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One Million Fewer New Yorkers:

New York's Latest Tax Increase and Domestic Outmigration

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Executive Summary

New York's latest budget includes not only a large increase on the spending side of the ledger, but a $4.3 billion tax increase as well. The top marginal state income tax rate was raised from 8.82% to 10.9%. Coupled with the top income tax rate in New York City, the total state and local income tax rate on high incomes is over 14.7%, the highest state and local combination in the country. This study examines the impact of the tax increase on New York state's competitiveness vis-à-vis other states, and the resulting net domestic outmigration.

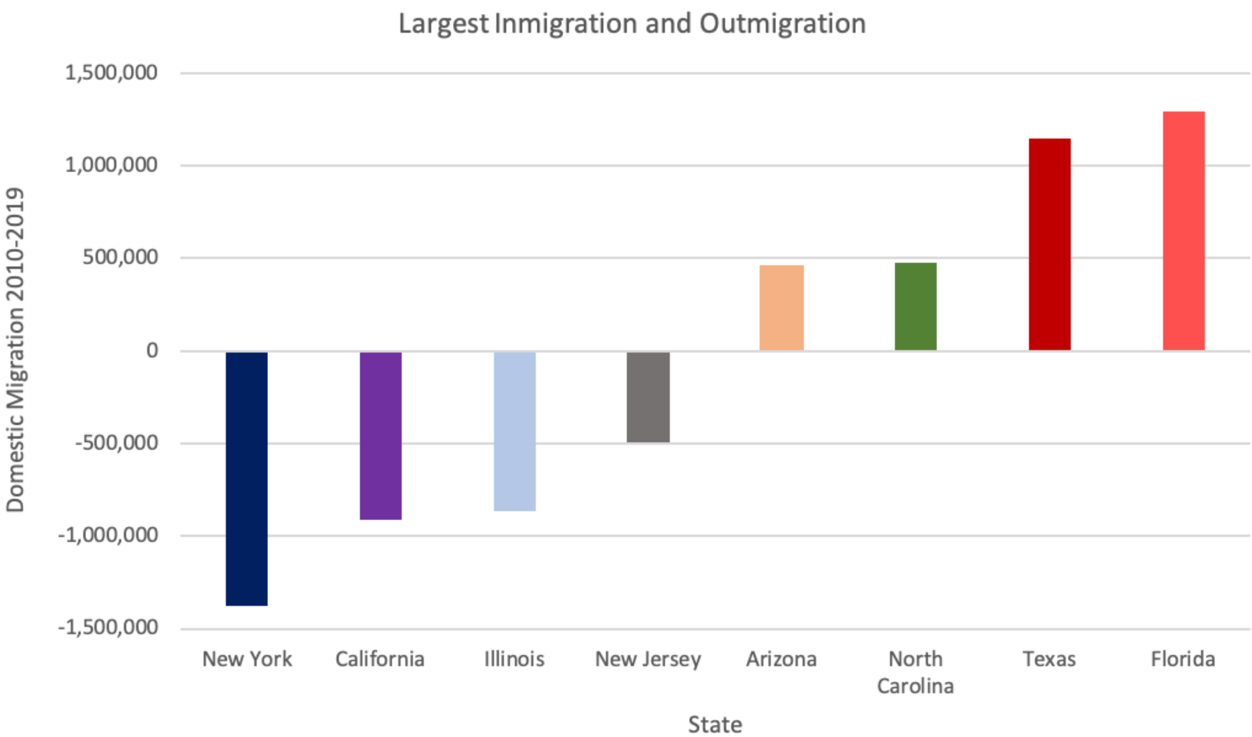
Americans vote with their feet and there is substantial economic literature showing the negative effects of higher income tax rates. (See *An Inquiry into the Nature and Causes of the Wealth of States* for a comprehensive bibliography of these studies.)

- We estimate an additional domestic outmigration of 120,000 residents per year for the next decade. This is an additional loss of more than one million Americans calling New York home – and paying New York taxes. New York City will likely see the largest declines.
- If the last decade's domestic outmigration trend continued at the same rate, then annual net domestic outmigration would average 258,000 people for ten years, a total loss of over 2.5 million residents. This would be a decline of 13% of the state's population, not including increases from international migration and births outpacing deaths.
- The lost income to the state from the tax increase (conservatively assuming an average adjusted gross income of $84,000 per lost tax return) will be over $72 billion over the next decade.
- The lost income will reduce state and local tax revenues more than $10 billion over the decade, negating one-fourth of the expected tax collection gains from the higher rates.

Background

New York is hemorrhaging its most valuable resource – its people – at an alarming rate. Fig. 1 shows how from 2010 through 2019, the state had a domestic migration net loss of 1.4 million people, which was 50% more than any other state.

