PIONEER OPPORTUNITY

Debunking Migration Myths

By Aidan Enright

Tax hike proponents continue to espouse the argument that people affected by the surtax amendment voters adopted last November, which imposes an 80 percent tax increase on annual incomes over $1 million, will not leave the commonwealth. To do so, tax advocates rely on partial information and number games to make their case.

One such group, the Center for Budget and Policy Priorities (CBPP), claims that Massachusetts' average annual rate of out-migration as a *percentage* of high-income taxpayers, defined as those with annual incomes of over $200,000, is lower than many other states. What they do not say is that Massachusetts has the highest concentration of filers with incomes exceeding $200,000 of any state. Only Washington, D.C. has a higher concentration of high-income earners. Comparing the percentage of filers leaving the state does not capture the scale of dollars leaving.[1]

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In 2020, Massachusetts and Washington, D.C. were the only jurisdictions in which *more than half* of total income was earned by those making over $200,000. The rate averaged 34.8 percent for all other states. Even with a lower percentage of filers with income exceeding $200,000 leaving the state, the sheer number of those taxpayers in Massachusetts will guarantee a significant financial impact from their out-migration.

Illustrating the Point

Let's compare Massachusetts and Rhode Island. In Massachusetts, 3,596,780 returns were filed in 2020, of which 338,470 filers had incomes over $200,000, representing just under 10 percent of all tax filers. The average income for these Bay State taxpayers was $559,875. In Rhode Island, 565,970 returns were filed, of which 28,550 had incomes over $200,000, representing 5 percent of all taxpayers. The average income for these taxpayers was $471,190.

These numbers show that Massachusetts has considerably more high-income earners than Rhode Island. If 2.3 percent of high-income earners left Massachusetts, which is the figure cited by the Massachusetts Budget and Policy Center, based on the average income in the category, it would

[1] This is the kind of sleight of hand employed by tax proponents during the 2022 ballot campaign, when they assured voters that only a low percentage of businesses would be affected by the tax. Given that Massachusetts has hundreds of thousands of businesses, speaking in terms of percentages is an effective way to obfuscate the fact that the Tax Hike Amendment will affect thousands of businesses.

represent 7,785 taxpayers and $4.36 billion in total income. In contrast, if Rhode Island lost 3.5 percent of its high-income earners as the CBPP indicates, it would lose 99 taxpayers representing $470 million in total income.

Loss of wealth for Massachusetts is significantly more than it is for Rhode Island on an absolute basis, though less so on a relative one.

By any measure, and certainly for Massachusetts policymakers, the loss of $4.36 billion in total reported income is a hit to the state's tax base, especially considering that Massachusetts is far less likely than other states to recuperate those losses from migration inflows as data below indicate.

