PIONEER OPPORTUNITY

Mass Out-Migration:
Outflux of Wealth and Residents Continues

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Table of Contents

Executive Summary

Out-migration from Massachusetts has been increasing consistently over the last decade, but since the beginning of the Covid-19 pandemic in 2020 it has surged. From 2012 to 2019 Massachusetts lost $10 billion in net adjusted gross income (AGI) from emigrating taxpayers. In just three years from 2020 to 2022, the state lost an even greater amount — $10.6 billion. It lost $3.9 billion in AGI in 2022 alone. Over the 2012 to 2022 period, total AGI loss increased fourfold.

This wave of out-migration is cause for concern, especially as it has been concentrated among wealthier tax filers, with at least $200k in yearly income, and residents aged 26–34. The Commonwealth has lost ground to states that have lowered tax rates, implemented business-friendly policies, built new housing, and created job opportunities — effectively luring residents from less affordable states. If the state's competitive edge slips further and these trends continue, Massachusetts risks losing significant revenue in the near term and dampening its future economic potential.

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Introduction

Competition among states takes a variety of forms. States compete over regulations, taxes, infrastructure, and public services, with the ultimate goal of attracting, retaining, and strengthening businesses and residents so that they are contributing to the economic vitality and dynamism of the place they make home.

States with high-cost structures risk an outflow of talent and wealth leading to economic stagnation. When individuals leave a state, they take with them not only their current incomes, businesses, and value to their communities but also their future contributions and tax revenue. This loss is especially salient if those moving away are younger and well educated.[1]

Affordable and economically welcoming states, on the other hand, can often reap a significant and sustained bounty of new taxable income, entrepreneurial ventures and relocating businesses, and ultimately greater growth and prosperity.[2]

The exact reasons why any individual or business moves are complicated and not always easily discernible through available data. Some older and wealthier residents may be convinced to relocate as a result of their state's onerous tax regime, especially when new or uncompetitive levies on higher income levels and capital gains impact their nest egg or low threshold estate taxes threaten the assets they wish to bequeath to their family.[3] Younger residents may be more influenced by job opportunities, the cost of raising children and paying for their education, and the ability to buy a home.[4] Many stay or move primarily because of family responsibilities or attachments. Other factors, like the overall cost of living, the strength and affordability of the healthcare system, and non-policy related elements like climate, proximity to friends, and natural landscape likely play a role too.[5]

When individuals leave a state, they take with them not only their current incomes, businesses, and value to their communities but also their future contributions and tax revenue. This loss is especially salient if those moving away are younger and well educated.[1]

The decision to move out of state is not one most people or businesses undertake lightly, nor is it likely due to a single tax or issue. Leaving your home, where you perhaps raised a family and/or started a business, is a lot like divorce: it rarely happens for a single reason. Such monumental changes are the culmination of a series of events — and a loss of trust. Thus, it is imperative that states losing residents and businesses take a hard look in the mirror to assess what is going wrong and seek to re-right the ship.

According to Internal Revenue Service (IRS) tax filer migration data,[6] Massachusetts is one of the states that is losing a significant number of residents and wealth every year.

Massachusetts Out-Migration Trends

Between 2020 and 2022, on a net basis, the Bay State lost over 71,000 tax filers[7] and nearly $11 billion in adjusted gross income (AGI). These findings are further supplemented by Census Bureau estimates that 110,000 domestic residents left the state during that same period on a net basis (with an additional 39,000 leaving in 2023). In 2023 and 2024 a significant share of Massachusetts residents, especially the young and the wealthy, continue to signal that they were, and are, seriously considering leaving the state for greener pastures.[8]

Between 2020 and 2022, on a net basis, the Bay State lost over 71,000 tax filers and nearly $11 billion in adjusted gross income (AGI).

This phenomenon likely comes as little surprise to state residents, many of whom are struggling with the cost of living. Massachusetts is one of the most expensive places in the country to live — the most expensive place if you are a single person living alone — joining the list of notoriously unaffordable states like California, New York, and Hawaii.[9] Suffering from an acute housing shortage, high tax rates, and a costly health care system, the state is losing its competitive edge and forcing longtime residents to reevaluate their decision to reside here.

One recent study by Boston University[10] projected that Massachusetts could lose as many as 96,000 residents and $19.2 billion in AGI per year by 2030. That would amount to nearly $1 billion in lost revenue for the state annually and significant population loss over time. Further, the cost to the workforce of losing young talent and the cost to businesses of a diminished customer base could also be significant.

Policymakers may find these trends abrupt, but the conditions leading to out-migration have been years in the making. Other states have built housing at a rapid clip to accommodate strong demand, while Massachusetts is weighed down by large minimum lot size regulations and lengthy and discretionary development approval processes. While many other states were busy lowering income taxes, from 2020 to 2022, Massachusetts went in the other direction — passing a statewide referendum adding a 4 percent surtax on annual incomes in excess of $1 million. When regional peers, like Connecticut and Vermont, significantly raised the threshold of their estate taxes, Massachusetts reformed it to have the third lowest threshold in the country — only a marginal improvement from having the lowest.

That's not to say the state hasn't taken some steps in the right direction. In 2023 the legislature passed a $1 billion tax reform package that provided immediate relief for taxpayers across the income spectrum. The new legislation lowered the short-term capital gains tax rate from 12 to 8.5 percent, increased the child and earned income tax credits, and provided several other reforms targeted at making the state more affordable.[11] However, while well intended and directionally beneficial, those reforms did not go far enough in positioning Massachusetts to be competitive now and in the future.

Migration is not about a single tax or policy occurring in a vacuum. It is about the cumulative effect of a broad set of tax and economic policies considered in the context of very real and dynamic forces: there are dozens of states, as well as countries, competing for businesses, wealth and talent.

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In the case of Massachusetts, the confluence of several recent tax-policy changes and a lack of affordability, together with unforeseen social phenomena, are leading to a sharp increase in the number of taxpayers leaving the state.