Domestic Migration Totals Over Last Decade



Source: US Census Bureau

The Empire State's high-water mark, in terms of congressional representation, was more than half a century ago when it wielded 45 representatives, 12 more than any other state. And my, how the mighty have fallen! New York has lost two to five seats every census since then and stands poised to lose at least one, possibly two, from the 2020 census (Fig. 2). The US Census Bureau is expected to release the new congressional apportionments for each state at the end of April 2021.[1] Florida has been steadily gaining on New York in terms of population for 80 years, and has now finally passed New York, taking its place as the third largest state.

The rise of Texas over the same period has been equally meteoric. When New York was the largest state in the country, it was more than twice the size of the Lone Star state. But Texas managed to gain seats every single census, the exact opposite of New York. Over an 80-year period, New York lost 18 seats, and is about to lose at least one more, while Texas gained 15 and is about to gain at least two more. Texas passed New York 20 years ago, left it in the dust, and has not looked back since.

What explains the vastly different growth rates of these states? It cannot be explained by natural resources, location, or industry. New York has many advantages as compared to some other states. It is a financial center for

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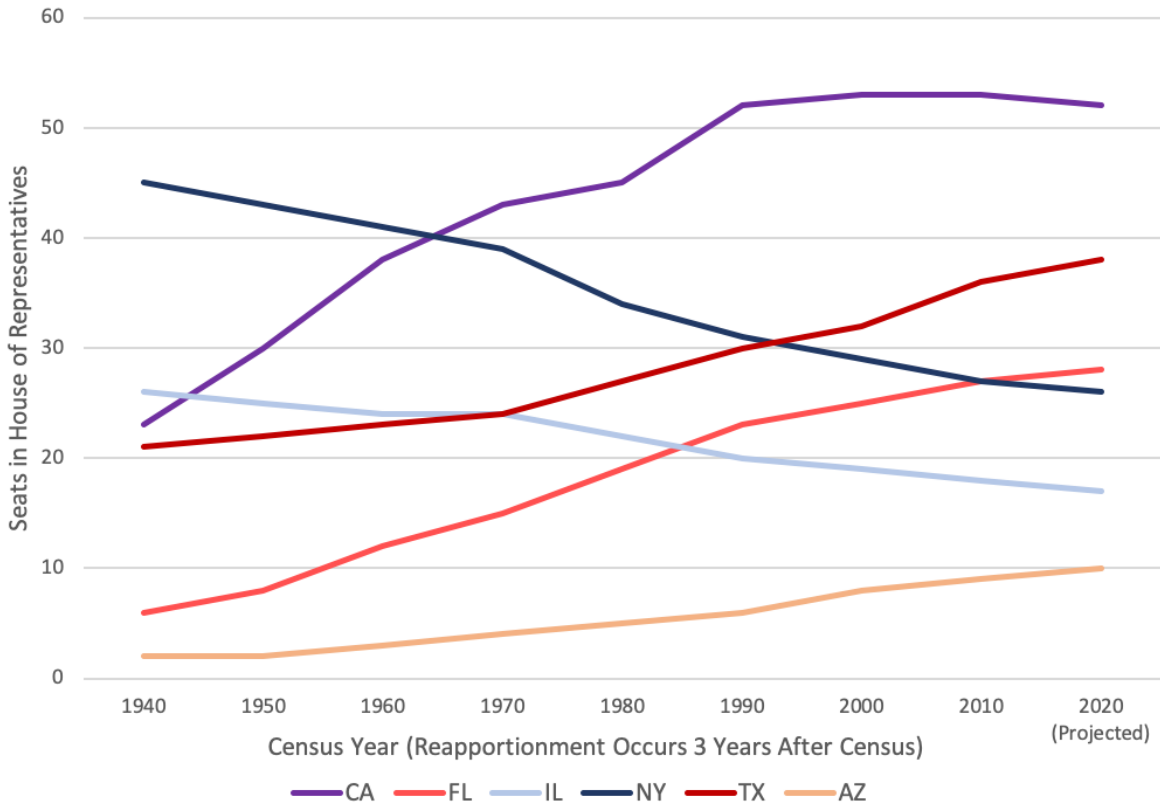
1 https://www.census.gov/newsroom/press-releases/2021/statement-apportionment-counts.html

the world and a trading hub with easily accessible ports on both the Great Lakes and Atlantic Ocean. New York is also blessed with plentiful natural resources contributing to its agriculture and mining industries. Despite these advantages the state has in its corner, New York's growth has still been hamstrung.

