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THE MYTH OF MILLIONAIRE TAX FLIGHT

How Place Still Matters for the Rich

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Do the Rich Flee High Taxes?

Hedge fund manager David Tepper—one of the richest people in America—relocated from New Jersey to Florida in 2016. In doing so, he reignited a heated debate about tax flight among the rich. While Tepper did not publicly discuss his reasons for moving, many commentators attributed it to New Jersey's millionaire tax. Indeed, his move seemed to confirm the simple economics conveyed in Governor Chris Christie's warning: "If you tax them, they will leave."[1]

Internationally, there have been high-profile occasions of tax flight. In 2013, French actor Gerard Depardieu renounced his citizenship and moved to Russia to avoid France's high tax burden. At the time, Russia's deputy prime minister boasted about his country's 13 percent flat income tax. "The West," he said, "has an especially poor knowledge of our tax system. When they learn about it, we expect a mass migration of wealthy Europeans to Russia."[2]

Are these anecdotes capturing an important reality of the elite today? Do millionaires migrate more often than the rest of us? Or are we searching for confirmation of wrongheaded assumptions about elites and globalization? It seems obvious that millionaires *travel* more often than the general public—travel is a classic luxury good. But business travel and vacationing are very different from moving one's home and life to a new state. To what extent do top income earners migrate away from places with high income taxes?

From one perspective, we can think of top income earners as "mobile millionaires" who are searching for the lowest tax places to live. The rich have the resources to move, and they have marketable skills that could be valued in many different places. Indeed, most Americans see the rich as different from ordinary folks. In surveys, they say the rich are intelligent and hardworking but also greedy and less honest.[3] Tax migration fits easily into this framework, suggesting a kind of astute-but-detached calculating nature, an acquisitive drive that supersedes social bonds and emotional ties to home.

Such views of the rich may well be accurate. But the alternative perspective is to think of the rich as "embedded elites" who have little need or interest in moving away from places where they are highly successful. Migration may be less about personality and more about circumstance. People move not because they are cold and calculating but because of where their opportunities lie. By definition, elites are at the top of their game. They have become very successful in the place where they live: In many cases, they have become deeply embedded insiders, rich not only in income but also in personal connections and social capital. Often, they are late-career professionals and past the age or life-cycle stage when one is likely to move. They have ascended to the top of the income hierarchy, which pushes them into a high tax bracket but also signals high-level insider status. The incentive for such individuals to move elsewhere is unclear at best.

Which view of the rich is more accurate? Are the rich mobile millionaires or embedded elites? Answering this question will help us determine appropriate tax policies for elites: Should states and countries have higher or lower millionaire taxes? If the rich are highly mobile, it may not be realistic to have millionaire taxes. However, if the rich are embedded elites, higher tax rates on million-dollar incomes are more viable.

. . .

One of the biggest challenges in studying millionaires is getting reliable data on them: Those at the top are hard to reach, and they do not tend to respond to social surveys. A group of political scientists commented on the challenges of interviewing millionaires: "It is extremely difficult to make personal contact with wealthy Americans. Most of them are very busy. Most zealously protect their privacy. They often surround themselves with professional gatekeepers whose job it is to fend off people like us."[4] After extensive efforts using experienced hired staff, they were able to interview only 83 millionaires in Chicago for their study.

This chapter takes a different strategy. I use big data from administrative tax records. Millionaires must file taxes, and this provides census-scale data on their income and where they live. I analyze restricted IRS data on the tax returns filed by all million-dollar income earners in every state, over the thirteen years of 1999 to 2011. The data set includes 45 million de-identified tax records on high income earners. These are the federal tax returns of every high-income individual in the country, showing where millionaires live and where they move. The data were anonymized so it was not possible to look up and see, for example, who is taxpayer number 8498251. But every person's tax returns were tracked over time, showing where the person lived over the thirteen-year time period.[5] People who moved—that is, changed the state from which they file their federal taxes—in a year when they earned $1 million or more are labeled "millionaire migrants."

In a typical year, about 500,000 people earn at least $1 million in income. This group is more exclusive than the 1 percent—specifically, they are the 0.3 percent. On average, they earn about $1.7 million in a year—roughly 32 times the median household income. The term "millionaire" often connotes accumulated wealth, but these data refer to annual incomes—people who make more in one year than what many people ever accumulate over their lifetime.[6]

With these data, we can probe a series of questions that follow from the mobile millionaire versus the embedded elite hypotheses. First, do top income earners tend to live in low-tax states? Second, are they highly mobile—do they show high rates of migration? And third, when millionaires move, do they tend to gravitate toward states with lower taxes on the rich? Answering these questions will give clear insight into whether millionaires should be thought of as mobile or embedded.

State Tax Systems: Soaking the Rich or Taxing the Poor?

The defining feature of a state tax system is the balance between sales tax and income tax. Sales tax is regressive, placing a higher tax burden on lower income earners. The income tax is progressive, so that the tax rate rises with economic success. States have different mixes of these two types of taxation, which have differential effects on different social classes.[7]

A sales tax is regressive due to two compounding factors. First, the sales tax is nominally a flat tax. The tax rate is the same whether you are buying bread or buying a Bentley: Luxuries are taxed at the same rate as necessities. Second, the sales tax applies only to income that is spent on consumption. In principle, this provides a good incentive: People can avoid taxation by saving or investing more of their income, which is both good for personal finances and good for the economy (unless we are in a recession). In practice, however, it is much harder for the poor to save than it is for the rich. The poor typically spend all of their income each year, whereas top earners are often able to save a substantial portion of their earnings.