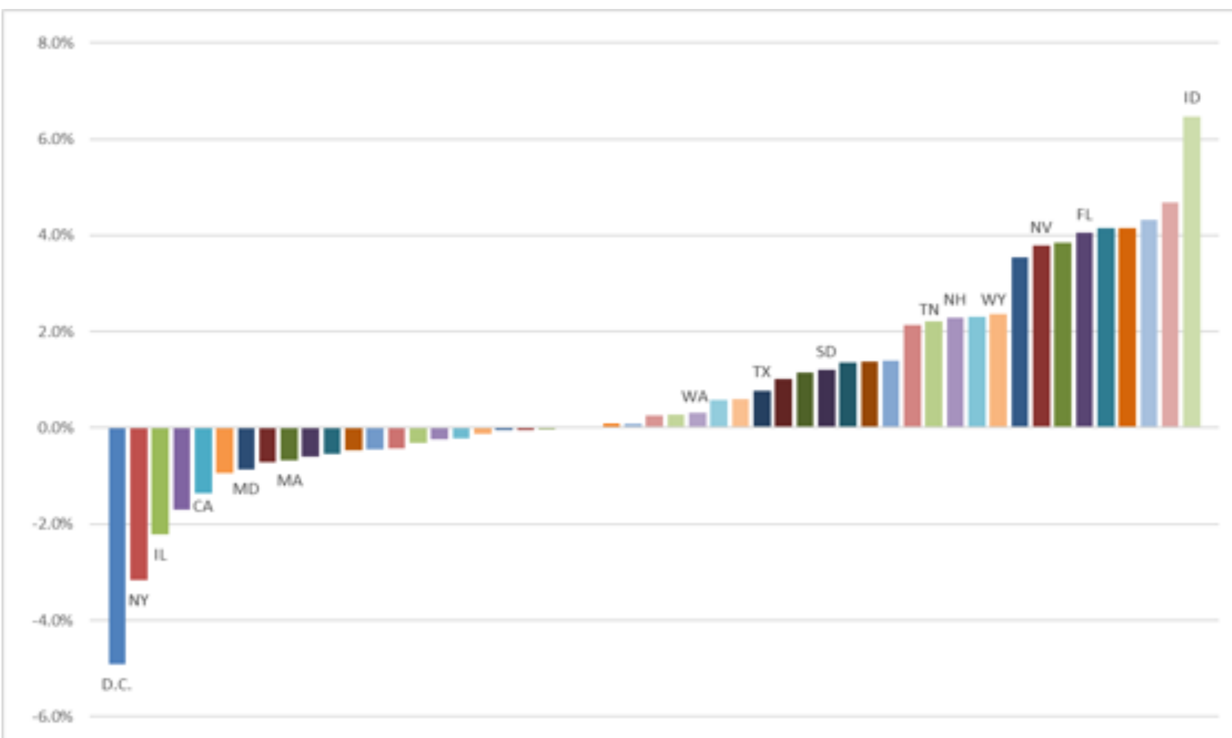
Data Flaws

Additionally, the CBPP analysis only looks at out-migration rather than *net* migration flows. When considering these real measures of economic impact, a clearer picture of the true cost of net migration from Massachusetts becomes more apparent.

Even prior to the tax hike amendment, Massachusetts was losing higher earners.

As noted in Figure 1, in 2020, of the 20 states that lost more taxpayers with incomes exceeding $200,000 in income than they gained, Massachusetts had the eighth-highest net outflow. It lost a net of 0.68 percent of all its high-income tax filers without recouping those losses in inflows.

Figure 1: Net Migration Flows as a % of Total Returns, 2019-20



Source: Graphic and analysis by Pioneer Institute, data from 2019-20 IRS SOI tax statistics — Gross Migration File on tax filers with incomes $200,000 or greater.

Those losses from high income earners amounted to $1.2 billion in lost adjusted gross income (AGI) on a net basis.[2]

Since 2012, Massachusetts has lost nearly $5 billion in net AGI from migrating high-income taxpayers, the tenth-most in the country during that span. For reference, during that same time frame Alaska was the only state without an income tax that incurred any loss in AGI from migration.

We are losing high earners to no-income tax states. Of the over [$2.5 billion] that Massachusetts lost in net AGI in 2020, 71 percent went to New Hampshire and Florida, both states without an income tax. Just looking at New England, Massachusetts lost $870 million in net AGI to New Hampshire and only $587 million to the other four New England states combined. In other words, 60 percent of Massachusetts' loss of net AGI in New England went to New Hampshire, which constitutes only 17 percent of the GDP and population of the five non-Massachusetts New England states.

As we lose high earners, we are not recouping those losses from in-migration. Massachusetts has a high average total income loss per outflow return on tax filers with incomes exceeding $200,000, at $533,000, and ranks 15th in the country. The adjusted gross income for inflow returns is lower at $522,000, and there are 2,116 fewer such returns; in other words, of the 14,552 total returns for filers with AGI exceeding $200,000 who left or entered Massachusetts, there were 8,334 who left with 25 percent fewer, or 6,218 filers, who entered the state.

The trend for *net* out-migration from Massachusetts is accelerating, with total net AGI lost to out-migration increasing six-fold since 2011, from about $556,000 to $2.5 billion in 2020. Out of the total $2.5 billion lost in 2020, $1.2 billion was from tax filers with adjusted gross incomes exceeding $200,000.

Conclusion

Finally, the data on which CBPP relies is pre-pandemic. Given the seismic changes in the way we work and live resulting from the pandemic, the out-migration patterns prior to 2020 are likely to be exacerbated. In fact, migration occurring since 2020 portrays a very different picture, with new remote work options having made it easier than ever for high-income workers to leave the state. A full 24 percent of workers in Massachusetts work remotely, compared to the national average of 18 percent.

The Massachusetts economy is centered around our talented workforce and the high income these workers command. An outmigration of higher-income earners threatens the employment base that powers our economy and the tax revenue collections on which the state relies to provide important public services and programs.

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[2] Data note: Statistics on total income are derived from state-to-state IRS Statistics of Incomes (SOI) files while those on gross migration and AGI derive from a separate IRS SOI dataset. As noted in the Gross Migration File's users guide, "[d]ue to the omission of returns with adjust gross deficit, the state totals will not match similar totals in the state-to-state files."