Fig. 2: House Seats by Census Apportionments



Source: US Census Bureau

So, what explains why New York has lagged? Weather could certainly be one factor. Most northern states have cold, grey winters and some retire to the Carolinas or Florida to escape. That does not explain the movement of working-age people, however, or why many New Yorkers have moved to other states with similar climates. There are many minor factors at play, but economic policy is crucial to understanding the larger decline. The state legislative group ALEC rates the states every year in terms of their competitiveness.[2] For most of the last decade New York has ranked 49th or 50th in terms of pro-growth policies. Few states are as hostile to business and employers as New York. The state has a forced union policy, heavy regulation, very high per capita state and local spending, and among the highest taxes in the country. When including New York City, the state has had the second highest personal income tax rate on high-income earners, behind only California.

[2] https://www.alec.org/publication/rich-states-poor-states-13th-edition/

Table 1: ALEC-Laffer Associates State Economic Outlook Rankings, 2020

Rank	State	Rank	State
1	Utah	26	Alaska
2	Wyoming	27	Iowa
3	Idaho	28	West Virginia
4	Indiana	29	Ohio
5	North Carolina	30	Louisiana
6	Nevada	31	Kentucky
7	Florida	32	South Carolina
8	Tennessee	33	Montana
9	Oklahoma	34	New Mexico
10	Arizona	35	Massachusetts
11	North Dakota	36	Nebraska
12	Wisconsin	37	Maryland
13	South Dakota	38	Pennsylvania
14	Michigan	39	Washington
15	Texas	40	Connecticut
16	Virginia	41	Maine
17	New Hampshire	42	Oregon
18	Colorado	43	Rhode Island
19	Missouri	44	Hawaii
20	Mississippi	45	Minnesota
21	Georgia	46	California
22	Arkansas	47	Illinois
23	Alabama	48	New Jersey
24	Delaware	49	Vermont
25	Kansas	**50**	**New York**

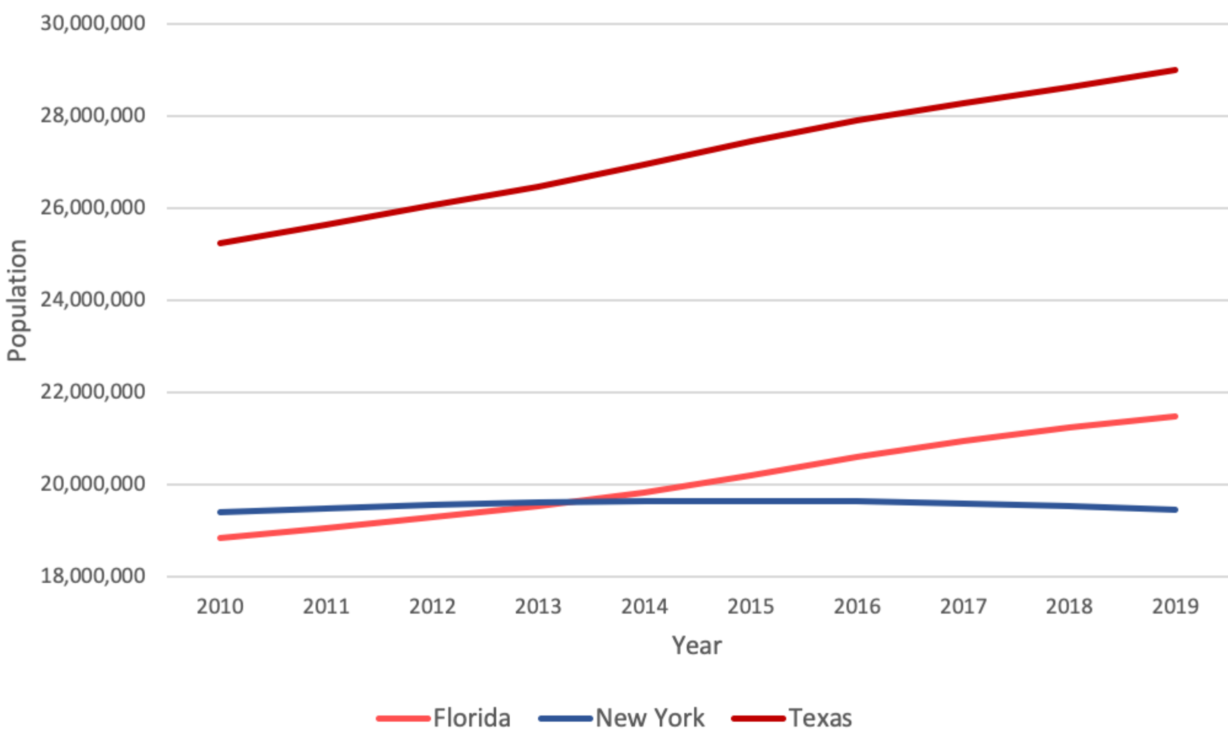
Progressives may deny this, but incentives matter, and taxes are one of those incentives. As the saying goes, "If you tax something, you get less of it." Taxes on income disincentivize work. Taxes on sales disincentivize consumption. Taxes on property disincentivize wealth. Taxes on business disincentivize investment. And at the end of the day, all these taxes are paid by *people*, and people are disincentivized to live in a place with burdensome taxes. Even before this latest tax increase, New York had the highest combination of state and local tax burdens in the country.[3]