The most significant trends include:

- **An outside-the-norm estate tax policy.** Massachusetts stands out from the pack as being especially punitive, with one of the lowest income thresholds ($2 million) in the country to trigger the tax. Only Oregon ($1 million) and Rhode Island ($1.73 million) were lower in 2023.[12] By comparison, the federal threshold was just under $13 million.[13] Thirty-three states have no estate or inheritance tax. Even Connecticut, which has often been considered a higher tax state than Massachusetts, set its estate tax threshold in line with the federal threshold at $12.9 million.[14]

- **Limiting the deductibility of state and local taxes to $10,000.** In a high-tax state like Massachusetts, the 2017 limitation in the federal Tax Cuts and Jobs Act (TCJA) laid bare the state's uncompetitive tax policies and the financial benefits of changing one's domicile. Massachusetts has failed to adapt to this new tax reality.
- **Stagnant housing supply.** From 2010 to 2020 the number of households in Greater Boston increased by 10.7 percent while the number of housing units only rose 7.9 percent. Consistent underproduction for the last 50 years and high housing construction costs have led to a vacancy rate well below the national average and ballooning costs for residents.[15] According to Census Bureau data, Massachusetts had the fifth fewest new residential construction permits authorized per capita in 2023.[16]
- **Remote work enabling people to live anywhere.** The pandemic accelerated the use of technology that enables remote work, permanently altering the way business is conducted. Employees are routinely opting to work from home. For many, this has prompted them to relocate to a state different from their place of employment. In Massachusetts, home to many industry sectors that are conducive to remote work, that trend has really taken hold. In 2022, 18.32 percent of those employed worked fully remote from home, the sixth highest rate in the country and a 13 percentage point increase from 2019.[17]
- **Tax reforms in other states undermine Massachusetts' competitive standing**. Forty-three states adopted some kind of tax relief in 2021 and/or 2022.[18] While Massachusetts contemplated raising income taxes, 21 states reduced them in those two years (27 states if you include 2023),[19] leaving the state less competitive as workers became more mobile. The 2023 tax relief package made some headway,[20] but the reforms are insufficient to address the challenges the state faces.
- **Adoption of a 4 percent surtax on incomes greater than $1 million.** The signs for higher earners were and are clear, and many left even before the vote was taken in November 2022. Since then, polls conducted by MassCPAs show that as many as 90 percent of CPAs have high-income clients with incomes over $1 million considering leaving the state.[21] Two thirds had a high-income client relocate in 2023 and 64 percent identified the surtax as one of the primary reasons their clients were considering, or did, relocate.
- **A failing transit system.** Several modes of transportation run by the Massachusetts Bay Transportation Authority (MBTA) are currently in some degree of disrepair. According to one poll, a significant share of current and former riders find the quality of public transit service lacking, including 70 percent of riders who have felt unsafe using the system.[22] Commute times are also among the worst in the country.[23]
- **Elevated cost of healthcare.** During the pandemic and in the years following, costs in Massachusetts have been rising at rates greater than the national average. The Commonwealth ranked second-most-expensive in the country in a three-year average of private single coverage premium contributions by employees from 2021 to 2023.[24] A Beacon Research poll from March 2024 found that Mass residents ranked the cost of healthcare as their third most important issue, behind only the cost of housing and inflation.[25]

From 2010 to 2020 the number of households in Greater Boston increased by 10.7 percent while the number of housing units only rose 7.9 percent.

One can debate which of these policies or factors have played the predominant role in causing a quadrupling of tax filers and near quintupling of wealth leaving Massachusetts over the past decade. But it is indisputable that people are leaving at an accelerated rate, and the state's high taxes have played a role. If the state continues to lose residents, especially high earners and young people, it risks further eroding the state's greatest economic strength — its human capital and critical industries — and undermining its tax base.

What the Data Says

As Figure 1 shows, concerns over Massachusetts' competitive standing are justified. High-tax and unaffordable states across the U.S have suffered tax base loss, as measured by net out-migration of adjusted gross income (AGI), over the last several years. Those losses have been largely concentrated in just a few states: California, Illinois, New York, New Jersey, and Massachusetts.[26]

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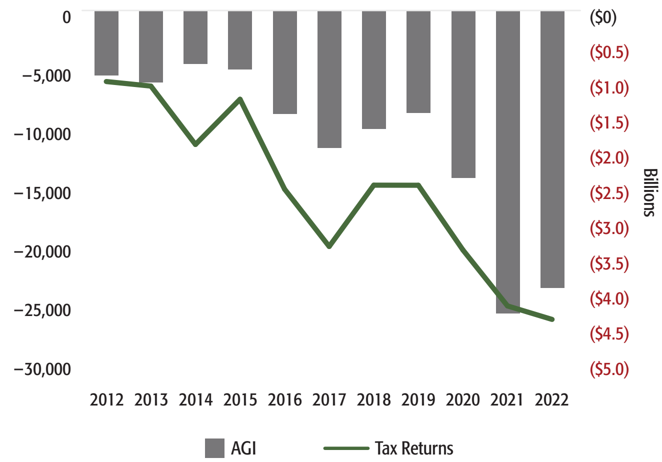
In Massachusetts, there was a near doubling in net out-migration of AGI and 250 percent growth in the loss in filers from 2012 to 2018. After stabilizing in 2019, the amount of AGI and taxpayers leaving Massachusetts have increased significantly—likely due in part to the COVID-19 pandemic.

Figure 1. Massachusetts Net AGI & Tax Filer Out-Migration (inflow-outflow), by Tax Year

Year	AGI (in Billions)	Tax Returns
2012	–$0.92	–6,054
2013	–$1.02	–6,440
2014	–$0.76	–11,417
2015	–$0.83	–7,563
2016	–$1.46	–15,228
2017	–$1.95	–20,110
2018	–$1.68	–14,885
2019	–$1.46	–14,893
2020	–$2.38	–20,409
2021	–$4.30	–25,177
2022	–$3.94	–26,326
Totals	**–$20.69**	**–168,502**



Source: https://massirsdatadiscovery.com/tax-payer-migration

By 2021 and 2022, out-migration of wealth accelerated dramatically, with more than $8 billion of AGI leaving the state in just those two years combined. Over the past decade, net out-migration of AGI in Massachusetts grew almost five-fold, from over $900 million in 2012 to $3.9 billion in 2022. That translates to a four-fold increase in the net loss of income tax filers in the Bay State, rising from 6,000-plus filers in 2012 to more than 26,000 in 2022.

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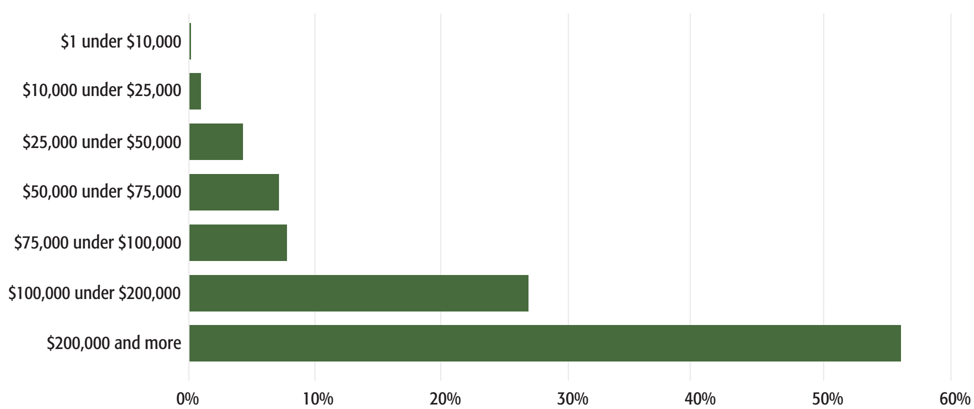
Net AGI Loss by Income Category

Figure 2 presents the latest IRS data on wealth categories, ranging from under $10,000 to $200,000 and above. (Note: median 2022 household income was just under $95,000 in Massachusetts.)[27] As the figure shows, the vast majority of AGI losses from net out-migration from Massachusetts was concentrated in the highest income categories — 80.6 percent in categories above $100,000 and a clear majority in the $200,000 or more category. Just over 5 percent of net out-migration was from those with incomes below $50,000.