In a world without economic hardship, the sales tax would make a lot of sense. It is easy to administer. It is a relatively invisible tax: We pay a little bit of it each time we buy something we want, and we do not file an annual report documenting how much we paid in total. And a sales/consumption tax seems to help encourage saving. But in our world where people's ability to save is very uneven, the sales tax introduces significant economic unfairness.

The gasoline tax is a case in point. Gasoline is a pollutant for our environment, so it should be taxed simply to discourage gas-guzzling SUVs and long commutes. But fuel consumption does not vary much by income level. Households typically spend about $3,000 a year on gasoline.[8] Fuel consumption does of course rise with income, but the difference between the top and the bottom income earners is not large.[9] There is only so much gas a rich person can use. This means gasoline taxes are a much larger part of poor people's budgets than they are of rich people's budgets.

So it is with sales taxes in general. Across the country, the poor typically pay about 7 percent of their income in sales and excise taxes. But top income earners pay only about 1 percent of their income toward such taxes.[10] This makes life harder for lower income earners. States that rely on sales taxes are making low- and middle-income families pay for a much larger share of the overall cost of running the state.

Income taxes are central to balancing out the unfairness of the sales tax. The poor pay almost nothing in state income taxes (0.2 percent), whereas

average top earners pay about 4 percent of their total budget in state income taxes.[11] Indeed, high income earners contribute a large portion of the revenues generated from state income tax. But although state income taxes are progressive, they do not fully balance out sales taxes, because sales taxes tend to generate more revenue. In every state, the poor pay a greater share of their budgets in state and local taxes than do the rich. Part of why the poor are struggling is because "the state and local taxes they face make them even poorer," as Kathy Newman and Rourke O'Brien document in their book *Taxing the Poor*.[12]

In essence, all state tax systems are regressive. But states that rely more on income taxes come the closest to tax fairness. In California, for example, the rich pay about 7.5 percent of their budgets in state and local taxes—mostly through the income tax. Lower income Californians pay about 10 percent of their budget in tax but mostly through the sales tax. The tax disparity is about 2.5 percentage points—one of the smallest in the country. Florida provides a stark contrast: The poor pay about 12 percent of their income in state and local taxes, while the rich pay only 2 percent. Washington State has the most unequal tax burden in the country: The poor pay a 17 percent overall tax rate, whereas top income earners pay less than 3 percent. This is the result of a system of high sales tax combined with no state income tax.[13]

Millionaire taxes are often derided as "soak the rich" tax policies. However, state tax systems infringe on the incomes and standard of living of the poor much more than for the well-to-do. As a share of people's incomes, existing state tax systems impact the poor and the middle class much more than the rich. At the state level, "soak the rich" income taxes are more about balancing out the regressive features of the sales tax. State millionaire taxes, if feasible, could make significant progress in restoring fairness to the state tax systems, while helping to alleviate inequality. This is why it is so important to investigate the implications of these taxes.

The decentralized American political system means that some states have adopted much more progressive tax systems than others. At the same time, the United States can be thought of as a world composed of fifty-one small open economies with free migration between them. Can states sustain taxation on the rich when other nearby states have no income tax at all? How sustainable are these varieties of elite taxation in the United States?

Where Do the Highest Income Earners Live?

By and large, the different tax systems at the state level have been in place for a long time. Most state income taxes were originally adopted in the 1960s and 1970s.[14] The last major state tax reform occurred in 1991, when Connecticut shifted from being a relative tax haven to adopting a progressive income tax. Of course, there have been many smaller changes since then, but the relative ranking of high- and low-tax states for top income earners has not changed much in the past three decades. If millionaires are strongly motivated to live in states that minimize their tax burden, they have had generations to make it happen.

So, the first and most basic test of the mobile millionaire hypothesis examines whether millionaires are especially concentrated in low-tax states. The average state has 1.4 millionaires for every 1,000 residents. The highest millionaire concentration is in Connecticut, with 4.4 per 1,000 population. Filling out the top five states/districts are the District of Columbia (3.6), New York (3.0), New Jersey (2.8), and Massachusetts (2.7). Elite income earners are heavily concentrated in the mid-Atlantic region, particularly along the "BosWash corridor." These are also generally high-tax states for top income earners. Nevertheless, some low-tax states, such as Florida and Nevada, also have above-average millionaire concentrations (both 2.0).

Figure 2.1 shows millionaire concentrations for every state, compared to the income tax rate on top earners. The left side of the figure shows the states with zero income tax. Millionaire density in these states ranges from 1.0 per 1,000 people in Tennessee to 2.0 in Florida; as a group, the zero-tax states have about average concentrations of millionaires. As we move rightward in the graph, we see states with higher and higher tax rates on the rich. Millionaire concentration inches up slightly as the tax rate rises. This is especially clear for New York, New Jersey, and California, which are high-tax states with a high concentration of millionaires.