States like Florida, Texas, Tennessee, etc. have historically had overall low tax burdens and have relied more on sales taxes for general revenue than many other states. Conversely, states like New York, California, and Illinois have for years been among the highest tax burdens in the country and, unsurprisingly, are the three largest domestic migration losers and will each lose at least one congressional seat in the coming reapportionment.

3 https://taxfoundation.org/publications/state-local-tax-burden-rankings/

California is a particularly insightful example. Fig. 2 shows California's incredible post-war boom, but anti-competitive policies, including excessive regulations and burdensome tax structures, slowed that growth to a crawl, stopped it entirely, and are now reversing it. For the first time in its history, the Golden State will lose a seat in the coming reapportionment, which has sadly become a tradition of sorts for New York.

Fig. 3: Population Over a Decade: NY, FL, TX



Source: US Census Bureau

The ultimate way in which people voice their approval or disapproval for public policy is where they decide to live. Thanks to the federal system in the U.S., states serve as laboratories of democracy wherein people can choose the kind of state government under which they prefer to live. By this metric, the verdict is clear: people prefer lower levels of government spending, regulation, and taxes. Additionally, analysis of Census Bureau data indicates that people prefer certain kinds of taxation to others, all else being equal. Sales taxes are strongly preferred to personal income taxes or property taxes, but also corporate income taxes as well. The fastest growing states tend to have lower government expenditures coupled with no income tax, relatively low property and corporate income taxes, and more reliance on sales taxes. This has proven to be a winning combination that has supercharged growth at the state level, regardless of the economic climate at the national level. The book *An Inquiry into the Nature and Causes of the Wealth of States* (coauthored by Moore) details how states with no income tax have consistently outpaced high-income-tax states in income, population, and employment growth during every decade since the 1970s. Table 2 shows, in part, the continuation of that trend.