Figure 2. AGI Lost to Net Out-Migration by Income Category, 2022, by Percentage

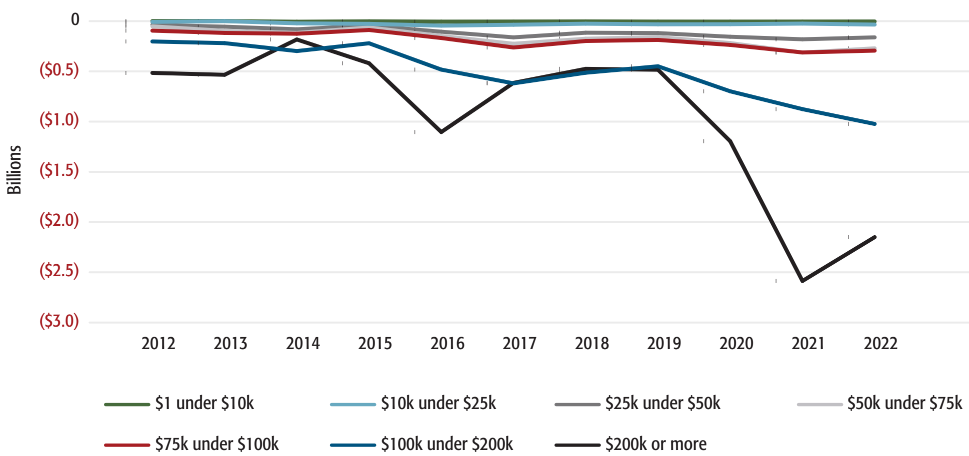


Source: https://massirsdatadiscovery.com/tax-payer-migration

Further, Figure 3 shows that net out-migration of wealth in every income category, except those under $10,000, has grown since the pandemic. There is a substantial increase in net out-migration of wealth across the board over the 11 years from 2012 to 2022, with a sizable jump from 2020 to 2022. The loss in the five lowest income categories — essentially those with income of $100,000 or below — grew from $192 million in 2012 to $763 million in 2022.

During that same 2012 to 2022 period, wealth lost to net out-migration in the $100,000–$200,000 category quintupled from $202 million to $1 billion. Migration is heavily concentrated among those earning $200,000 or above, where there is a more than four-fold increase in lost AGI, from $515 million to $2.15 billion. The shrinking of the potential tax base due to net out-migration of higher earners occurs throughout the decade, but the hit to the tax base is particularly acute from 2020 to 2022.

Figure 3. AGI Lost to Net Out-Migration, by Income Class



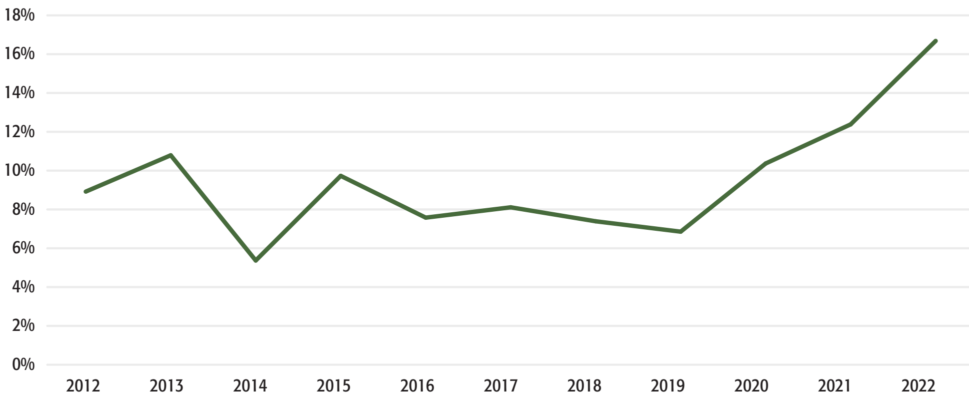
Source: https://massirsdatadiscovery.com/tax-payer-migration

In 2022 tax filers with incomes exceeding $200,000 made up 16.68 percent of all net-outmigration (-4392 total), a rate 4.2 percent higher than any preceding year.

Corresponding with the increased loss of AGI among high-income tax filers, since 2020 the number of tax filers with incomes in excess of $200,000 who are leaving has jumped, including as a percentage of all net-outmigration. From 2012 to 2019 high-income taxpayers consistently made up less than 10 percent of all net migrating residents — the only exception being 2013 when they made up 10.79 percent.[28] From 2020 to 2022, however, that share considerably increased, even as the total number of net migrators grew more than fourfold compared to 2012. In 2022 tax filers with incomes exceeding $200,000 made up 16.68 percent of all net-outmigration (–4392 total), a rate 4.2 percent higher than any preceding year. The next highest percentage being in 2021 when 12.38 percent of net migrating filers were of that income level.

By taking the sum of net AGI lost to out-migration from the $200,000+ demographic ($2.15 billion) and dividing by the net number of those tax filers leaving (4,392), the average AGI lost per tax filer is $490,000.

Figure 4. $200K+ Tax Filers' Share of Total Net Out-Migration, 2012–2022



Source: https://massirsdatadiscovery.com/tax-payer-migration

Net AGI Loss by Income and Age Group

Figure 4 presents 2022 IRS data on AGI loss from net out-migration (taking the sum of out-migration from and migration into Massachusetts), broken down by income and age group.

The most significant loss of wealth came from the 55-to-64 age group ($1.5 billion). This may be in part due to attempts to avoid Massachusetts' onerous estate tax. Alarmingly, the second-largest age cohort leaving the state in terms of wealth lost is 26- to 34-year-olds ($1.1 billion). Thereafter, in order of largest loss of wealth, are 35- to 44-year-olds ($555 million), 45- to 54-year-olds ($359 million) and, perhaps surprisingly, the retirement cohort of 65 and over, which is only the fifth largest cohort for wealth out-migration ($271M).

The second-largest age cohort leaving the state in terms of wealth lost is 26- to 34-year-olds.