Millionaires are not any more likely to live in states with low or no income taxes (such as Texas or Florida) than in states with high income taxes (such as New Jersey or California). Millionaires in America are more or less evenly distributed among high- and low-tax states, and they do not show a clear preference for one or the other.

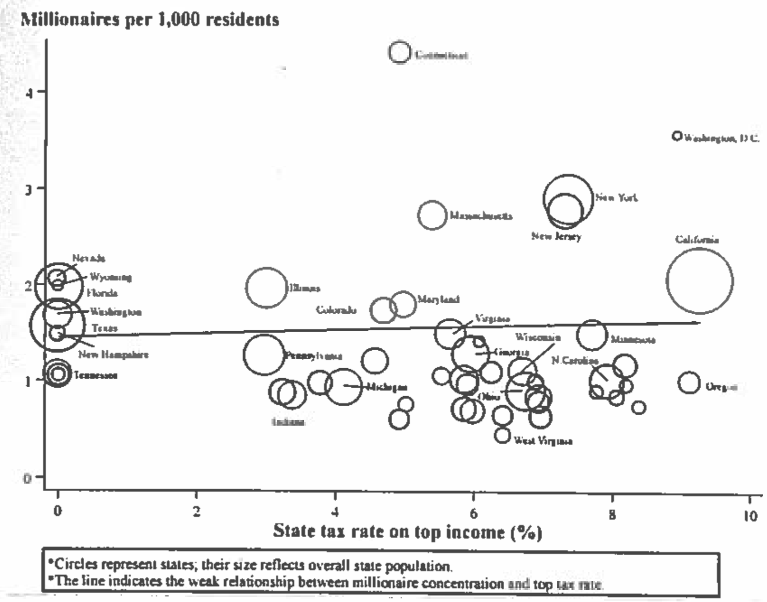

Figure 2.1. Millionaire Concentration and Top State Tax Rates, 1999 to 2011. States are weighted by overall population as indicated by circle size (i.e., California is the largest circle because it has the largest overall population). The states on the left are zero-tax states; states shown toward the right have increasingly higher tax rates on the rich. The tax rate is the effective income tax rate on a representative millionaire (earning $1.7 million per year). The line shows the weak relationship between millionaire concentration and top tax rate (the slope of the linear regression). Sources: U.S. Department of the Treasury, IRS microdata (N = 45 million) and the NBER TAXSIM program. Adapted from Young et al. (2016).

Millionaire Migration

"There is nothing more portable," a California Senate leader once said, "than a millionaire and his money."[15] This is the notion of a jet-set elite, for whom place is fluid and fungible; this group can readily change their location when need or advantage calls for it. As it turns out, these notions are completely wrong.

The rate of migration among millionaires is low. Millionaires move less often than the general public and much less often than the poor. Figure 2.2

shows annual migration by income level, starting with the left side (the very lowest incomes) and moving to the right for people earning millions per year. The highest migration rates are among low income earners. People making only about $10,000 per year have a 4.5 percent migration rate. These folks are struggling, and migration seems to be part of their survival strategy and their search for work. People are more likely to move when things are not working out for them where they live. Low income earners move almost twice as often as millionaires.

In general, migration declines steadily as income rises. The least mobile people are those earning about $100,000, who have a 2 percent migration rate. The intuition that top income earners are very mobile is simply wrong. For the general population, the migration rate is 2.9 percent. For millionaires, the migration rate is only 2.4 percent.

There is, however, some truth in the mobile millionaire hypothesis. Above $100,000 in annual income, migration does begin to inch back upward. At

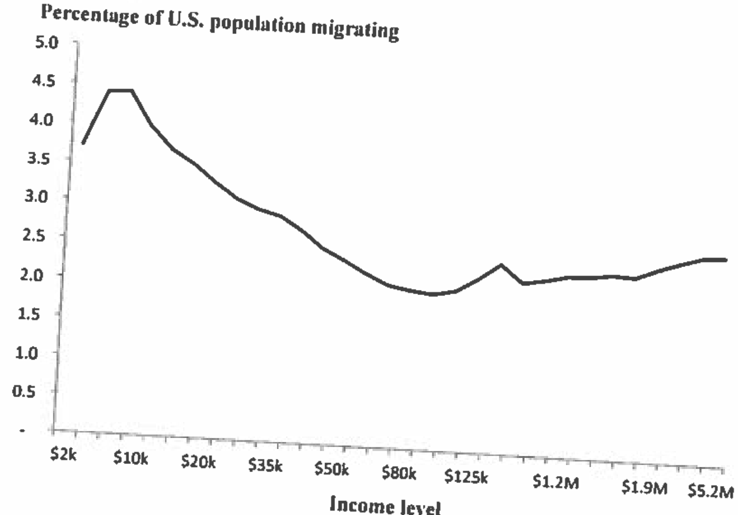

Figure 2.2. **Migration Rates by Income Level, 1999 to 2011.** The graph indicates that migration declines as people earn higher incomes. Sources: U.S. Department of the Treasury, IRS microdata, 1 percent sample of all tax filers (N = 24 million) and 100 percent sample of people making $1 million or more (N = 45 million). Adapted from Young et al. (2016).

best, one can say that millionaires are more residentially mobile than the upper middle class. But even people making over $5 million per year (the last data point in Figure 2.2) have a migration rate of 2.7 percent—still lower than the population average and much lower than the rate among the poor.