Table 2: Laffer Associates Comparison of High- and Low-Income Tax States 2010-20

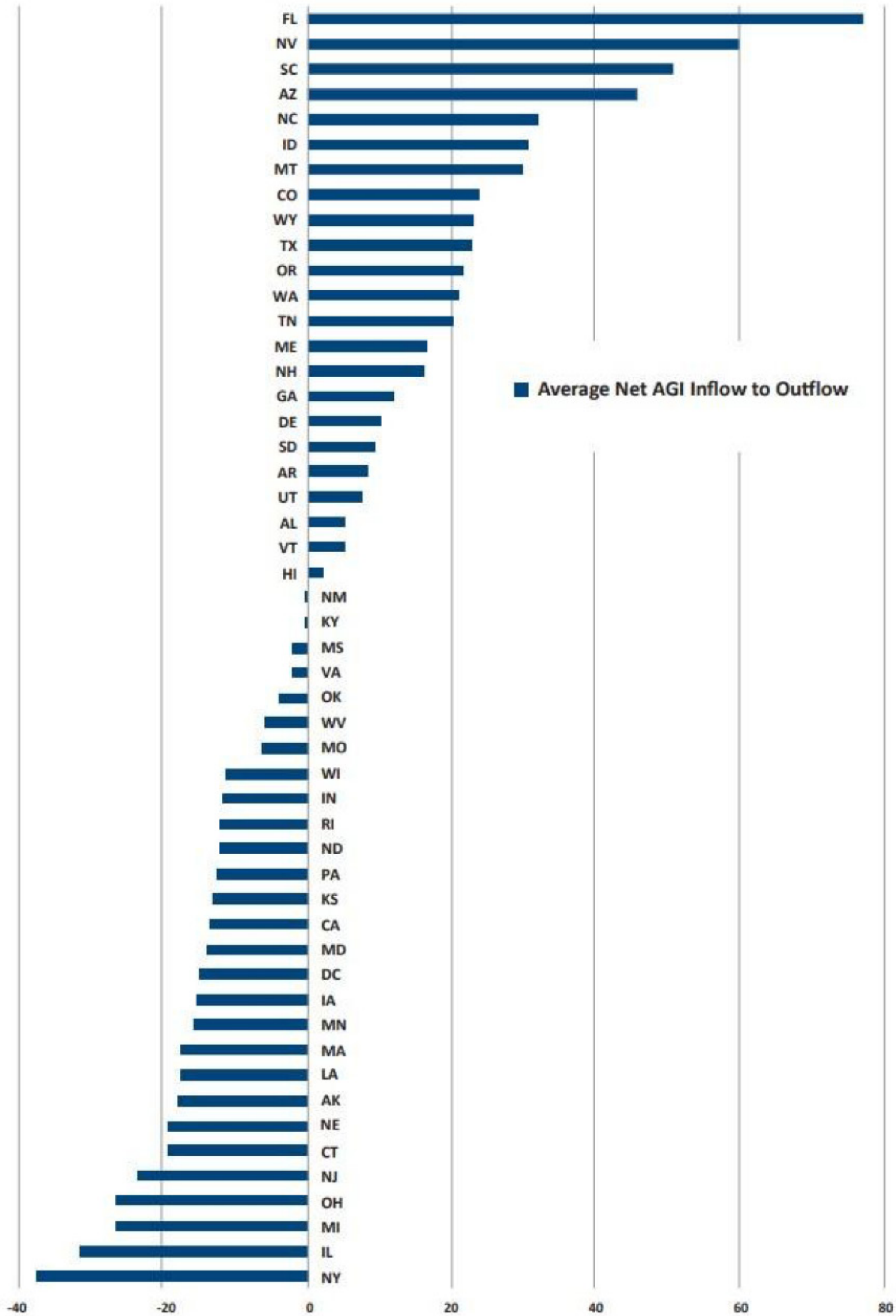
	As of 1/1/2020	*10-Yr. Growth 2009-2019*				*2007-2017*
State	**Top Marginal PIT Rate†**	**Population**	**Employment**	**Personal Income**	**Gross State Product**	**State & Local Tax Revenue§**
Florida	0.00%	15.32%	18.45%	65.87%	48.45%	14.41%
Nevada	0.00%	16.13%	14.01%	67.31%	39.58%	33.93%
South Dakota	0.00%	9.38%	5.69%	52.18%	45.46%	51.95%
Texas	0.00%	16.32%	18.19%	66.66%	42.22%	47.14%
Washington	0.00%	14.10%	15.81%	82.67%	69.14%	53.28%
New Hampshire‡	0.00%	3.76%	2.70%	47.30%	32.63%	43.81%
Tennessee‡	0.00%	8.36%	14.54%	53.63%	42.55%	17.43%
Avg. of 7 Zero Earned Income Tax Rate States*	**0.00%**	**11.91%**	**12.77%**	**62.23%**	**45.72%**	**37.42%**
50-State Avg.*	**5.61%**	**6.06%**	**6.39%**	**53.03%**	**34.43%**	**30.22%**
Avg. of 7 Highest Earned Income Tax Rate States*	**11.17%**	**4.42%**	**4.55%**	**56.30%**	**39.62%**	**44.73%**
Maryland	8.95%	4.61%	2.37%	42.80%	33.64%	44.84%
Minnesota	9.85%	6.52%	5.24%	53.86%	37.31%	45.56%
Oregon	10.67%	10.52%	13.71%	73.69%	52.88%	62.36%
Hawaii	11.00%	3.15%	-5.26%	49.43%	31.64%	54.21%
New Jersey	11.75%	0.94%	0.07%	47.71%	25.07%	22.65%
New York	12.70%	-0.33%	2.73%	53.76%	40.13%	38.95%
California	13.30%	5.49%	13.00%	72.80%	56.67%	44.53%

**Averages are equal-weighted. † Top Marginal PIT Rate is the top marginal rate on personal earned income imposed as of 1/1/2020 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable. § State & Local Tax Revenue is the growth in state and local tax revenue from the Census Bureau's State & Local Government Finances survey. Because of data release lag, these data are 2007 to 2017. ‡ New Hampshire and Tennessee tax interest and dividend income—so-called "unearned" income—but not ordinary wage income. Tennessee's unearned income tax, the Hall Tax, is being phased out.*

Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis

As people have moved out of New York, they have taken their incomes and consumer spending with them. This has been a large drain on the New York economy. We examined the long-term data from IRS tax returns with respect to migration from one state to another over the period 1997-2016. No state lost more adjusted gross income due to domestic migration patterns than New York. As Fig. 4 shows, for every $1 of income coming into New York from new residents, the state lost almost $1.40 from the outflow of residents, the worst net loss of any state during the period. Outmigration is a very large economic burden on the state and explains why New York's economy has shrunk relative to the economies of other states.

