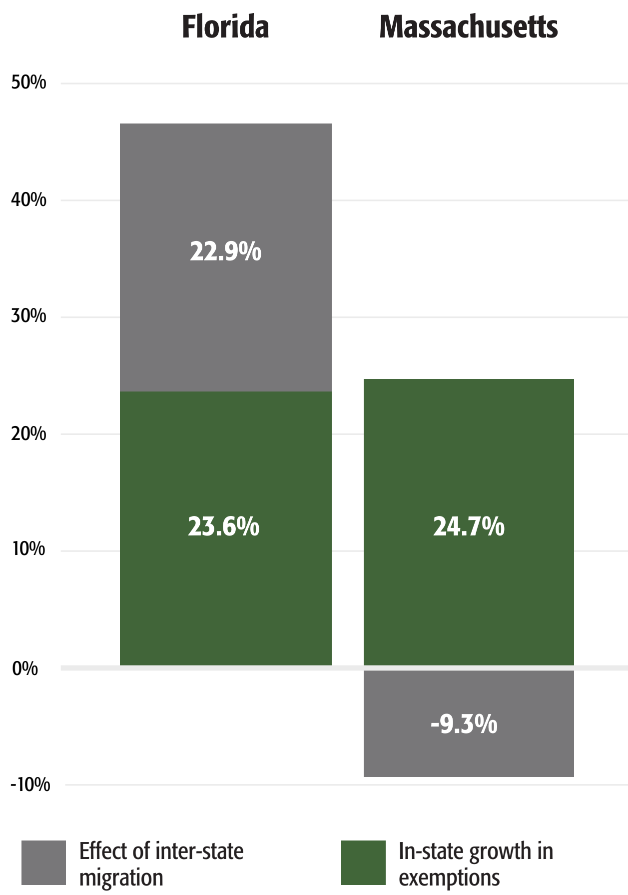
Unlike Florida, Massachusetts had a net-negative flow of exemptions out of state. Between 1992–93 and 2014–15, the IRS reported net outflow from Massachusetts with 422,559 exemptions reported. Had Massachusetts not experienced a net negative migration of exemptions, its exemptions would theoretically have increased by 1.10 million rather than 702,781, but this presumes that Massachusetts could have adapted to facilitate additional inflow returns and that out-of-state taxpayers would have migrated to Massachusetts.

The effects of migration have been significant not only on total state AGI but also on population growth.

These statistics demonstrate the substantial effect of net migration on the total number of taxpayers and dependents over time. Had it not been for its net migration gains, Florida's exemptions would have increased by only 23.6 percent rather than 46.5 percent. Conversely, if the effects of net negative migration were not counted, Massachusetts exemptions would have grown by 24.7 percent instead of 15.4 percent.

IRS statistics also show that Florida has benefitted greatly by cumulative AGI reported on net inflow returns. According to IRS SOI data, the total AGI of all Florida taxpayers increased from $157.9 billion in 1992–93 to $505.1 billion in 2014–2015, an increase of $347.2 billion. Based on matched

Figure 6. Net migration has boosted Florida's and decreased Massachusetts' population



IRS tax returns, a substantial percentage of this increase, 38.5 percent ($133.7 billion), was attributable to a net increase in migration to Florida, while 61.5 percent ($213.5 billion) was attributable to an increase of AGI from in-state residents who did not move between states. This demonstrates the significant impact of net in-migration to Florida over this period. Without the effect of in-migration, Florida's total AGI growth would have been 135.2 percent; with it, Florida's total AGI growth was 219.9 percent.

Massachusetts' AGI growth, conversely, was adversely impacted by net out-migration over this period. The total AGI of all Massachusetts taxpayers increased from $87.8 billion in 1992–93 to $258.3 billion in 2014–2015, an increase of $170.6 billion. Based on matched IRS tax returns, Massachusetts had a net decrease in AGI from migration returns of $15.9 billion from 1992–93 to 2014–15. Had Massachusetts not experienced a net negative migration of AGI, its total AGI increase would have theoretically increased by $186.5 billion rather than by $170.6 billion. Because of net migration AGI outflow from 1992–92 to 2014–15, Massachusetts's total AGI growth decreased from 212.5 percent to 194.4 percent.

These statistics demonstrate the substantial effect of net migration on AGI in the two states from 1992–93 to 2014–15:

	In-state growth in AGI	Effect of in/out migra-tion	Actual increase
Florida	135.2%	+84.6%	219.9%
Massachusetts	212.5%	- 18.1%	194.4%

Conclusion

Massachusetts had a net outflow of $15.9 billion in adjusted gross income (AGI) between 1992–93 and 2014–15. The biggest beneficiaries of the wealth that fled the Commonwealth were Florida, which captured 47.4 percent of it, and New Hampshire (26.7 percent).

Between 2011–12 and 2014–15, Florida saw a net $38.87 billion AGI inflow. Over 70 percent of the net inflow was from taxpayers with annual AGI of $200,000 or more, even though they accounted for just 5 percent of total net inflow tax returns during that period.

Nearly 40 percent of the total growth in AGI among all Florida taxpayers from 1992–93 to 2014–15 was attributable to the state's net increase in migration. Compare that to Massachusetts, and its net outflow of $15.9 billion in AGI over the same period.

Affluent taxpayers are responsible for an outsized proportion of state tax revenue. The data also show a strong correlation between state taxes and migration. States like Florida and New Hampshire that have no state income tax have seen a net inflow of AGI from higher-tax states like Massachusetts. We live in a society that is more mobile than ever before, and that is especially for those on the higher rungs of the socio-economic ladder.

Massachusetts had a net decrease in AGI from in-migration returns of $15.9 billion from 1992–3 to 2014–15

While proponents of Proposition 80 say the measure would simply ask high earners to pay their "fair share," the economic reality is that many of them are likely to leave Massachusetts if the initiative passes. If that happens, the Commonwealth will be left with higher taxes, but none of the additional revenue to fund transportation and public education needs.

Endnotes

1. https://www.irs.gov/statistics/soi-tax-stats-migration-data

PIONEER INSTITUTE
PUBLIC POLICY RESEARCH

185 Devonshire Street, Suite 1101 Boston MA 02110 617.723.2277
www.pioneerinstitute.org Facebook.com/PioneerInstitute Twitter.com/PioneerBoston