Figure 5. AGI Lost due to Net Out-Migration, by Age Group, 2022 (in Millions)

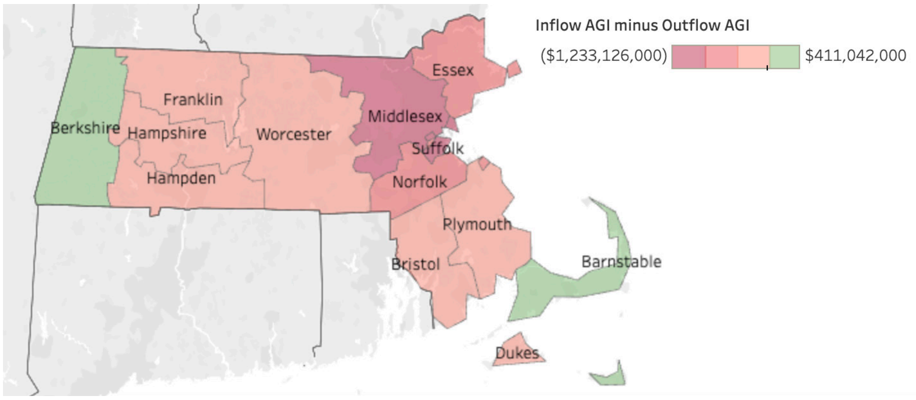
Age Group	$1 under $10000	$10000 under $25000	$25000 under $50000	$50000 under $75000	$75000 under $100000	$100000 under $200000	$200000+	**Grand Total**
Ages <26	$0.1	($6.1)	($24.5)	($16.0)	($24.7)	($60.5)	($22.3)	**($154.0)**
Ages 26–34	($1.0)	($12.4)	($55.5)	($121.2)	($127.0)	($376.6)	($378.5)	**($1,072.1)**
Ages 35–44	($0.3)	($4.1)	($28.3)	($37.1)	($47.6)	($182.9)	($255.0)	**($555.2)**
Ages 45–54	($0.2)	($3.1)	($20.6)	($34.6)	($29.2)	($114.9)	($156.5)	**($359.1)**
Ages 55–64	($0.6)	($5.0)	($21.2)	($37.4)	($41.0)	($180.5)	($1,238.3)	**($1,524.0)**
Ages 65+	($1.1)	($3.6)	($11.4)	($24.0)	($24.2)	($108.0)	($99.5)	**($271.7)**
Grand Total	**($3.1)**	**($34.2)**	**($161.5)**	**($270.3)**	**($293.6)**	**($1,023.3)**	**($2,150.1)**	**($3,936.1)**

Source: https://massirsdatadiscovery.com/tax-payer-migration

Florida and New Hampshire Attracted the Greatest Number of Commonwealth Residents

The out-migration trend is not uniform throughout the state. Berkshire County and the Cape and Islands, which represent only 5.2 percent of the state's population, experienced a net inflow of AGI in 2021 and 2022. Much of that is due to in-migration from New York and Connecticut, states with residents who often buy second homes in Massachusetts. Some of these second homes were likely converted to primary residences. For the counties where the remaining 6.6 million people reside, however, there has been net loss of AGI. Middlesex County, which abuts New Hampshire, was the hardest hit, with Suffolk County following closely behind.

Figure 6. Net Changes to AGI by Massachusetts County, 2022



Source: https://massirsdatadiscovery.com/tax-payer-migration

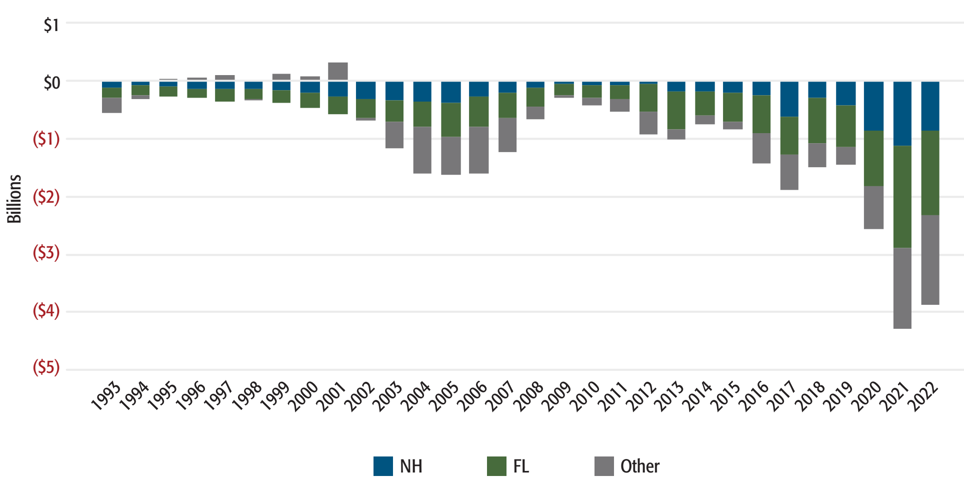
Between 2019 and 2022, the number of net Massachusetts tax filers relocating to New Hampshire grew from 3,951 to 5,475, or 38.6 percent.

As previous Pioneer studies have shown,[29] Florida and New Hampshire have long been attractive destinations for Massachusetts filers choosing to relocate. Frequently, the *majority* of the wealth and tax filers leaving the Bay State have moved to these two low-tax, no-income-tax states. The tax affordability and stability New Hampshire provides, while enabling retention of friends, workers, and customers, is attractive to many Middlesex County home and business owners. Two hundred eighty million dollars in net AGI left Middlesex to relocate in Hillsborough and Rockingham Counties alone in 2022, the largest share of any out-migration destination.

Between 2019 and 2022, the number of net Massachusetts tax filers relocating to New Hampshire grew from 3,951 to 5,475, or 38.6 percent. There was a noticeable spike in 2021, with 6,527 net filers leaving that year.

Florida has been another popular destination for those leaving Massachusetts. Between 2019 and 2022, the number of net Massachusetts residents relocating to Florida almost doubled, from 3,694 to 7,033.