We tend to think of mobility—the ability to live wherever one wishes—as a form of freedom and one of the privileges enjoyed by the rich. Mobility and migration are ingrained ideals in U.S. culture, fitting in with the belief that the rich are more geographically mobile than the poor. It has been said that "to move, to change—that is what enjoys prestige, as against stability, which is often synonymous with inaction."[16] Despite its evocative resonance with ideals of freedom, interstate migration has been declining for decades.[17] If this kind of mobility is freedom, then that freedom has been fading in America, especially for the rich.

The fact that the poor have the highest migration rates should challenge these understandings of migration. Migration is mostly about people who are struggling to find opportunities, not those who are cashing in on their success. *Travel* and *migration* are very different things, and they are done by different social classes. Jet-setting around Europe and Asia is a luxury good that is largely restricted to families of considerable means. Migration, in contrast, means uprooting one's life and restarting in a new place, and it is much more common among the poor. Conflating actual migration with business and leisure travel has led to mistaken assumptions about the migration rates of millionaires.

Tax-Induced Migration

The rate of millionaire migration is low. However, when millionaires do move, how often are they moving specifically for tax purposes? How can we tell if a move is motivated by tax avoidance? In practice, this is a difficult question, because people's internal motivations are hard to observe. But, the first criterion is that the move must be from a higher tax to a lower tax state. If a move does not save on taxes—or indeed, if it *increases* taxes—it cannot be called "tax migration."

Do millionaires ever move into states that charge them higher income taxes? Yes. In fact, this is very common. Some 32 percent of millionaire migrations in our data were moves to a state that charged the individuals a higher income tax rate than where they came from. Each of these moves contradicts the notion of tax-induced migration—they are moves that happened *despite* the tax hit involved. An additional 21 percent of moves were tax neutral—moves between states with essentially the same tax rate.[18] This reinforces the idea that millionaires often move for reasons unrelated to taxes. Finally, the remaining 47 percent of migrations were toward a state with a lower tax rate on elites, so that the mover had a lower tax rate after the move. These are the moves that provide evidence of tax-motivated migration.

Overall, these data give some fairly clear evidence of tax motivation in millionaire migration: The rich are more likely to move to places that charge them lower taxes (47 percent) than to places that charge them higher taxes (32 percent). The difference between these flows (47 percent versus 32 percent) shows the "excess" migration from high- to low-tax states, which amounts to 15 percent of migrations. In other words, about 15 percent of millionaire migrations on balance appear to have a tax motivation and provide a tax advantage.

Elsewhere, my coauthors and I have published much more sophisticated and detailed statistical analysis for readers wanting to wade through multiple levels of scientific rigor. However, the simple analysis shown above gives a good representation of what is found with more advanced methods. The more complex models analyze flows of millionaires from each one of the fifty states and the District of Columbia into every other state. These analyses use so-called gravity models to look at migration flows between 2,550 possible state pairings—such New York to Florida, New York to South Carolina, New York to Illinois, and so on for every state pair and in both directions. The results show a statistically significant effect of millionaires gravitating toward states with lower tax rates on top incomes. The effect is modest in size but robust across many different model specifications and different subgroups of millionaires.

For example, do the conclusions change if we take into account other tax rates that are important for state revenues, such as the sales tax or the property tax? What if a state has an inheritance tax? What if we consider how migration is affected by the economic prosperity of states, taking into account state unemployment rates and average incomes? What if we account for the natural climate, measured by winter temperatures? Perhaps most

importantly, what if we consider the price of residential land, which captures the desirability of residing in a state? All of these are good questions, but none of these factors changes the basic conclusion that millionaires are prone to move to lower tax states. Taken together, these control variables actually make that conclusion a bit stronger.

The conclusion also is much the same for super-elite earners making at least $10 million per year. It is the same for millionaires who own businesses and for those who mostly live off capital gains. The most important difference, however, is that among the general population, taxes do *not* affect migration patterns. Top income earners are more motivated than the general public to find a lower-tax place to live.

It is clear from these data that tax migration among millionaires is occurring. How large is the effect? What kind of impact does this have on the geography of the elite in America?

The overall millionaire migration rate is low: 2.4 percent. Further, only a small portion of these moves—15 percent—bring a net tax advantage. Overall *tax migration* among millionaires is thus a small fraction out of a small fraction: 15 percent of 2.4 percent. Only 0.3 percent of the overall millionaire population, on balance, shifted to a lower tax state.

Let's put this in more concrete terms. Over thirteen years, there were about 135,000 millionaire migrations in America. The net movement of millionaires into lower tax states during the years 1999 to 2011 amounts to about 20,000 millionaires. However, this is from a population of 3.7 million people who collectively filed 45 million annual tax returns during this time. Tax-induced movements represent a vanishingly small share of the millionaire population.

There is a grain of truth in concerns about millionaire tax flight. When millionaires do migrate, they are more likely to move to a state with a lower tax rate. However, the effect is small and has little impact on a state's overall stock of millionaires.[19]

The Florida Effect

One of the most striking facts about tax migration is that, if we temporarily set aside migration between Florida and other states, the evidence for tax migration virtually disappears. The reasons for this are intriguing.

