

Tax Rates and the Location Decision of the Wealthy

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Motivation

- ‘Millionaire Tax’
 - State Examples
 - Oregon
 - Maryland
 - New Jersey
- Federal Lesson
 - Will Individuals alter tax behavior?

Data

- 1997 to 2008
- Internal Treasury Cross-Section of Taxpayers
 - Stratified random sample
 - Highest Income returns are selected with certainty
 - 1040 and supporting schedules
- Continuous Work History Sample

Table 1: Income Sources and AGI

Thousands of dollars

	Mean	Median	St. Dev.
Wages	1,534	196	5,699
Dividends	353	43	1,761
Net Capital Gains	3,053	201	14,326
IRA Distributions	12	0	184
Taxable Pensions	19	0	230
Gross Social Security	5	0	11
Schedule E	887	9	7,874
Total Income	6,300	2,426	19,870
Federal AGI	5,480	1,694	18,958

Table 2: Income Sources and AGI

Thousands of dollars

	Wages		Net Gains		Schedule E		Total Income		Federal AGI	
	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>
1997	1,187	207	2,861	375	821	22	5,387	2,429	4,620	1,602
1998	1,308	180	3,088	429	717	18	5,704	2,475	4,730	1,677
1999	1,466	200	3,204	478	674	9	5,948	2,637	4,852	1,738
2000	1,948	224	3,989	489	491	2	7,078	2,755	5,985	1,934
2001	1,534	204	2,462	46	750	17	5,408	2,121	4,716	1,448
2002	1,301	188	1,860	0	1,081	59	4,828	1,875	4,269	1,365
2003	1,358	171	2,131	35	1,046	47	5,196	1,960	4,552	1,425
2004	1,622	176	3,143	226	947	20	6,471	2,516	5,503	1,732
2005	1,502	167	3,249	275	992	15	6,646	2,582	5,718	1,749
2006	1,538	180	3,553	332	998	7	7,223	2,731	6,190	1,827
2007	1,656	184	4,156	459	959	5	8,029	3,056	6,876	2,049
2008	1,553	237	1,873	0	1,029	0	5,339	1,627	5,374	1,596

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Table 2A: Income Sources and AGI
Means, Thousands of dollars

	Wages	Net Gains	Schedule E	Total Income	Federal AGI
1997	1,187	2,861	821	5,387	4,620
1998	1,308	3,088	717	5,704	4,730
1999	1,466	3,204	674	5,948	4,852
2000	1,948	3,989	491	7,078	5,985
2001	1,534	2,462	750	5,408	4,716
2002	1,301	1,860	1,081	4,828	4,269
2003	1,358	2,131	1,046	5,196	4,552
2004	1,622	3,143	947	6,471	5,503
2005	1,502	3,249	992	6,646	5,718
2006	1,538	3,553	998	7,223	6,190
2007	1,656	4,156	959	8,029	6,876
2008	1,553	1,873	1,029	5,339	5,374

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Table 2B: Income Sources and AGI
Medians, Thousands of dollars

	Wages	Net Gains	Schedule E	Total Income	Federal AGI
1997	207	375	22	2,429	1,602
1998	180	429	18	2,475	1,677
1999	200	478	9	2,637	1,738
2000	224	489	2	2,755	1,934
2001	204	46	17	2,121	1,448
2002	188	0	59	1,875	1,365
2003	171	35	47	1,960	1,425
2004	176	226	20	2,516	1,732
2005	167	275	15	2,582	1,749
2006	180	332	7	2,731	1,827
2007	184	459	5	3,056	2,049
2008	237	0	0	1,627	1,596

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Table 3A: Federal and State AGI and Rates
Means, Thousands of dollars