Fig. 4: Premium of In-AGI over Out-AGI, 1997 through 2016[4]



Source: Internal Revenue Service

4 https://www.alec.org/app/uploads/2019/01/RSPS-11th-Edition-WEB-LOW-REZ.pdf

The Impact of the SALT Cap on State Tax Changes

High income tax rates have always had a negative effect on domestic migration, but that has historically been moderated by the state and local tax (SALT) deduction on federal income tax returns. The deduction effectively subsidizes wealthy individuals in high-tax states with federal tax revenue from low-tax states. Since the Tax Cuts and Jobs Act, (better known as the Trump Tax Cut) enacted in 2017, SALT deductions have been limited to $10,000 annually. This cap now limits the extent to which people in high-tax states can offset their federal tax liability with their relatively large state and local tax liability. The effect of both income and property taxes on domestic migration rates increased substantially with this reform. The effect of property taxes increased by 24.8% and the effect of income taxes increased 74.4% after the Trump Tax Cut.[5]

The loss of the SALT deduction means that nearly the entire 14.7% income tax rate is borne by the taxpayers of New York. Under the old system, New York filers could have deducted about 40 percent of the tax, making the effective rate closer to about 9%. This effectively exported some of the state's tax burden via the SALT deduction, but that is no longer possible to the extent it was before. In short, the economic penalty for a state raising its income tax on the wealthy is much higher today than before the SALT deduction was capped.

We recently examined the impact of the entire array of federal and state taxes and found that a high-income Floridian kept about 35% more of his or her income than a New Yorker prior to the latest New York income tax hike. Now the Florida resident keeps about 40% more. This is a giant tax premium for living and working in the Empire State.

New York officials appear to understand that without restoring the unlimited SALT deduction by eliminating the cap, New York's loss of population will be accelerated by the recent tax hike. At the time of this writing, five Democratic governors from high-tax states, including Andrew Cuomo of New York, have called for a restoration of the unlimited SALT deduction. They call the elimination of the deduction an "assault" on high-tax states. Most of the congressional delegation from New York has threatened not to vote for any tax bill this year if the deduction is not restored. All of this is a concession by New York lawmakers that the latest income tax hike could have very negative effects in keeping high-wealth individuals in the state.

What remains unclear is: why is New York raising taxes? Its revenues are only down 0.1%, which is about $47 million.[6] In the last year, New York has been showered with more than $50 billion of Federal funds, a thousand times more than New York's revenue shortfall. The tax increase is not needed to fill existing budget gaps, but a massive new abyss created by a long list of new items added to the budget. That list is far too extensive to detail here but that is where the anticipated tax revenue is slated to be spent.

5 Conversely, the effect of sales taxes actually decreased slightly (6.1%), but this is likely due to the fact that states with no or low income and property taxes rely on sales taxes for their revenue. Tennessee, for instance, has the highest sales taxes in the nation but no income tax, and has experienced rapid growth over the last decade. People would rather pay sales taxes than either income or property taxes. See Antoni (2020) for further details.

6 https://www.wsj.com/articles/new-york-taxes-go-skyscraper-high-11617834769?mod=hp_opin_pos_2

Dynamic Effects of the New York Tax Increase

By many measures, New York is the highest tax state in the nation – even prior to the latest tax hike. The table below shows that as a percentage of personal income, New York's state and local tax burden of 14.1% is already the highest in the country.[7]

Table 3: State-Local Tax Burdens as a Percentage of Income

State	State-Local Tax Burden/Income	State	State-Local Tax Burden/Income
New York	**14.1%**	West Virginia	9.9%
Connecticut	12.8%	Washington	9.8%
Hawaii	12.7%	New Hampshire	9.7%
Vermont	12.3%	Nevada	9.7%
Minnesota	12.1%	Utah	9.6%
Maryland	11.8%	Idaho	9.6%
New Jersey	11.7%	North Carolina	9.5%
California	11.5%	Mississippi	9.5%
Rhode Island	11.4%	Colorado	9.4%
Illinois	11.1%	Missouri	9.2%
Oregon	11.1%	Louisiana	9.2%
Maine	11.0%	South Dakota	9.1%
Iowa	10.8%	Alabama	9.0%
Wisconsin	10.7%	Indiana	8.9%
Massachusetts	10.5%	South Carolina	8.9%
Pennsylvania	10.4%	Georgia	8.9%
Arkansas	10.4%	North Dakota	8.9%
Delaware	10.3%	Florida	8.8%
Nebraska	10.3%	New Mexico	8.8%
Ohio	10.3%	Arizona	8.7%
Montana	10.1%	Oklahoma	8.2%
Kansas	10.1%	Texas	8.0%
Michigan	10.0%	Tennessee	7.0%
Virginia	10.0%	Wyoming	7.0%
Kentucky	9.9%	Alaska	5.8%

Just as important as the average tax rate is the marginal tax rate because it affects each additional dollar of income earned in the state. The latest New York budget increased the top marginal personal income tax rate from 8.82% to 10.90%, and the top marginal corporate income tax rate increased from 6.5% to 7.25%. Both

7 https://taxfoundation.org/publications/facts-and-figures/

tax increases will have a negative impact on the willingness of high-wealth individuals to stay in New York. We use a dynamic model to measure the impact of the new incentives created by the higher tax rates. We assume, based on historical empirical evidence, that people will respond to those incentives.