Florida has a lot of millionaire migration. About 30 percent of all millionaire migrations in the United States involve Florida: Roughly 20 percent are top earners moving to Florida, and another 10 percent are top earners leaving Florida. Virtually every state in the country, but especially New York and New Jersey, sees at least some net migration of its top earners into the state. Florida does not create many of its own millionaires, and without these inflows it would have a declining millionaire population. But vibrant millionaire inflows are having a big influence on the state.

Setting aside migrations in and out of Florida, it is almost equally likely that a millionaire will move to a state with a higher tax rate as a lower tax rate: 35 percent of moves are to higher tax states, 38 percent are to lower tax states. The 3-percentage point difference is negligible, demonstrating that there is little interest among millionaires in the tax difference between "sending" and "receiving" states. (The remaining 27 percent of moves are between states with roughly the same tax rate.)

This is important because, in the business of offering low-tax rates to millionaires, Florida has at least six real competitors: Texas, Tennessee, New Hampshire, Nevada, Wyoming, and Washington. All of these states have the same zero income tax rate as Florida. Florida is not the only state with no income tax on the rich, but it is the only state that seems to achieve tax haven status. Why are these other states unable to systematically attract the rich from high-tax states?

It could be that Florida simply has a monopoly on tax haven status in the United States. If high income earners wish to avoid paying state income tax, they simply move to Florida rather than to any of its low-tax competitors. Other options are nice, but one tax haven is good enough. Indeed, tax havens might be natural monopolies, because place is a network good. If millionaires like to live in places that have other millionaires, one tax haven state might become a focus of tacit coordination and become *the* place to go.

By analogy, with social media, almost everyone uses Facebook rather than Myspace or any other comparable website, because almost everyone else is on Facebook. Facebook is a natural monopoly because people need only one social networking site, and it works best to have everyone on the same site. Similarly, if millionaires want to be around other high-status people and want to enjoy similar kinds of expensive amenities, such as golf

courses and fine-dining establishments, tax havens might be most appealing when most millionaires all go to the same place. In this sense, there is nothing surprising about Florida's unique status as a magnate for millionaire migration: It is better for millionaires if there is just one good tax haven on which they can all converge.

At the same time, Florida is unique in a number of ways that are unrelated to taxes. It is the only state with coastal access to the Caribbean Sea. Florida is the Hawaii of the East Coast, with similar amounts of warmth and sunshine. Unlike the other low-tax states, it is tremendously popular as a vacation destination and a cruise ship port. Florida is in the South, but Floridians are not Southerners, and most of the state is culturally very different from the Deep South. The city of Tampa is more like the Jersey Shore than Alabama, and many rich Florida enclaves are most comparable to the Hamptons. So, for the rich, is Florida a tax haven or a luxury resort? Does Florida migration demonstrate the benefits of maintaining a low-tax rate for the rich, or does it show the benefits of being an East Coast tropical location?

Here is the key question: If Florida had a millionaire tax rate equal to that in New York and New Jersey—from which many of its migrants come—would this break the allure of the Sunshine State? Would Texas, New Hampshire, and Wyoming become the new centers for millionaire migration? Or would a high-tax Florida continue to be the migration destination for East Coast elites? Part of Florida's migration may well fade if it became a high-tax state. But it is hard to know how much.

One of the disappointing facts about Florida is that, despite its tax haven standing, Florida is not entirely a low-tax state. The benefits of attracting millionaires have not trickled down to lower income earners—at least not in their tax bill. The state has high sales and excise taxes, which result in high-tax burdens on lower income earners. The overall effective tax rate on the poor in Florida is many times higher than that of top earners (12 percent versus 2 percent). For the poorest 20 percent of income earners, Florida has one of the highest tax rates in the country.[20]

Border Counties and Border Cities

Given the questions and doubts raised by Florida, how can we dig deeper into the millionaire data to search for evidence of tax migration? Can we test state lines over a five-year period.[25] Among the 2010 cohort of billionaires, only 6 percent moved (22 billionaires moved between 2010 and 2015). Note that 7 percent of the 2010 billionaires had died by 2015: Billionaires are more likely to die than to move from their primary residence.

Two additional points are important here. First, when billionaires move, it is typically to Florida. Of the 22 billionaires who moved, 10 (45 percent) relocated to the Sunshine State. No billionaires moved out of Florida. Some billionaires moved into states with a higher tax rate. Oprah Winfrey, for example, moved from Illinois to California, which clearly raised her income tax rate. But overall, the few billionaire moves that occur are strongly skewed toward the lower taxation in Florida.

Second, this time period—2010 to 2015—saw the biggest increase in a state millionaire tax in the United States in three decades. In California, Proposition 30 raised the millionaire tax rate by 3 percentage points—topping out at 13.3 percent—and pushed the boundary of elite taxation by state governments to new levels. The top rate in California was now higher than any time since World War II. Skeptics loudly warned about out-migration of the rich. Yet California saw no loss in its billionaires after the tax hike. None of the Forbes 400 migrated out of California, and the state went from having 84 to 92 of the Forbes 400 by 2015. Of course, the booming tech economy drove the growth in billionaires. But the new "tax on success" did not seem to hamper the state's economy or nudge out its most successful residents.

