



# What Happens When Income Taxes Are Raised? *Checking the Facts*

## Impact of taxes on migration of high income individuals and economic growth

In September, 2008 Princeton University's Policy Research Institute for the Region released "Trends in New Jersey Migration: Housing, Employment, and Taxation" to assess the impact of New Jersey's decision in 2004 to enact a 2.6 percent increase in its personal income tax on individuals earning more than \$500,000 per year.

The study found that:

- The tax increase is "an effective and efficient revenue generation mechanism, having little effect on migration patterns among half-millionaire households."<sup>1</sup>
- Since the increase in New Jersey, the "total number of New Jersey half-millionaires also increased sharply, from about 26,000 in 2002 to 44,000 in 2006 – an increase of 70%."<sup>2</sup>
- In fact, the study found that most people who move away from New Jersey move to states that impose higher income taxes.

In January, 2004 the Fiscal Policy Institute examined the impact of New York's 2003 temporary .65 percent income tax rate increase on single filers and .85 percent income tax rate increase on taxpayers earning more than \$500,000 per year.

- During the period the tax surcharge was in effect the number of high-income returns grew by 30% from approximately 250,000 to over 325,000.<sup>3</sup>
- At the same time, New York State created 127,200 jobs.<sup>4</sup>

Fifteen states currently have higher income tax rates than New York. Each one experienced positive private sector job growth from 2000-2008<sup>5</sup>, with an average growth rate of over 6.3 percent.

State	Top Rate on Single Filers	Private Sector Job Growth, 2000-2008
California	10.3% > \$1,000,000	3.16%
New Jersey	8.97% > \$500,000	0.38%
North Carolina	8.25% > \$120,000	5.41%
New York	6.85% > \$20,000	0.88%

## **Stiglitz: Raising taxes on wealthy better option than cutting spending**

Economists including Nobel Prize winner Joseph Stiglitz agree that state tax increases have a less negative economic impact than cuts in spending

[T]ax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run. Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families.

## **Recent tax policy has overwhelmingly benefited the wealthiest New Yorkers**

- Over the last 30 years, NY has cut its top personal income tax (PIT) rate on the wealthy by half (15.375% to 6.85%).<sup>6</sup> Tax rates have been cut for the top 5% as their income has more than doubled since 2003.<sup>7</sup>
- At the federal level, the Bush tax cuts in the earlier part of this decade overwhelmingly benefited the wealthiest New Yorkers:
  - From 2001-2010, the wealthiest one percent of New Yorkers were the beneficiaries of 48.3 percent of the tax cuts. The bottom 60 percent will receive less than 14 percent of the cuts.<sup>8</sup>
- Furthermore, wealthy New Yorkers benefit the most from federal and state tax deductions which blunt the impact of any tax increases. In 2006, New York filers with incomes above \$200,000 captured 60 percent, or \$21 billion, of state and local tax federal deductions.<sup>9</sup>

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<sup>1</sup> Young, Cristobal, Varner, Charles, Massey, Douglas S., *Trends in new Jersey Migration: Housing, Employment and Taxation*, The Woodrow Wilson School of Public and International Affairs at Princeton University, September 2008, [http://www.princeton.edu/prior/PRIOReconomy-Final-\(2\).pdf](http://www.princeton.edu/prior/PRIOReconomy-Final-(2).pdf).

<sup>2</sup> Ibid

<sup>3</sup> *Balancing New York State's 2004-2005 Budget in an Economically Sensible Manner*, Fiscal Policy Institute, January 2004, <http://www.fiscalpolicy.org/downloads/2004bud.pdf>.

<sup>4</sup> New York State Department of Labor, Current Employment Statistics Survey.

<sup>5</sup> Thomas, G. Scott. "Job growth in states and D.C. under Bush and Clinton." *American City Business Journal*. October, 2008, <http://www.bizjournals.com/specials/pages/205.html>

<sup>6</sup> *The Path Not Taken: How New York State Increased the Tax Burden on the Middle Class and Cut Taxes for its Highest Income Taxpayers by Over \$8 Billion a Year*, Fiscal Policy Institute, <http://www.fiscalpolicy.org/taxhistory2.htm>.

<sup>7</sup> ITEP: *Personal Income Tax Changes in New York State: Enacted 1995 Cuts and Proposed 2003 Cuts*, Institute on Taxation and Economic Policy, [www.ctj.org/pdf/nychg.pdf](http://www.ctj.org/pdf/nychg.pdf)

<sup>8</sup> McIntyre, Bob, *The Bush Tax Cuts: Are New Yorkers Better Off?*, Citizens for Tax Justice, October 2006, [www.ctj.org/pdf/bushtaxcutsny.pdf](http://www.ctj.org/pdf/bushtaxcutsny.pdf).

<sup>9</sup> *SOI Tax Stats - Bulletin*, Internal Revenue Service, <http://www.irs.gov/pub/irs-soi/06in33ny.xls>.