	Federal			State		
	Liability	Rate	AGI	Liability	Rate	AGI
1997	1,585	37.15	4,620	222	5.38	3,384
1998	1,658	37.28	4,730	211	5.38	3,236
1999	1,640	36.94	4,852	239	5.42	3,583
2000	2,076	37.21	5,985	292	5.42	4,366
2001	1,607	36.77	4,716	220	5.31	3,408
2002	1,424	36.23	4,269	206	5.27	3,244
2003	1,293	32.02	4,552	239	5.51	3,550
2004	1,596	32.22	5,503	293	5.54	4,202
2005	1,668	32.19	5,718	290	5.38	4,197
2006	1,795	32.18	6,190	299	5.02	4,558
2007	1,986	32.12	6,876	332	5.15	5,063
2008	1,573	31.95	5,374	275	5.29	4,247

Table 3B: Federal and State AGI and Rates

Medians, Thousands of dollars

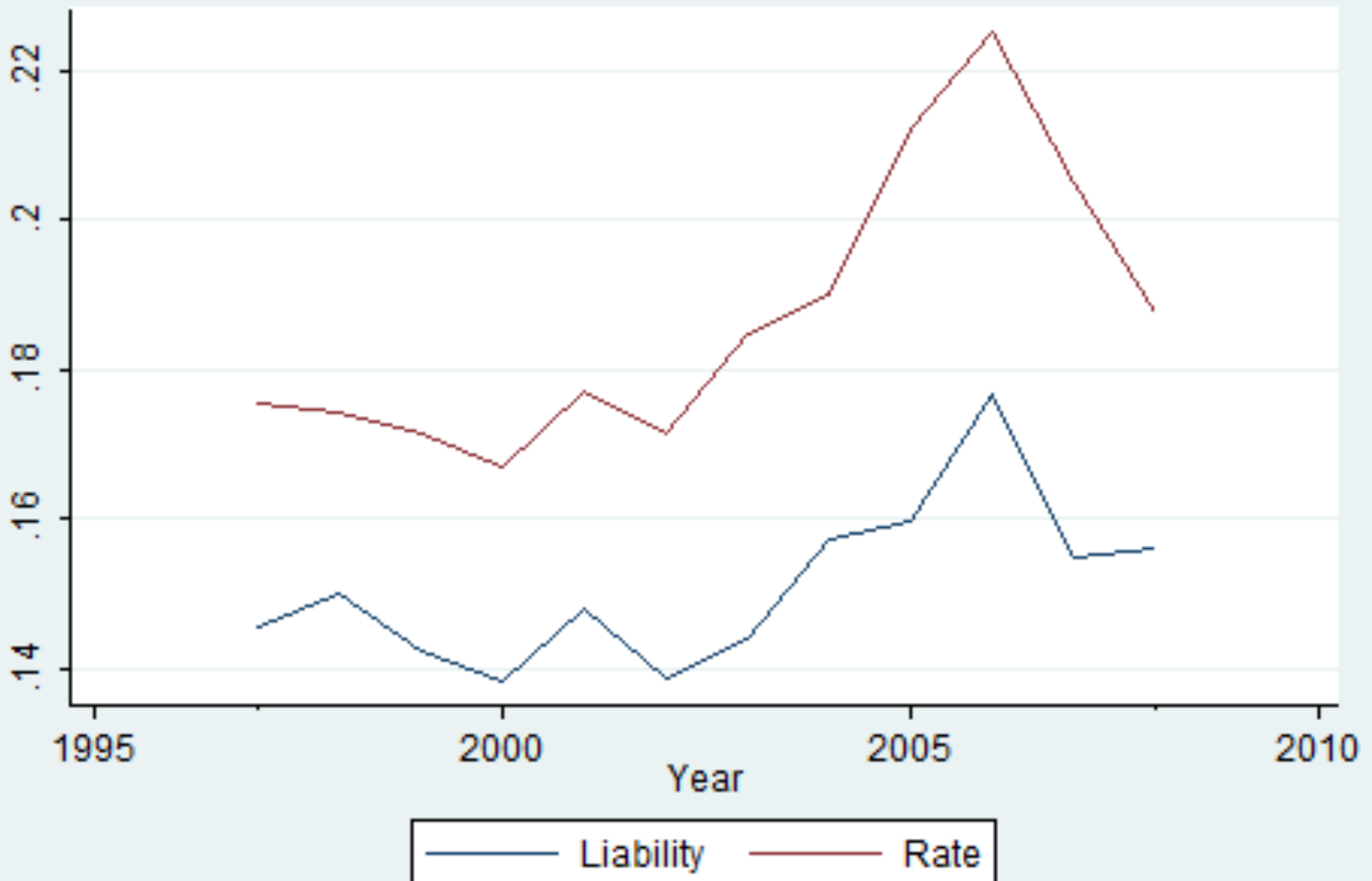
	Federal			State		
	Liability	Rate	AGI	Liability	Rate	AGI
1997	507	38.08	1,602	55	5.95	896
1998	545	38.08	1,677	56	5.87	872
1999	549	38.08	1,738	58	5.95	948
2000	637	38.08	1,934	61	5.85	985
2001	469	37.59	1,448	51	5.60	832
2002	436	37.11	1,365	48	5.30	820
2003	377	33.35	1,425	54	5.76	850
2004	464	33.35	1,732	61	5.76	975
2005	469	33.35	1,749	56	5.30	881
2006	493	33.30	1,827	55	5.30	915
2007	549	33.30	2,049	63	5.30	1,021
2008	439	32.95	1,596	58	5.68	928