Figure 7. MA Net AGI Inflow/Outflow by Source & Destination, 1993–2022



Source: https://massirsdatadiscovery.com/tax-payer-migration

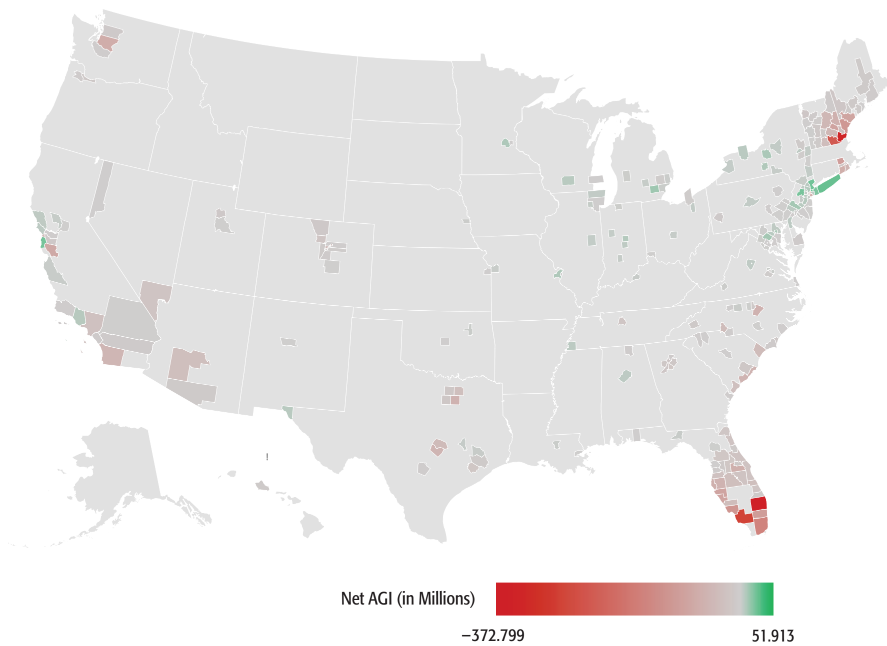
Massachusetts has not had a net gain of AGI from New Hampshire or Florida in any year since at least 1993.

In total, 60 percent of net AGI loss went to New Hampshire and Florida in 2022, down from 68 percent in 2021, but still accounting for the majority of AGI loss.

To put those losses into perspective, Massachusetts has not had a net gain of AGI from New Hampshire or Florida in any year since at least 1993, as shown in Figure 6. Yet, while there was a considerable uptick in migrating wealth from 2003 to 2007, no year comes close to the losses between 2020 and 2022. In fact, lost AGI in both 2021 and 2022 amounts to more than double any previous year during that period except 2020. By far the largest contributors to that tremendous spike in AGI loss were Florida and New Hampshire.

As shown in Figure 7, the three counties with the largest in-migration from Massachusetts in 2022 were Palm Beach County, Florida (net AGI gain of $373 million), Collier County, Florida (+$275 million) and Hillsborough County, New Hampshire (+$230 million).

Figure 8. U.S. County AGI Net Migration to and from Massachusetts, 2022



Source: https://massirsdatadiscovery.com/tax-payer-migration

Discussion

On the whole, Massachusetts has much to offer potential and current residents. The state is known for having a great quality of life, career opportunities for young college graduates, and access to high-paying jobs and one of the largest tech sectors outside of Silicon Valley. It has top-notch health care, an education system that consistently ranks as one of the best in the country, a competitive sports scene, rich arts and cultural institutions, and natural beauty from the state's beaches and shoreline to the rolling hills of the Berkshires. It also has a proud history of public and private sector innovation, provides a generous safety net for those in need, and a historical character central to the American experiment.

For these reasons, and many others, residents are proud to call the Bay State home and thousands of domestic and foreign migrants seek it out every year as a prime destination for relocation. Yet, while these attributes make Massachusetts exceptional in several respects, they are simply not enough in and of themselves. Several trends are working against the state and leading to out-migration of vital residents and businesses.

A March 2024 survey of young Greater Boston residents found "the cost of rent" and "the ability to buy a home" were among the top reasons why many of them were considering leaving the region entirely.

Working Age Exodus and the Housing Affordability Crisis

One of the most alarming statistics from the 2020 to 2022 IRS data is the sudden surge in out-migration among younger residents, particularly those aged 26 to 34 years old. To a certain extent, younger residents might be expected to be more mobile and sensitive to the cost of living than their older counterparts. They may feel less rooted in a particular place, lacking certain material possessions and assets that would make moving difficult. They may also be more willing to move for a better chance to raise a family in an affordable and stable environment. Nevertheless, the scale of the increasing exodus is significant and has long-term consequences.

In the immediate term, out-migration of young people diminishes the pool of talent at a time when the state is already experiencing labor shortages.[30] The Commonwealth's young talent also represents future wealth and the foundation of the state's future tax base. Tax revenue, economic contributions, and innovation will be constrained by the departure of younger members of the workforce. Not only will the state forgo these socioeconomic benefits now, but the losses will compound over many decades.

One explanation for the out-migration of 26–34-year-olds may be the steep cost of housing in Massachusetts. These young workers are at an age where many of them are looking to buy a house for the first time, and the median home price in Massachusetts is the fifth highest in the country, behind only California, Colorado, Hawaii, and Washington.[31] A March 2024 survey of young Greater Boston residents found "the cost of rent" and "the ability to buy a home" were among the top reasons why many of them were considering leaving the region entirely.[32] Meanwhile, older workers and retirees with fixed-rate mortgages may be somewhat insulated from the effects of the near-tripling of Massachusetts home prices since 2000.

According to Zillow,[33] the cost of a home is significantly cheaper in both states to which Massachusetts is losing the greatest number of residents. The median cost of a home in the Bay State is $635,000, whereas it's $486,000 in New Hampshire, and $399,000 in Florida. Thus, housing in both other states is more than 25 percent cheaper than in Massachusetts. This is likely a reflection of supply, as active home listings in the Bay State have declined by more than half since 2019.[34]

These significant cost differences make moving states much more attractive for younger workers, especially as more flexible work arrangements have become commonplace.

Tax Policy and the Migration Decisions of High-Income Earners

In the same way that housing policy and affordability has likely played a role in the migration decisions of younger residents, so too have tax changes and tax burden played a role in the migration decisions of older and wealthier tax filers.

Massachusetts was once notorious for being a high-tax state, often referred to as "Taxachusetts". After a period of tremendous growth and prosperity during the 1980's, known to many as the "Massachusetts Miracle",[35] economic growth collapsed in the state, leading to the emergence of a bipartisan consensus whereby the state prioritized tax stability and measured approaches to keep the state competitive and on a path to sustainable growth. By the early 2000s, the Commonwealth joined the broad middle of the pack with regard to state tax policy.[36]

Of those considering relocating, 53 percent indicated New Hampshire as their destination. Other top locations were Florida and Texas.

More recently, Massachusetts has once again become one of the highest taxing states in the nation,[37] a likely factor in the significant growth of out-migration among the state's wealthiest residents. In a 2024 poll conducted by MassCPAs,[38] 90 percent of CPAs said their clients with incomes greater than $1 million were considering leaving the state, 34 percent of whom cited the new 4 percent income surtax passed by referendum in 2022 as the primary reason. Two thirds indicated they had at least one client relocate in 2023. Of those considering relocating, 53 percent indicated New Hampshire as their destination. Other top locations were Florida and Texas. This, and the previous year's survey,[39] provide circumstantial evidence that some of the wealthy taxpayers leaving the state in 2021 and 2022 may have done so in anticipation of the surtax being passed and implemented. Survey results and research on other states that increased taxes on the wealthy suggest that this trend will continue.[40]

One study[41] evaluated behavioral changes in California after its marginal tax rate for the wealthiest income bracket was raised by 3 percentage points in 2012. The study found that, as a result, an additional 0.8 percent of affected tax filers moved in 2013, and that those who remained reported 10 percent less in income than the preceding years, likely reorganizing their assets for tax avoidance.