The Forbes list offers a compelling way to compare the millionaire tax data with public information on American billionaires. The billionaire data give greater confidence in what we learned from millionaires: The super-rich are spread more or less evenly across the country; they are not at all concentrated in low-tax states; and they have low migration rates, but when they do move, they have a fondness for Florida.

Why Millionaires Stay: The Demography of the Rich

Why is there so little migration among millionaires? How has the conventional wisdom—that the rich have exceptional mobility—gotten this so wrong? What social and economic factors might explain why the rich are embedded in their states?

In 2009, Facebook cofounder Eduardo Saverin moved from Florida to Singapore. He renounced his American citizenship about five months before Facebook's IPO in 2012. Estimates suggest he saved hundreds of millions in capital gains taxes. This is a bigger move than what this chapter has discussed so far—global mobility is the focus of Chapter 3—but Saverin illustrates something important about the demography of migration. Saverin was 27 years old when he moved. He was single and had no children. Saverin's shares in Facebook were worth a fortune—the company was already valued at $10 billion—but after a falling out, he no long worked at Facebook and was essentially independently wealthy. If more millionaires shared these characteristics—young, single, no children, and not working—migration would be a lot higher among the rich. All of these socioeconomic factors normally tie top income earners to the places where they live.

In the general population, marriage and children anchor people in place and make migration more difficult. Single people without children have the highest migration rates. Adding in either a spouse or children makes it harder to build consensus around a move and involves more tradeoffs. It turns out that this is no different for the rich. Both millionaires and the general population are much less likely to migrate if they are married or have children (Figure 2.6). The biggest difference is that millionaires are more likely to be married and have children. Some 90 percent of millionaires are married, compared to only 58 percent of general tax filers.

This reflects a growing social reality that, more and more, marriage has a strong income profile. In 1970, marriage rates were high and broadly similar across income levels; today there is a striking marriage gap across economic classes.[26] This is part of the reason why top earners have low migration rates. Single millionaires have a migration rate almost twice as high as married millionaires (4.1 percent and 2.2 percent, respectively). But hardly any millionaires are unmarried.

Likewise, having children in the home reduces migration rates by about one-third, regardless of one's income level. The challenge of taking kids out of school and separating them from their friends weighs on the conscience of both the rich and the poor alike. But millionaires are more likely to have children: 50 percent, compared to 40 percent among the general public. Family responsibilities are a tangible constraint on the migration of the

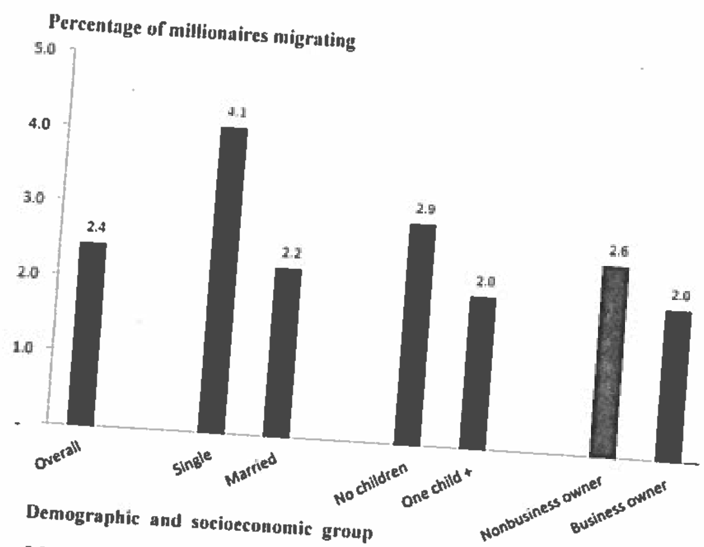

Figure 2.6. Millionaire Migration Rates, by Socioeconomic Group. Millionaires are less likely to migrate if they are married, have children at home, or own a business. Source: U.S. Department of the Treasury, IRS microdata, 1999–2011 (N = 45 million). Adapted from Young et al. (2016).

rich—in similar ways as for the general public—but such responsibilities are simply more common among top income earners. In the modern age, family is one of the rewards that accrue to those with economic success. This in turn makes the wealthy less mobile.

Finally, business ownership limits migration for those at the top. Owning a business ties people to their state. Business owners are at the center of a web of socioeconomic ties—connections to their customer base, their business partners, and their employees. The reality is that, because of the complexity of these ties, bosses are less mobile than their employees. And business ownership is highly concentrated among top income earners. Some 23 percent of millionaires own a business, compared to only 4 percent of the general public.

Finally, it is important to note that millionaires are the working rich. What are the main occupations of American millionaires? The majority are either executives or managers of major businesses (42 percent) or work

in finance (18 percent). A fair number are elite professionals, particularly lawyers (7 percent) and doctors (6 percent). Some 4 percent work in real estate.[27] Few of these occupations could be described as exceptionally mobile or easy to move across state lines.