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'Optimal' Individuals

- TAXSIM on Each Individual for each State
- Home Liability = Lowest Liability
 - Optimal Liability Individual
- Home Rate = Home Rate
 - Optimal Rate Individual

'Optimal' Individuals



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Table 4: Income Sources and AGI
‘Optimal’ Rate Individuals

Thousands of dollars

	Mean	Median	St. Dev.
Wages	1,283	137	5,622
Dividends	322	41	1,490
Net Capital Gains	3,264	223	15,586
IRA Distributions	16	0	292
Taxable Pensions	21	0	206
Gross Social Security	7	0	12
Schedule E	464	0	3,692
Total Income	5,846	1,975	24,012
Federal AGI	5,065	1,423	23,185
State AGI	-58	0	3,316

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Table 4A: Income Sources and AGI
‘Optimal’ Rate Individuals with Positive State AGI

Thousands of dollars

	Mean	Median	St. Dev.
Wages	2,165	205	9,229
Dividends	326	47	1,430
Net Capital Gains	3,265	327	24,358
IRA Distributions	14	0	220
Taxable Pensions	13	0	78
Gross Social Security	5	0	11
Schedule E	197	0	3,526
Total Income	7,490	2,222	49,884
Federal AGI	5,640	1,201	48,957
State AGI	468	63	2,272

Table 5A: Income Sources and AGI
‘Optimal’ Rate Individuals
Means, Thousands of dollars

	Wages	Net Gains	Schedule E	Total Income	Federal AGI	State AGI
1997	1,041	3,028	548	4,995	4,351	-21
1998	1,231	4,408	281	6,475	5,597	-47
1999	1,554	2,993	265	5,379	4,163	-50
2000	1,784	3,858	212	6,368	5,181	-34
2001	1,389	3,090	380	5,391	4,604	-68
2002	1,244	2,327	675	4,770	4,066	-75
2003	1,094	2,592	520	4,780	4,136	-53
2004	1,431	3,621	485	6,190	5,188	10
2005	1,116	3,710	601	6,037	5,300	32
2006	1,307	3,202	533	6,200	5,292	-97
2007	1,229	4,046	477	7,200	6,354	-96
2008	1,059	1,948	491	4,714	4,655	-129

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**Table 5B: Income Sources and AGI
‘Optimal’ Rate Individuals
Medians, Thousands of dollars**

	Wages	Net Gains	Schedule E	Total Income	Federal AGI	State AGI
1997	135	472	1	2,149	1,422	0
1998	139	650	0	2,378	1,696	0
1999	142	537	0	2,409	1,527	0
2000	152	465	0	2,392	1,648	0
2001	160	37	0	1,704	1,170	0
2002	120	6	4	1,581	1,180	0
2003	112	116	3	1,708	1,259	0
2004	116	428	0	2,441	1,668	0
2005	113	254	0	1,948	1,400	0
2006	147	263	0	2,065	1,411	0
2007	127	408	0	2,492	1,593	0
2008	162	0	0	1,108	1,075	0