As shown in Table 4, New York previously had eight tax brackets with a top marginal income tax rate of 8.82%. (Even New York's bottom tax bracket is still higher than neighboring Pennsylvania's flat rate of 3.07%.) Combined with the top marginal income tax rate in New York City, high-income earners in the Empire State were paying about 12.7%. With the addition of two more tax brackets and higher rates, the top state rate has jumped to 10.9% with those in New York City paying about 14.8% in total.

Table 4: New York State Tax Rates, Single Filer

Previous Rates		Current Rates	
Income Bracket	**Marginal Rate**	**Income Bracket**	**Marginal Rate**
>$0	4.00%	>$0	4.00%
>$8,500	4.50%	>$8,500	4.50%
>$11,700	5.25%	>$11,700	5.25%
>$13,900	5.90%	>$13,900	5.90%
>$21,400	5.97%	>$21,400	5.97%
>$80,650	6.33%	>$80,650	6.33%
>$215,400	6.85%	>$215,400	6.85%
>$1,077,550	8.82%	>$1,077,550	9.65%
		>$5,000,000	10.30%
		>$25,000,000	10.90%
Top State Bracket w/ NYC	12.696%	Top State Bracket w/ NYC	14.776%

Table 5 shows that, with this new combined income tax rate of nearly 14.78%, the New York income tax is the highest in the land, surpassing California's 13.68%.

Table 5: Highest Income Taxes

State	Top Marginal State Income Tax Rate	Top Marginal State and Local Income Tax Rate
California	13.30%	13.68%
Hawaii	11.00%	11.00%
New York	10.90%	**14.78%**
New Jersey	10.75%	11.75%
Oregon	9.90%	10.9%
Minnesota	9.85%	9.85%
D. C.	8.95%	8.95%
Vermont	8.75%	8.75%
Iowa	8.53%	10.24%

The result of these tax hikes will be more high-income earners leaving the state. It does not end there, however. Those people will take jobs and spending power with them. That creates jobs and economic activity in other states which attract low- and mid-income earners to follow. This means more jobs disappear from New York and simultaneously spring up elsewhere. Thus, a "tax on the rich" spills over to many people who do not fall into the upper income brackets but nevertheless bear the consequences of such an ill-conceived fiscal policy. For each additional high-income earner that leaves the state, however, the outmigration effect is diminished since fewer wealthy people remain.

Our model utilizes a balanced panel dataset which includes personal and corporate income tax rates, sales tax rates, effective property tax rates, cost of living indices, and employment metrics for all 50 states and the District of Columbia, with separate parameters for before and after the 2017 tax reform for personal income taxes, sales taxes, and property taxes. It estimates that a 1 percentage point increase in the top marginal personal income tax bracket will initially cause an approximately 0.3510% increase in domestic outmigration from the state. Thus, a 2.08 percentage point increase in the top marginal personal income tax rate will initially cause 0.73% of the state population to leave in the following year.

Over ten years, the average annual effect will be approximately 120,500 additional people leaving the state. [8]This is not an estimate of net domestic migration. Rather, it is in addition to the existing trend of domestic outmigration. If the last decade's domestic outmigration trend continued at the same rate, then annual net domestic outmigration would average 258,000 people for ten years, a total loss of over 2.5 million residents. These are only domestic migration losses, not total population losses. New York's domestic migration losses over the last decade were offset by international migration and more births than death. The larger domestic migration losses that we predict will result from this latest tax increase will likely outweigh population increases from other areas and result in a net loss of total population for New York state each year.

As people leave, so do their incomes. Using IRS data[9] on domestic migration, we estimate that the average AGI for tax returns leaving New York state will be $84,400. That equates to over $8.5 billion in lost economic activity in the first year of the tax increase, a 25% rise over the annual losses New York has had in recent years from domestic outmigration. Over the next decade, New York will likely lose over $72 billion of income earned in the state. The loss of tax revenue from this lost income (based on the average state and local tax burden of 14.1%) in New York, would be over $10 billion.