Media coverage has sometimes focused on professional athletes as representative of the millionaire set. In 2013, professional golfer Phil Mickelson threatened to leave California after a new millionaire tax was passed.[28] He quickly apologized for the comments—he did not intend, apparently, to become the public face of the "bitter millionaire" movement. And, as of 2017, Mickelson still lives in California. But many PGA golfers, including Tiger Woods, live in Florida, and Woods attributes it in part to the tax rate.[29] Many top tennis players, such as the Williams sisters, also live in Florida.[30] These professional athletes are indeed the working rich, but their employer is a national and international circuit of competitions. This is an unusual type of work—even among the rich. Only 3 percent of top earners are in the combined occupational category of "sports, media, or arts." While such sports stars offer interesting anecdotes, most millionaires essentially work office jobs.

Inevitably, some occupations more easily lend themselves to geographic mobility than the average. Academia—my own profession—seems to have higher-than-average migration rates. However, it is likewise important to recognize that the combined occupational category of "professors and scientists" makes up only 1 percent of top income earners.[31]

The social demography of the rich—involving complex work commitments, business ownership, and greater family responsibilities—is part of why the rich are less mobile than the poor. However, none of these factors entirely explains the low migration among top earners. Money itself is a key factor in low migration: Economic success simply blunts the motivation to move.

The Puzzling Intersection of Education and Income

Education increases people's geographic mobility. In professional and technical fields, the job market is often national in scope. Especially for young people graduating out of top universities, the entire country is their job market, and many of them are courted by companies from all corners of the nation. This points to a fundamental puzzle: If the highly educated are very mobile, how can it be that top-level income earners have so little mobility? This puzzle holds one of the keys to the mobile millionaire versus embedded elite debate.

The tax return data I use in this chapter do not include information about education—it is not something people report on their 1040 tax forms. To look at the role of education in migration, I draw on ten years of the American Community Survey. The U.S. Census Bureau has been interviewing about 1 percent of the U.S. population each year, giving a total sample of over 24 million people over the period from 2005 to 2014. The highest income earners are topcoded, so we cannot look specifically at millionaires. But we can get an extremely detailed look at migration by age and education level for the general population.

The census data readily confirm the basic fact we learned from the tax data: The more money you make, the less likely you are to move to a different state. The poor—those making $20,000 a year—have a migration rate of 2.8 percent. Those making $200,000 a year have a migration rate of only 1.7 percent. In more detailed analyses, demographic factors like age, marital status, education, and the like do not explain away this reality: Income ties people to place.

Yet, the census data also confirm the second part of the puzzle: More education means more migration. College graduates have a migration rate of 3.2 percent—twice the rate of those who dropped out of high school (1.6 percent). This fact is also not explained away by other demographic characteristics. Higher education expands one's geographic horizon.

Hence the puzzle: Why is migration high among the best educated yet somehow low among the top earners? These two groups are typically the same people. How can they have such different migration patterns?

The divergence occurs because migration happens mostly among people who have high education but low income. At first glance, this seems like a disappointing group of individuals for whom education did not pay off. But readers with college-age children may have insight into the puzzle. Those who have *both* high education *and* low income are mostly still quite young.

Education has tremendous impact on both income and migration, but the timing of these effects could not be more different. For income, the benefits of education accrue over the course of a long career. People complete

their last year of education *decades* before they earn their highest paychecks. In contrast, for geographic mobility, education has a profound impact that is close to instantaneous and very short-lived.

Figure 2.7 shows the age–migration timeline for people with different levels of education. Readers can place themselves in the graph by selecting the line that represents their highest level of education and then following the line from left to right—from age 18 to retirement. Migration rates decline over time for everyone. The differences across educational groups are dramatic—but only in the early years.

College graduates have migration rates mostly above 10 percent when they are in their 20s.[32] The parents of first-generation college students often

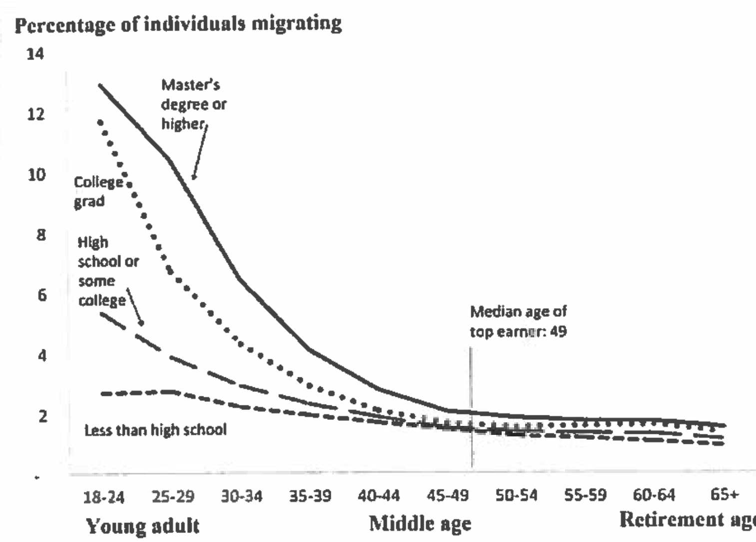

Figure 2.7. Migration Rates by Age, for Different Levels of Education. The figure shows the age–migration timeline for the general U.S. population. Migrations are across state lines. The highest point of migration is for young adults ages 18 to 24 with a master's degree or higher—most of whom are 23 to 24 years old. Migration rates decline over time for all education groups. The differences across education groups are dramatic but only when people are young. By middle age, all education groups have the same (low) rate of migration. Source: American Community Survey, 2005–2014 (N = 23 million).

worry about how education will change their families. It is a valid concern. College completion dramatically increases migration rates for young people. For people who did not complete high school, their migration rates are less than 3 percent. These two rates (10 percent versus 3 percent) reflect very different life trajectories. But there is also incredible convergence over time. If the highly educated do not migrate when they are young, the window closes very quickly. Migration rates plummet in the years after college. By age 35, roughly 80 percent of the educational difference in migration rates has been closed. By age 45, people with the most education have basically the same migration rates as people who dropped out of high school.