That same study, and others,[42] argue that the state and local income taxes (SALT) cap deduction of $10,000 for joint filers introduced as a part of the Tax Cuts and Jobs Act (TCJA) of 2017[43] will only have increased the incentives for high income earners to leave — even more so than Proposition 30, the amendment that raised taxes on the wealthy in CA. The TCJA made sweeping changes to the federal individual and business income tax codes, affecting brackets and rates, benefits, deductions, capital gains and dividends, depreciation, expensing, and more.

While the SALT provision is set to sunset in 2025, there's no assurance that it will actually reverse. States that are highly reliant on income tax revenues tread rough waters when the TCJA took effect in 2018. Policymakers in high-tax states fought hard against this provision of the TCJA, possibly because they knew it would make taxpayers more aware of their state and local tax burden and call attention to the relative differences among the states.[44]

IRS data have confirmed this fear. Analysis by the Tax Foundation has found that low tax states have gained a considerable advantage over other states when competing for residents.[45] In 2023, the Tax Foundation reported that "among taxpayers with $200,000 or more in AGI, the top destinations for inbound interstate moves were Florida, Texas, North Carolina, Arizona, and South Carolina," all states with low tax burdens. Meanwhile, states with the highest income taxes (California, New York, Illinois, etc.) have had the greatest outbound interstate moves, according to the Tax Foundation's analysis.

In 2023, the Tax Foundation reported that "among taxpayers with $200,000 or more in AGI, the top destinations for inbound interstate moves were Florida, Texas, North Carolina, Arizona, and South Carolina," all states with low tax burdens.

The MassCPAs surveys also found that high-income earners considering leaving Massachusetts would be most likely to reconsider if Massachusetts made strides towards reforming other taxes that make it an outlier nationwide. Such reforms could include increasing the estate tax threshold, additional reductions to the short-term capital gains tax rate (the rate was lowered from 12 percent to 8.5 percent in 2023), eliminating the stinger tax on S-Corps, and "decoupling from the federal 163(j) business interest expense limitation," further highlighting the importance of overall tax burden on the decisions of high-income earners.[46]

Common Critiques of this Explanation

Proponents of higher tax burdens, like the 4 percent income surtax, often make two primary arguments to refute opponents' concerns: that taxes have little effect on migration decisions and that the scale of resulting out-migration is insignificant.

The first line of argument is supported primarily through the results of a single flawed study[47] lauded as conclusive evidence that taxes have little to no effect on high-income earners. For example, the study overemphasizes one-time millionaires, misses high net worth individuals who realize capital gains after moving, dismisses Florida as an outlier, and does not properly take into account estate and capital gains taxes. However, the larger body of recent research on this topic, combined with circumstantial evidence, lends significant support to the conclusion that taxes do in fact matter. This research includes the previously mentioned study on California's Proposition 30, our analysis of IRS data and those done by the Tax Foundation, as well as surveys of the wealthy in Massachusetts like that done by MassCPAs.

The second line of argument, that the amount of AGI loss is simply insignificant, is also straightforwardly disproven. One might think that since Massachusetts has an AGI of nearly $400 billion, what does a few billion dollars leaving the state every year really do to our overall economic picture? However, such a line of thought is short sighted. Yes, if you consider the total AGI lost in 2022, it is only a little over 1 percent of the state's total AGI. But while that may seem insignificant, when you consider the cumulative effect of those losses over the long term, their detriment to the state becomes much more apparent.

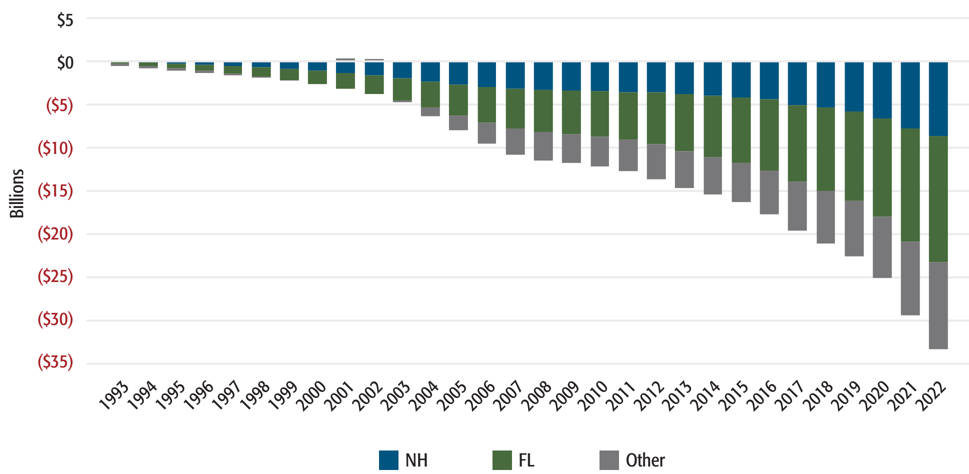
From 1993 to 2022, for example, Massachusetts lost almost $35 billion in total AGI. Had those tax filers remained in the state, it could have a tax base as much as 9 percent larger than it currently is.[48] Not only that, but the significant acceleration of AGI outflow means that cumulative losses

From 1993 to 2022, for example, Massachusetts lost almost $35 billion in total AGI. Had those tax filers remained in the state, it could have a tax base as much as 9 percent larger than it currently is.

over the next few years may have a very real and immediate effect on the state's economic picture.

The Boston University study cited earlier in the paper suggests that if the status quo acceleration in out-migration continues, Massachusetts could lose as many as 96,000 residents and $19.2 billion in AGI every year by 2030.[49] If that were the case, Massachusetts would be losing more wealth and residents every two years than the total sum it lost over the 30 years from 1993 to 2022. That is a staggering loss of wealth that would deprive the state of $1 billion each year that could go towards education, transportation, or economic development.

Figure 9. MA Cumulative Net AGI Inflow/Outflow by Source & Destination, 1993–2022



Source: https://massirsdatadiscovery.com/tax-payer-migration

The Pandemic and the Proliferation of Remote Work

Another major driver of out-migration, and potentially a reason why it might remain elevated in Massachusetts for the foreseeable future, is remote work. According to an analysis of the most recent (July 2024) Household Pulse Survey data from the Census Bureau,[50] 34.1 percent of those 18 years or older in the state work remotely—13.6 percent fully and 20.5 percent hybrid. That ranks the Commonwealth sixth among the states, behind only Maryland, Utah, Colorado, Virginia, and Minnesota. By comparison the national average was 27 percent.[51]

48.9 percent of the Massachusetts labor force is remote—19.5 percent fully remote and 29.4 percent hybrid.

