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Are wealthy taxpayers fleeing high-tax states?

Some taxpayers, perhaps even you, have thought about moving to another state to save on taxes. This month, the American Economic Journal published a study by UC Berkeley and the San Francisco Federal Reserve tackling the subject of wealthy taxpayers fleeing high-tax states. Several factors may have encouraged wealthy taxpayers to move to lower-tax states in recent years; the \$10,000 SALT cap, the adoption of remote work, and increases in income tax rates on high earners in states such as New York and California.

Interestingly, research has found that income taxes historically have had little impact on where people live. Wealthy taxpayers, who can afford to live anywhere, tend to be less likely to move than other Americans. But the study makes the case that billionaires are more likely to leave states with high *estate* tax rates as they get older. States that levy both high income and estate taxes, like NY, will likely to lose tax revenue as the ultra-wealthy move to other states. Enrico Moretti, a Berkeley economist who led the study, summarized: “You can be progressive on income tax or be progressive on estate tax, but if you do both, it’s going to backfire.” For instance, California has a very high-income tax, and if the state-imposed estate tax, they would likely see an exodus of wealthy taxpayers.

Similarly, the study suggested that states with no income tax, such as Florida and Texas, could implement a modest estate tax and likely not suffer billionaire ‘outflow.’ Ultra-wealthy taxpayers who decide to stay in states with high estate tax rates often utilize complex estate planning strategies to minimize taxes. This ability to mitigate taxes may help explain why California and New York still have more than twice as many billionaires as Texas and Florida.

The study referenced Washington State as historically ‘successful’ from a tax revenue standpoint. Despite having the highest marginal estate tax rate in the country (20%), WA has not levied a personal income tax. However, the new 7% excise tax on capital gains may spur wealthy taxpayers to move. Designing tax planning structures that help avoid the new 7% tax may help WA residents feel comfortable staying in the state. Please reach out to your wealth manager if you have questions about state-level income or estate taxes.

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