Migration is a young person's game. These young movers may well enter the top income brackets in the future, but they are a long way off from earning top-level incomes. If 20-somethings with advanced education were the rich in America, the mobile millionaire hypothesis surely would hold true, and state tax systems would strain under the pressure of attracting and retaining them. The reality is the opposite. By the time college graduates have a solid start in their career, the likelihood of migrating is extremely low. The burst of migration among college graduates is remarkably brief.

This life-cycle dynamic helps make sense of why millionaires have such low rates of migration. The people moving across state lines are young. But high income is a feature of the late-career stage. Of course, some young people earn extremely high incomes—such as Eduardo Saverin or his former business partner Mark Zuckerberg. But, top incomes are much more typical of the late-career stage. The median top income earner in the census data is 49 years old. In contrast, the median adult mover is 31 years old. This is a gap of almost two decades—eighteen years of life. When people move, it is typically eighteen years before they hit their peak earnings phase. People choose where to live long before they know which tax bracket life has in store for them.

The most mobile people today—those with high education but low income—are nowhere close to being in the top tax brackets of states. The mobile are not millionaires or top tax payers. By the same token, today's millionaires have low mobility, but probably many of them moved when they were young and remember the experience.

Exit Versus Voice: The Discourse of Millionaire Migration

In the classic book *Exit, Voice, and Loyalty*, social scientist Albert Hirschman highlighted voice and exit as two alternative mechanisms to produce social and economic change.[33] "Voice" is the pathway of articulating discontent and advocating for specific improvements to social conditions, workplace practices, or government policies. "Exit" is the pathway of simply leaving—shopping elsewhere, quitting a job, or moving to a different state. Advocates of tax cuts within states argue that if taxes are not reduced, millionaires will exit. This chapter has shown that exit is not an easy option for most millionaires. Millionaires, simply put, rarely leave for states with low taxes. They are too embedded in their local communities to do so. They have kids in school, they are married, they have put down roots, and they have social and business connections in their communities. Their ongoing income depends on staying in the place where they have become highly successful and have insider economic status. The threat of exit is largely empty.

Why all the talk of exit when exit is so rare? Threatening to exit makes voice powerful. By itself, voice may be ineffective for policy change if actors do not have leverage. The threat of exit provides this leverage and has become popular as a form of pressure bargaining over tax rates. Advocates of low and regressive taxes routinely assert very high mobility among the rich. When millionaire taxes are on the table, critics do not engage arguments about fairness or merit. They threaten that the rich will leave. In California, critics of the Prop 30 millionaire tax warned that "when those required to pay this tax end up leaving the state . . . they will take their tax dollars with them."[34] In Maryland, critics dubbed a millionaire tax the "Get Out of Maryland Tax Act." The situation is the same for business regulation. Dire warnings of business migration in response to state regulations rarely materialize in practice. As sociologist Bruce Carruthers and economist Naomi Lamoreaux recently concluded in their review of the business regulation literature, "businesses typically have exercised their 'voice' option more vigorously than their 'exit' option."[35]

Political discourse has spun a hypothetical world of free-floating elites who have little attachment to place and much interest in leaving for lower tax locales. This world of mobile millionaires holds a grain of truth—some millionaires do move to low-tax Florida. But top income earners in general are more like embedded elites: They are tied to place for a host of social and economic reasons, and thus are less mobile than the middle class or the poor. If states set their tax policies purely based on the risk of millionaire migration, top income tax rates would be higher in every state in the country.

3

Global Billionaires and International Tax Havens

Billionaire Migration

Global Nomads or Embedded Elites?

The world offers a lot of opportunities for billionaires and throws up few of the barriers that most of us face. In particular, world borders are porous for the billionaire set. Virtually any billionaire could, with motivation, move to nearly any country of the world—and probably acquire citizenship without much difficulty. Some scholars cast the world's elite as a "transnational capitalist class."[1] These elites are freed from the constraints of the nation-state, moving across the world through networks of global cities. The globalization of production, marketing, and finance, in this view, creates a rising mobility of the rich who see the world as an "abstract placelessness."[2] Chrystia Freeland, in her 2012 book *Plutocrats*, writes, "While capital—and capitalists—have gone global, governments . . . operate within national boundaries. Figuring out how the plutocrats are connected to the rest of us is one of the challenges of the global super-elite."[3] Have elites really "gone global" and moved beyond the reach of the nation-state? Are elites now mobile billionaires, unattached to place or nation, freely moving to whichever country offers the best combination of lifestyle and tax avoidance? Or are they embedded elites, still deeply connected to the places where they became successful?