If one converts those percentages to reflect the subset of the population that makes up the labor force, which only includes workers actively employed or looking for work, they are much higher. Using the total labor force in June 2024 (3,806,600 workers) and dividing by the number of remote workers, you find that 48.9 percent of the Massachusetts labor force is remote—19.5 percent fully remote and 29.4 percent hybrid.[52]

The size of Massachusetts' remote workforce is unsurprising, as the state is home to several industries aptly suited to working from home. Including the computer and mathematical, business and financial operations, architecture and engineering, legal, and life science sectors that were all named in a 2022 McKinsey survey as the sectors with the highest percentage of remote workers.[53]

According to the 2022 American Community Survey (ACS), a monthly Census Bureau survey that cumulatively has millions of respondents each year, occupations that are heavily represented by remote workers in Massachusetts include software developers, management analysts, managers, chief executives, lawyers, marketing managers, and financial managers. All positions that could be expected to make significant salaries.[54]

Figure 10. Occupations with the Greatest Number of Remote Workers in MA, 2022

Occupation	# Remote	% Remote
Other Managers	42527	34.35%
Software Developers	40310	53.89%
Management Analysts	20894	54.36%
Accountants And Auditors	18336	40.06%
Customer Service Representatives	15122	26.89%
Chief Executives And Legislators	14883	32.39%
Lawyers, Judges, and Other Judicial Workers	13361	34.54%
Postsecondary Teachers	12412	23.12%
Marketing Managers	12093	52.22%
Financial Managers	11100	25.62%
Project Management Specialists	10534	42.94%

Source: American Community Survey microdata

While the U.S. fully remote population fell by 7.8 percent during that time, it declined 17 percent in the Bay State—from 894,717 workers to 742,436.

However, the Household Pulse Survey also indicates that Massachusetts has a smaller percentage of fully remote workers than the national average and had a significant decline between the summer of 2022 and 2024. While the U.S. fully remote population fell by 7.8 percent during that time, it declined 17 percent in the Bay State — from 894,717 workers to 742,436. In 2024, the state's ratio of fully remote to hybrid workers was fourth lowest among states.[55]

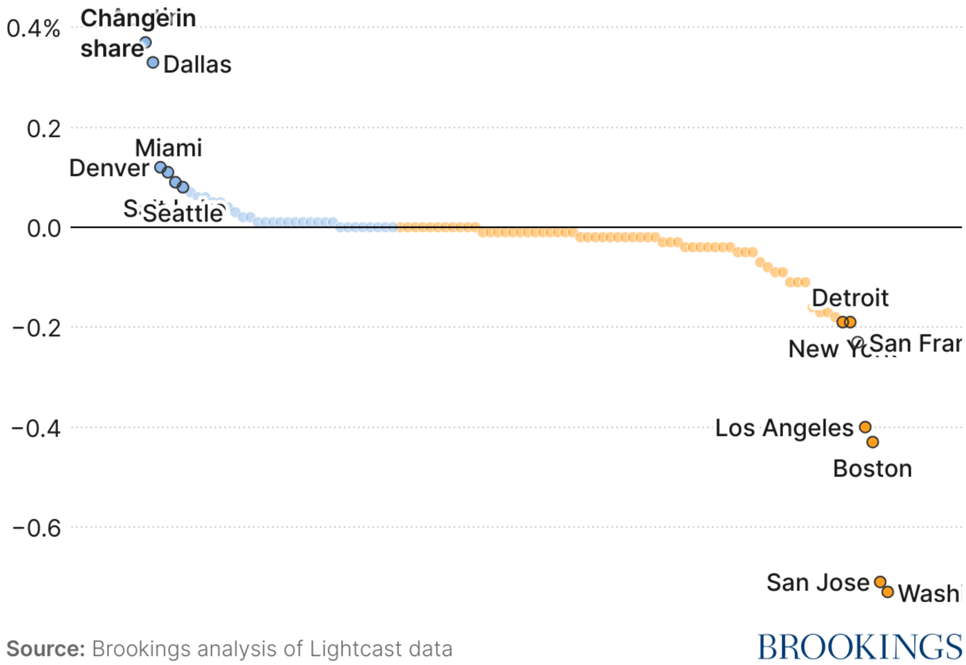
There are several factors that could explain the extent of the shift, but out-migration is the most likely. One study by the Federal Reserve Bank of St. Louis suggests that "over half of the rise in interstate migration since 2019 can be accounted for by the rise in the WFH share" and that states with the largest pandemic increases in remote work were also the states that have experienced the greatest out- migration.[56] These findings are further borne out in an analysis of ACS data that found Massachusetts lost the fourth most remote workers to other states between 2021 and 2022.[57] — a trend that very likely continued in 2023 and 2024.

Another study by the Brookings Institution provides further evidence.[58] Boston, like several other tech- heavy hubs, has for years held a stranglehold on digital service jobs. However, from 2020 to 2022, as seen in Figure 9, the share of those workers in the Greater Boston area (Boston-Cambridge-Newton) has fallen more than all but two other major metro areas — San Jose and Washington D.C. At the same time, more affordable locations like Nashville, Dallas, and Houston have attracted more mobile workers.

This is perhaps a partial explanation for the 26-to-34-year old exodus from Massachusetts observed in the IRS data above and portends an emerging Achilles heel for the once impervious Route 128 tech corridor.

This suggests that remote workers in Massachusetts, especially those who are fully remote, are more mobile and willing to leave the state than other workers. With less to tie them here physically, they are choosing to live elsewhere. This is particularly concerning because remote work is more prevalent — and preferred — among younger, more educated, and higher-income workers. This is perhaps a partial explanation for the 26-to-34-year old exodus from Massachusetts observed in the IRS data above and portends an emerging Achilles heel for the once impervious Route 128 tech corridor.

Figure 11. Change in Metro Area's Share of National Digital Services Jobs, Largest 100 Metros, 2020 to 2022



Source: Brookings Institution

Other Unaffordable States Suffer the Same Trends as Massachusetts

Massachusetts is not alone in its loss of high-income earners to lower-cost jurisdictions. CNBC has noted[59] that "New York and California lost over $90 billion in income to low-tax states during COVID." New York lost, on net, about $9 billion in AGI in 2019, growing to $25.1 billion in 2021 and $14 billion in 2022. California's net loss of AGI grew from $8.7 billion to $29.7 billion (2021) and $24 billion (2022) over the same period. High cost of living and heavy tax burdens are traits common to Massachusetts, New York, and California.

