Written by **James Murphy** on June 21, 2019

Exodus of Residents From Tax Hell States May Intensify

High-tax states such as New York and California can expect more high-income residents to flee to lower tax states such as Texas or Florida, according to some experts. Punitive state and local taxes and changes to existing tax laws, most notably the new cap on deductions for state and local taxes — the so-called SALT deductions — are forcing residents of high-tax states to rethink where they wish to live.

The new $10,000 dollar cap on SALT deductions, a part of the Tax Cuts and Jobs Act signed by President Trump in December of 2017, will probably be a huge reason for the flight from tax hells. It's already having an impact on some tax returns.

And state workarounds that allowed taxpayers to make charitable donations to established state funds in order to earn credits have also been quashed by the Treasury Department. So tax loopholes are disappearing now as well. New York Governor Andrew Cuomo called the Treasury Department's actions "diabolical."

"It took a few months for taxpayers to realize the dollar implications — until they actually filed their tax returns this year," Alan Goldenberg of accounting firm Friedman LLP told *Fox Business*. "It quantified the impact of the loss of the SALT deduction when people saw it in front of their eyes on their tax return." Goldenberg has already seen some clients relocate to more tax-friendly states. Typically, these are people with more than one home, whose profession does not require them to live in a certain location.

So the cap on SALT deductions represents a de-facto tax increase for high earners in states such as New York and California. And states such as Texas, Florida, and Nevada — none of which have a state income tax — will likely see an influx of new, high-earning residents.

Economists Arthur Laffer and Stephen Moore have estimated that in the next three years, some 800,000 over-burdened taxpayers will leave New York and California. And it won't only be California and New York, but other tax hells, such as Connecticut, New Jersey, and Minnesota, will see high-income residents move to spots more tax friendly.

It's not only individuals looking to move either. Businesses that are not location-specific are also looking to escape burdensome state income taxes. "In years to come, millions of people, thousands of businesses and tens of billions of dollars of net income will flee high-tax blue states for low-tax red states," Laffer and Moore wrote in an op-ed for the *Wall Street Journal.*

While acknowledging that the exodus has been underway for some time now, Laffer and Moore believe that the cap on SALT deductions is going to intensify the money migration.

According to Laffer and Moore, residents of California will see an increase in the effective income-rate [the income-tax rate that people actually pay] has risen from 8.5 percent to 13 percent. Wealthy New York City dwellers have seen their effective rate climb from 7.7 percent to 12.7 percent. Other states such as Connecticut and New Jersey have seen similar hikes. Those earning $10 million or more may see tax increases of 50 percent or more.

Other economists disagree. Leftist Stanford University economist and sociologist Cristobal Young called Laffer and Moore’s assertions “pure nonsense.” Young cites his own study on the subject as proof of this. “There is no correlation between top tax state tax rate and the number (or rate) of millionaires in a state,” Young said. According to Young, the people most affected by the high taxes are “late-career working rich” who are less likely to move because they are “embedded in place for a host of social and economic reasons.”

Perhaps, but some of the anecdotal evidence we already see is hard to dispute. Consider the case of Connecticut. After tax hikes signed by Governor Dan Malloy took effect, the state saw many of its wealthiest residents including Thomas Peterffy (worth $20 billion), C. Dean Metropoulos (worth $2 billion), Paul Tudor (worth $4 billion) and Edward Lampert (worth $3 billion) flee to Florida where there is no state income tax.

Generally, people understand paying income tax. They may not like it, but they understand it. But as New York, California, and other high-tax states are finding out, there is a limit to which people and businesses can be pushed. When that limit is reached, people will go to states where they and their businesses are welcomed, rather than punished. By punishing their highest earners with absurdly high tax rates, these high tax states are shooting themselves in the foot.

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James Murphy is a freelance journalist who writes on a variety of subjects with a primary focus on the ongoing climate-change hoax and cultural issues. He can be reached at jcmurphyABR@mail.com

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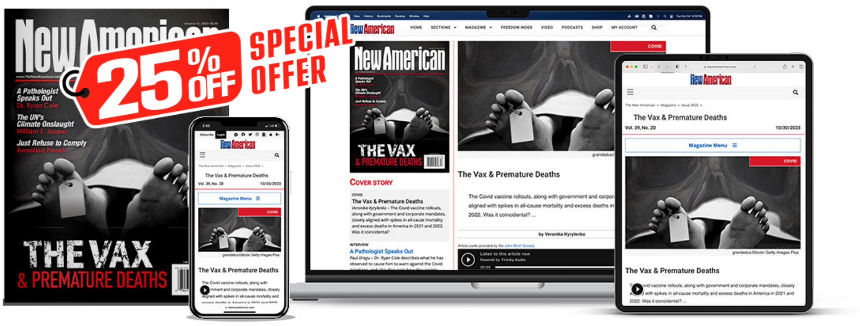

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