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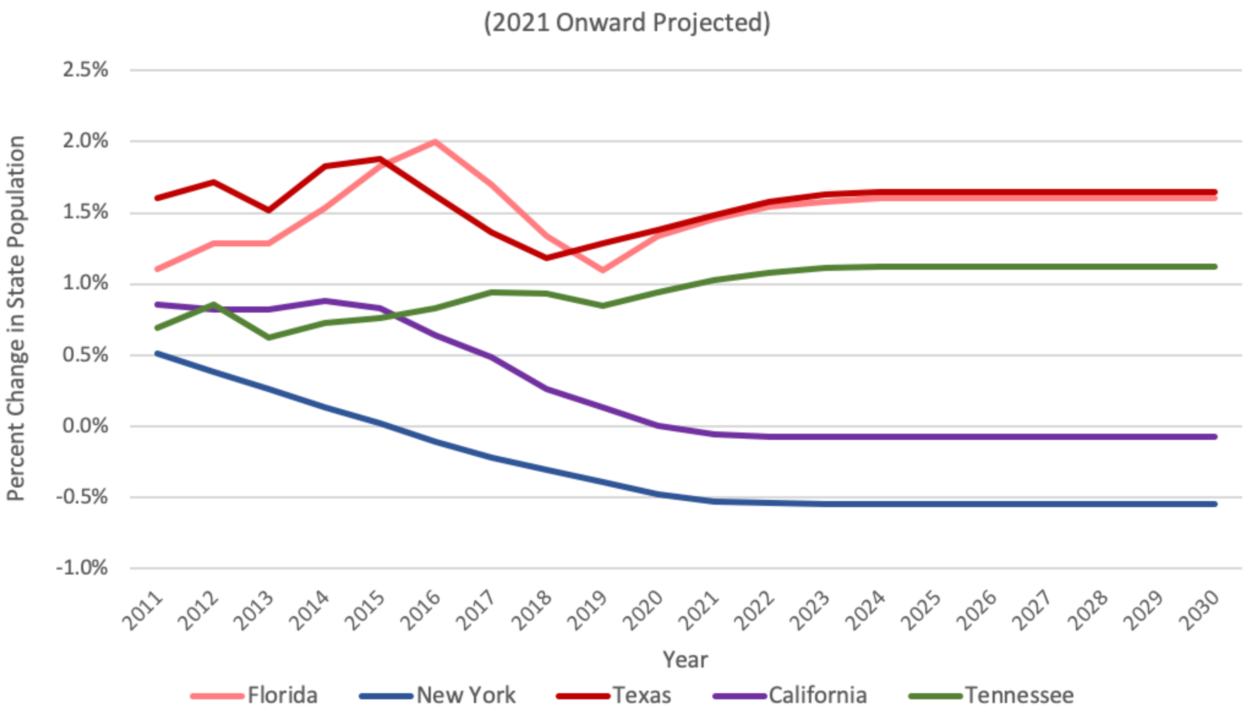
[8] While the tax is currently set to expire in 2028, this is unlikely to actually happen, given New York's track record. A "temporary" income tax increase of more than two percentage points was passed in 2009 and was originally supposed to expire after 2011. Instead, the high rates stayed, and have now gone higher. As such, it is assumed that the tax rates will remain for at least the next decade. It is also assumed that New York's population would continue to its current downward trend. This shrinking population further reduces the size of the outmigration estimates since those estimates are determined in part by the state's total population. By assuming a smaller population each year, the outmigration estimates are more conservative.

[9] https://www.irs.gov/statistics/soi-tax-stats-migration-data#:~:text=Migration%20data%20for%20the%20United%20States%20are%20based,a%20State%20or%20county%20and%20where%20they%20went.

Table 6: Additional Future Domestic Outmigration, Over a Decade

Year	Additional Outmigration
2021	142,010
2022	136,745
2023	131,674
2024	126,791
2025	122,090
2026	117,563
2027	113,203
2028	109,005
2029	104,963
2030	101,071

Fig. 5: Percent Change in State Population



Source: US Census Bureau and Author's Calculations

Conclusion

New York Governor Andrew Cuomo declared in 2019, "Tax the rich. Tax the rich. Tax the rich. We did that. God forbid the rich leave."[10] He was right and New Yorkers are about to discover this painful lesson again. New York has been in financial decline for decades. It has amassed the highest state and local debt per capita in the country despite also taking a higher percentage of its residents' incomes than any other state.[11] The income tax increase to almost 14.8% exacerbates this gap and adds to the financial attractiveness of moving to another state. If one of the proposed Biden tax plans were to pass on top of the New York state tax hike, marginal rates for those in New York City could approach 70%. We are confident in predicting this "soak the rich" strategy will lead to high-income earners leaving New York for good – and the number will likely exceed one million. They will take their jobs, businesses, and purchasing power to other states.

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10 https://www.frontpagemag.com/point/2019/02/tax-rich-tax-rich-tax-rich-we-did-god-forbid-rich-daniel-greenfield/

11 https://taxfoundation.org/publications/facts-and-figures

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