STATE "MILLIONAIRES' TAXES"

A SOUND APPROACH TO BOOST FUNDING FOR SCHOOLS, HEALTH CARE, AND OTHER PUBLIC SERVICES

Increasing income tax rates at the top can raise substantial revenue, and does not harm state economies or cause millionaires to leave.

Targeted income tax hikes at the top can generate significant revenue for states to invest in their long-term success—without harming their short-term ability to grow their economies and create jobs. They can also make state tax systems fairer by raising revenue from people reaping the gains of rising inequality, and by reducing racial inequities embedded in many state and local tax systems.

Millionaires' taxes are becoming increasingly common—in effect in such states as Arizona, California, Minnesota, and New Jersey—partly as a way to minimize harmful service cuts when the economy slows and states still must balance their budgets. They also help states make bold new investments like expanding early education or boosting college access. In some cases, these policies only affect annual incomes above $1 million, with somewhat lower thresholds in several states.

About us:

The State Priorities Partnership shapes state policies that reduce poverty, advance equity, and promote inclusive economies that pave the way for widespread prosperity. It is coordinated by the Center on Budget and Policy Priorities. **For more information, email:** statepriortiespartnership@cbpp.org

State Priorities Partnership Analysis + Impact

Center on Budget and Policy Priorities

Here's why millionaires' taxes make good common and economic sense for states:

MILLIONAIRES' TAXES CAN GENERATE SUBSTANTIAL REVENUE FOR INVESTMENTS IN PEOPLE AND COMMUNITIES

Raising personal income tax rates allows states to prevent or minimize harmful budget cuts or make often neglected—but highly productive—investments, for example by expanding early education, boosting access to college, improving infrastructure, and strengthening "rainy day" funds to use during recessions. Evidence shows that sustained support for public building blocks of growth can help states improve their residents' well-being, expand opportunity and racial equity, and build more prosperous economies over time.

MILLIONAIRES' TAXES CAN MAKE STATE TAX CODES FAIRER AND REDUCE INEQUITIES

In 45 of 50 states, lower-income households pay a larger share of their income in state and local taxes than high-income households. And since households of color are more likely to have low incomes, they tend to pay larger shares of their incomes in state and local taxes than white households do—exacerbating inequities due to our nation's history of structural racism, white supremacy, and discrimination. By raising taxes on people at the very top, who are disproportionately white, states can enhance the overall fairness of the tax code and reduce economic, racial, and ethnic inequities.

MILLIONAIRES' TAXES ARE UNLIKELY TO HARM STATE ECONOMIES

States that enacted targeted tax increases on high incomes have fared well despite critics' warnings of economic harm. In six of eight states (including the District of Columbia) that enacted millionaires' taxes in the 2000s and early 2010s, private-sector economic growth through 2018 met or exceeded that of neighboring states. Seven of the eight states had per capita growth in personal incomes at least as strong as nearby states, and five of the eight added jobs at least as quickly as their neighbors. More broadly, 15 of 20 major studies on the broad economic effects of state personal income tax levels in the last two decades found no significant effects, and one of the others produced internally inconsistent results.

MILLIONAIRES' TAXES ARE UNLIKELY TO LEAD TO WIDESPREAD "TAX FLIGHT"

Mainstream research does not support claims that raising income taxes causes affluent residents to flee to lower-tax states. For example, a landmark 2016 analysis reviewed tax returns for all million-dollar earners nationwide over 13 years and found that millionaires rarely move from one state to another. Of the roughly 500,000 households that report income of $1 million or more, only about 12,000, or 2.4 percent, move to a new state in any given year, compared to 2.9 percent among the general population. And when they do move, it's usually not because of taxes.

The pandemic has certainly increased remote work. But when it's over, top earners will likely continue clustering in successful or high-growth metro areas because of their distinct economic advantages including access to talent and networks, as well as the cultural and social benefits they offer. Like most people, high-income earners are often firmly rooted in their communities, with deep ties to family, friends, cultural amenities, and professional relationships that make relocating less attractive than it might seem.