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Taxes Not Seen as Making the Rich Flee New York

By [NICHOLAS CONFESSORE](#)

It is perhaps the most potent argument offered by those who oppose increasing the income tax on wealthy New Yorkers: If you raise it, they will flee.

That case has been made repeatedly by Gov. [David A. Paterson](#), who says that higher taxes should be a last resort. It has been featured in a campaign by Taxpayers for an Affordable New York, a coalition of real estate and business interests. And it has been on the mind of Mayor [Michael R. Bloomberg](#), New York City's richest person, who said in a radio interview, "You can't tax too much those that can move."

Yet there is surprisingly little evidence to support the proposition that rich New Yorkers would bolt if forced to pay higher income taxes. Though tracking the movement of wealthy taxpayers from state to state is difficult, experts on public finance and migration say they have yet to document a substantial "rich drain" in states that have raised income taxes in recent years.

"At the level we're talking about, there's no quantitative evidence that it affects the mobility decisions of affluent taxpayers," said Douglas S. Massey, a demographer at [Princeton University](#) and president of the American Academy of Political and Social Science.

Pressured by enormous budget deficits, officials in Illinois, Hawaii, Wisconsin and New Jersey are considering new taxes on the rich. Lawmakers in Albany have discussed several proposals, including [increases for those earning more than \\$250,000](#).

But even experts who oppose such taxes on other grounds — out of fear that they will retard economic growth and innovation, or encourage lawmakers to indulge in bouts of new spending — concede that there is not much evidence that raising taxes on the wealthy would drive out a significant number.

"I kind of clench my teeth every time Paterson says people will leave," said Edmund J. McMahon, director of the Empire Center for New York State Policy, a conservative-leaning research group that has advocated for sharp cuts in spending to balance New York's budget.

"It is the selling point. It's also a dumb point," Mr. McMahon added. "Nobody says your wealthy enclaves will shrink dramatically. What they say is that your economy will suffer."

New Jersey raised taxes on the wealthy in 2004, increasing by 2.6 percentage points the tax rate levied on those making more than \$500,000 a year; and Gov. [Jon S. Corzine](#) this month proposed a new increase on high earners.

But [a study](#) by Professor Massey and two colleagues, published in September, estimated that the previous

tax increase cost New Jersey only 50 to 350 existing “half-millionaire” households — a relatively small number against the total of 44,000 such households in the state.

While those departures cost the state about \$38 million a year in revenue, the study estimates, the higher taxes levied on those who stayed have brought in an average of \$895 million a year. Also in 2004, California voters approved a 1 percent income tax surcharge on personal income over \$1 million, and Silicon Valley and Beverly Hills appear to remain well populated with the wealthy. From 2004 to 2007, according to a study by the California Budget Project, a left-leaning research organization, the number of millionaire taxpayers rose by close to 50 percent, well outpacing the 8.6 percent growth in the total number of those paying personal income tax.

“It is one of the oft-cited urban legends in California politics — that the rich are leaving California because of higher taxes,” said Jean M. Ross, the project’s executive director.

Between 2003 and 2005, after the Sept. 11 attacks, New York State imposed a temporary surcharge on incomes of more than \$100,000, as did New York City. While the city did lose residents at all income levels in 2005, according to a 2007 study of population data published by the city comptroller, [William C. Thompson Jr.](#), households with incomes of \$250,000 and higher were the least likely to leave.

Some who study the issue theorize that other factors affecting people’s decisions about moving — schools, jobs, even the weather — make it unlikely that a relatively small tax increase would drive those decisions. In states like New York and California, hubs of culture and specific industries, people may also stay out of a desire to live and work near others like themselves.

“People move to maximize their utility,” Professor Massey said. “The \$64,000 question is, what is their utility? There are taxes and income, but there are issues about jobs, local amenities in the state, family.”

Some research suggests that very wealthy retirees will move when their home states raise income taxes or preserve estate taxes, though in small numbers. And studies counting the number of wealthy taxpayers who stick around may not, of course, capture those who choose not to move to a state because of higher taxes.

Broader trends are also significant. New Jersey and California raised their income taxes on the wealthy during an economic boom when federal tax rates were being cut. Now, lawmakers are proposing to tax the rich amid an economic crisis and under a president who has already promised higher federal taxes for the wealthy.

Whether the rich will move is also a different question from whether raising their taxes is a good long-term policy.

Elizabeth Lynam, a research director at the [Citizens Budget Commission](#), a group that has generally advocated for lower spending and taxes in New York, argued that the collapse of the financial sector should make lawmakers leery of increasing taxes.

“That’s the danger of assuming that the experience of 2002-3 will hold this year,” Ms. Lynam said. “Things are much more cataclysmic.”

Some Democrats in Albany — and just about every Republican — seem to share those concerns. The

Capitol, a magazine that covers state politics, noted last week that despite the lack of evidence that the wealthy would flee the state, there were not yet enough votes in the Senate to pass legislation to raise taxes on the rich.

Professor Massey, however, suggested that the steep and perhaps permanent loss of jobs in finance, while shrinking overall tax revenue in New York, might actually deter people who still have jobs in the industry from moving.

“In this time of upheaval, people that have an economic stake and have a job are probably going to stay,” he said.

This article has been revised to reflect the following correction:

Correction: March 23, 2009

An article in some editions on Thursday about skepticism over the argument that raising the New York State income tax on the wealthy — a proposal now being considered in Albany — will cause them to leave the state misstated the amount by which New Jersey in 2004 increased the tax rate for those making more than \$500,000 a year. It was 2.6 percentage points, not 2.6 percent.

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