**Table 6: Income Sources and AGI
‘Optimal’ Liability Individuals**

Thousands of dollars

	Mean	Median	St. Dev.
Wages	1,087	136	4,455
Dividends	314	34	1,514
Net Capital Gains	2,989	152	13,046
IRA Distributions	17	0	316
Taxable Pensions	23	0	226
Gross Social Security	7	0	12
Schedule E	673	0	3,623
Total Income	5,420	1,861	15,220
Federal AGI	4,870	1,432	14,272
State AGI	-126	0	3,525

Table 6A: Income Sources and AGI
‘Optimal’ Liability Individuals with Positive State AGI

Thousands of dollars

	Mean	Median	St. Dev.
Wages	586	169	1,166
Dividends	7	1	35
Net Capital Gains	1,266	41	9,475
IRA Distributions	27	0	292
Taxable Pensions	8	0	44
Gross Social Security	4	0	9
Schedule E	293	2	826
Total Income	2,318	1,068	9,568
Federal AGI	1,896	759	9,453
State AGI	19	1	300

Table 7A: Income Sources and AGI
‘Optimal’ Liability Individuals
Means, Thousands of dollars

	Wages	Net Gains	Schedule E	Total Income	Federal AGI	State AGI
1997	920	3,139	627	5,093	4,600	-43
1998	1,072	4,638	329	6,589	5,904	-72
1999	1,308	2,988	320	5,150	4,260	-98
2000	1,449	3,944	327	6,259	5,409	-75
2001	974	3,320	433	5,294	4,961	-102
2002	1,107	2,613	864	5,131	4,575	-137
2003	814	2,882	666	4,914	4,590	-152
2004	970	3,746	643	5,914	5,406	-155
2005	940	2,733	937	5,223	4,695	-56
2006	1,173	2,601	878	5,390	4,637	-163
2007	1,133	3,385	883	6,488	5,756	-152
2008	1,041	1,249	704	3,782	3,787	-199

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Table 7B: Income Sources and AGI
‘Optimal’ Liability Individuals
 Medians, Thousands of dollars

	Wages	Net Gains	Schedule E	Total Income	Federal AGI	State AGI
1997	120	472	4	2,081	1,498	0
1998	128	708	0	2,422	1,844	0
1999	125	541	0	2,362	1,584	0
2000	140	458	0	2,381	1,776	0
2001	155	50	0	1,647	1,259	0
2002	115	31	4	1,702	1,337	0
2003	105	160	10	1,784	1,430	0
2004	95	351	4	2,281	1,663	0
2005	118	90	7	1,715	1,306	0
2006	150	135	0	1,815	1,347	0
2007	145	204	0	2,229	1,524	0
2008	198	0	0	970	944	0

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'Optimal' Individuals Positive State AGI



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Maryland

- 2007
 - 4.75% for AGI \geq \$3K
- 2008
 - 5% for AGI \geq \$150K
 - 5.25% for AGI \geq \$300K
 - 5.5% for AGI \geq \$500K
 - 6.25% for AGI \geq \$1M

'Difference in Difference'

- 3 State Groups
 - Maryland
 - DC/Virginia
 - DE, NJ, NY, PA, WV
- 2 Income Groups
 - Above \$1 Million
- Move Variable

Table 8: Income Sources 2007

Thousands of dollars

	Wages		Net Gains		Schedule E		Total Income	
	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>
Maryland	488	200	512	2	266	0	1,588	415
DC/Virginia	316	177	835	2	306	0	1,843	432
Other States	671	205	1,425	2	622	0	3,354	539

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Table 9: Probit Regression
Dependent Variable = Move

Maryland	-0.3012***
	(0.0546)
DC/VA	0.0417
	(0.1617)
> 1 Million	0.1052
	(0.0656)
MD*1M	0.6431***
	(0.0656)
DC/VA*1M	0.2778*
	(0.1503)
Constant	-1.9865
	(0.0546)

Future Work

- Data
 - Newly available IRS data
- Other States