In response to pandemic challenges and the resulting infusion of federal funds, many states chose to reduce taxes. According to the Tax Foundation,[60] 43 states "adopted tax relief in 2021 or 2022 — often in both years." Of those, 21 cut income tax rates (27 if you include 2023). The Foundation notes: "It's been a remarkable trend, driven by robust state revenues and an increasingly competitive tax environment." Immediately next door, New Hampshire, already a no-income tax state, moved to eliminate taxes on dividends and interest income.

In 2019, Massachusetts ranked ninth among states in net out-migration of AGI. In 2022 it ranked fifth, behind only California, New York, Illinois, and New Jersey.

Meanwhile, Massachusetts went in the opposite direction with its adoption of a constitutional amendment placing an additional surtax on high earners; a policy choice that in retrospect may seem short sighted, as the increased tax burden will only provide further reasons for residents to flee, exacerbating already growing losses. In 2019, Massachusetts ranked ninth among states in net out-migration of AGI. In 2022 it ranked fifth, behind only California, New York, Illinois, and New Jersey. Its fifth-place ranking is deeply troubling, because Massachusetts is ahead of much larger states like Pennsylvania and Ohio. For example, while MA and PA were only separated by one place in the 2022 rankings, Massachusetts' per capita AGI loss (–$563) was more than double Pennsylvania's (–$212).

Which of the various factors plays the predominant role in the steep losses of wealth in Massachusetts — whether the 2017 federal limitations on SALT deductibility, remote work, or state tax policies — is not as important as the bigger picture. The key question for policymakers is about economic reality: What is happening in the other states and other countries with which we compete for talent and investment? We ignore that reality at our economic peril.

Figure 12. Comparison of State Net Out-Migration of Wealth (AGI), 2019 versus 2022 (in Billions)

2019			2022		
Rank	State	Net AGI	Rank	State	Net AGI
1	New York	($8.99)	1	California	($24.02)
2	California	($8.84)	2	New York	($14.29)
3	Illinois	($6.01)	3	Illinois	($9.95)
4	New Jersey	($3.11)	4	New Jersey	($5.34)
5	Maryland	($1.84)	5	Massachusetts	($3.94)
6	Pennsylvania	($1.72)	6	Pennsylvania	($2.76)
7	Connecticut	($1.68)	7	Maryland	($2.69)
8	Ohio	($1.62)	8	Minnesota	($2.19)
9	Massachusetts	($1.43)	9	Ohio	($2.13)
10	Virginia	($1.17)	10	Virginia	($2.12)

Source: https://massirsdatadiscovery.com/tax-payer-migration

Recommendations

As this analysis demonstrates, Massachusetts has a problem with out-migration of wealth. It can be expected that this out-migration will continue unless further legislative adjustments are made. Policymakers should continue to take this threat to the state's current and future economic health seriously. Specifically, they could focus their attention on housing and taxes as two of the most important vehicles for immediate and long-term relief.

Housing is regularly cited as one of the top concerns of Massachusetts residents. Thirty-six percent of residents are paying more than 30 percent of their household income for housing.[61] Without solutions that generate new supply and drive down costs over the long term, it will be difficult for the state to retain younger and remote workers. Some policy remedies could include:

- ***Reforming minimum lot size regulations.*** As more Millennials and Gen Z begin to create and grow families in the coming years, a dearth of affordable single-family homes in the Boston suburbs will likely be a major impediment to retention. By reducing lot size minimums, the state or individual localities could make way for greater production of smaller more affordable units.
- ***Limiting discretionary decision making and reducing the length of approval processes.*** Instead of having a design review board made up of residents, design standards could be set in a city's zoning code, thereby making approval more administrative than discretionary. Such a process would take out a significant degree of uncertainty for developers and reduce the cost and time it takes to get approved.

Without solutions that generate new supply and drive down costs over the long term, it will be difficult for the state to retain younger and remote workers.

Massachusetts is also highly reliant on high-income taxpayers, and it is in our collective interest to provide high earners a reason to remain here. In the aftermath of the income surtax, that reliance grows more pronounced.

The top 1 percent of Massachusetts taxpayers paid more than 23 percent of all income taxes in 2019. Income taxes represent about 56 percent of all tax revenues collected by the state, which means these top earners were responsible for at least 14 percent of tax collections that year, and likely far more as they also pay sales tax, property taxes, etc. That percentage could go even higher after the income surtax takes effect. These statistics lay bare the fact that losing even a small percentage of the highest income taxpayers could result in a significant drop in annual tax collections. It is for that reason that we need to alleviate the collective tax burden of the state to remain competitive and retain those residents.

These statistics lay bare the fact that losing even a small percentage of the highest income taxpayers could result in a significant drop in annual tax collections.

Reforms to the tax code could include:

- ***Further increasing the minimum threshold for the capital gains tax.*** Simply not having the lowest threshold is not enough, the state should increase the minimum to at least $5 million—if not in line with the federal rate ($12.9 million). Being one of only 17 states with an estate or inheritance tax makes Massachusetts more burdensome than average, having a $2 million threshold makes it an outlier to its own detriment.
- ***Further reducing the short-term capital gains tax rate.*** While the legislature recently lowered the rate from 12 percent to 8.5 percent, its tax treatment is still more onerous than most states, several of which tax all capital gains at rates lower than income. Instead the rate should be set in line with the income tax rate, as is done in most states.
- ***Eliminating the stinger tax on S corporations and pass-through entities.*** "Massachusetts' corporate code creates an extra tax liability for S corporations that is unique compared to other states. S corporations are pass-through entities for tax purposes, and at the federal level and in the vast majority of states S corp owners are liable only to pay individual income tax on their share of earnings."[62] However in Massachusetts they pay income tax and an additional excise tax.

Whether one or another of these taxes is the "straw that broke the camel's back" or whether taxes are the primary cause of out-migration is less relevant than the fact that people are moving to states with lower taxes.

The truth is that the tax changes passed by the state legislature and signed into law by Governor Maura Healey in 2023 are modest compared to what needs to be done to retain talent and grow prosperity in Massachusetts. Recent polls point to the fact that a quarter of all state residents, and potentially as many as 40 percent, are considering leaving the state because of the high cost of living, taxes, and other policies.[63]

Recent polls point to the fact that a quarter of all state residents, and potentially as many as 40 percent, are considering leaving the state because of the high cost of living, taxes, and other policies.

While the exact reasons for an exodus of wealth and residents from Massachusetts are up for debate, the toll that out-migration has taken on the state should not be. Ultimately, solving the problem will require both looking at short-term competitive solutions like lowering taxes and more structurally difficult fixes like those associated with housing, healthcare, transportation, and childcare.

These reforms are necessary for the state to once again foster a stable tax and business environment that will retain and attract capital investment and talent. Ultimately, such an environment is necessary for workers and tsheir families of any income level to thrive.

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