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WASHINGTON TAKES THE GAMBLE: NOW, 40,000 MAKE THEIR DECISION

Around 21,000 Washingtonians would be subject to the new millionaire tax. Another 15,000 – 20,000 millionaire households in the U.S. move between states each year.

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ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Oregon's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Oregonians. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the Oregon economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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INTRODUCTION

Washington policymakers passed Senate Bill 6346, a proposal to impose a 9.9% tax on individuals' earnings over \$1 million.¹ The bill is more commonly referred to as the "Millionaires Tax". If ruled constitutional and enacted, the policy would represent a significant structural change to Washington's tax system, which historically has relied on sales tax, business taxes, and property taxes.

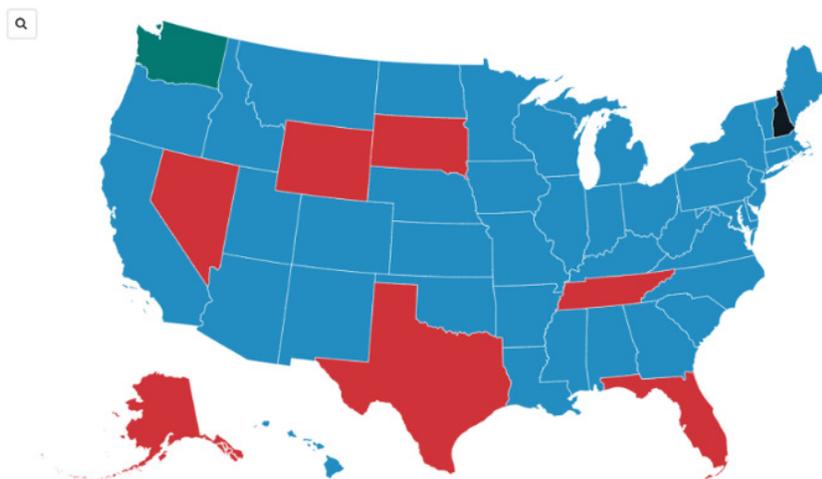
Up to this point, Washington has been one of the leaders in inviting businesses to the state through a key selling point—no income tax. Should Washington opt to impose a 9.9% tax on incomes above \$1 million, the state would go from having the lowest top marginal income tax rate (0%) to fifth highest, surpassed only by California, Hawaii, New York, New Jersey, and tied with Oregon. Washington would join five other states in raising the top marginal income tax rates since 2020.

As written, to the tax would apply to approximately 21,000

FIGURE 1.

Income Tax Across States

■ Has an Income Tax ■ Does Not Have an Income Tax ■ No, but taxes interest/dividends ■ No, but taxes capital gains

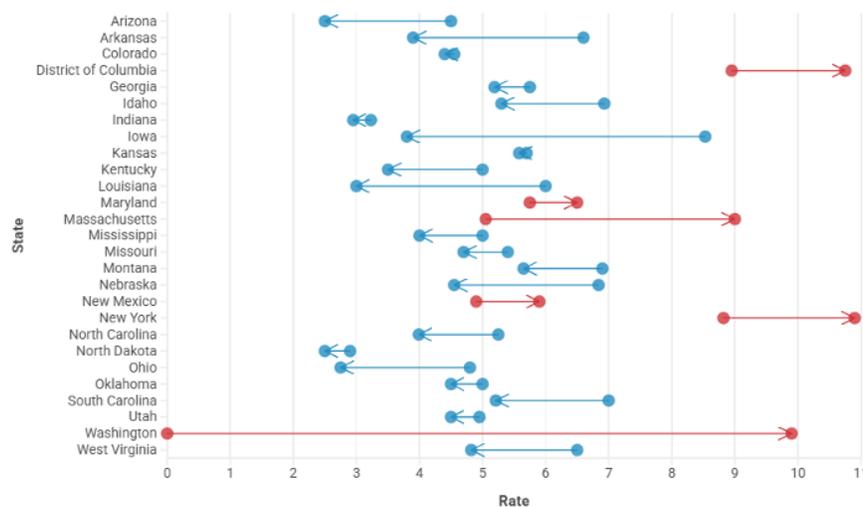


Source: Tax Foundation



FIGURE 2.

Change in Top Income Tax Rate for States with a Change in Their Rate



Source: Tax Foundation



taxpayers.ⁱⁱ The static fiscal note estimates the bill will generate \$3.45 billion in annual tax revenue in the 2029 to 2031 biennium.ⁱⁱⁱ Should the bill pass, it would be one of the largest increase in the top income tax rate by a state ever.

The bill directs the additional tax revenue towards education, health care, and other state government spending, while also expanding programs such as the Working Families Tax Credit and providing tax relief for certain small businesses. A portion of the tax revenue would also be dedicated to county-level public defense services.

KEY FINDINGS

- By implementing one of the largest increases in the top income tax rate ever for a state, Washington would have the fifth highest income tax rate at 9.9%.
- If ruled constitutional, Washington will be the sixth state to raise its income tax rate since 2020. By contrast, 21 states have opted to lower their top income tax rate since 2020.
- If only 10% of the 21,000 millionaire households decide to move out of the state and half of the households that may move to the state opt to relocate elsewhere, the economic impact would be:
 - > A more than 19,000 annual loss in annual private sector jobs, and
 - > A decline in personal income of \$35 billion from 2028 through 2032.
- If only 5% of the 21,000 millionaire households decide to move out of the state and half of the households that may move to the state opt to relocate elsewhere, the economic impact is more modest:
 - > An almost 8,000 annual loss in annual private sector jobs, and
 - > A decline in personal income of almost \$19 billion from 2028 through 2032.

THE GAMBLE

By opting to impose one of the highest income tax rates in the country, Washington is taking a gamble: first, that the 21,000 or so millionaire households in the state will stay in the state and continue to invest in a state even though they would be potentially financially better off elsewhere. Second, that mobile millionaires (people who move between U.S. states each year), at least 15,000 to 20,000 annually, will continue to choose Washington at the same rate as they have in the past.^{iv} Both are risky propositions.

What's the Impact if a Small Portion Move Out and Half of the Households that Would Move In Opt to Fly Over the State?

Some empirical research on high-income migration suggests that responses to state tax changes may be modest. For example, work by Cristobal Young and Charles Varner using tax return data finds that migration accounts for a small share of changes in the millionaire population, with estimated responses to tax changes typically limited in magnitude. At the same time, much of the existing academic literature focuses on out-migration and may not fully capture potential changes in in-migration decisions—particularly the possibility that some high-income households may choose not to move to a state following a tax increase. (“flyover” effects). Additionally, Washington has long benefited from migration from high-tax states, particularly California and Oregon—see, for instance, Internal Revenue Service (IRS) statistics on migration.^v The impact estimates from New Jersey and California are likely lower since, unlike Washington, those states did not attract many migrants before their tax increases.

To account for this uncertainty, the analysis below presents a range of scenarios, including first a higher-response case in which 10% of current millionaire households leave the state and half of potential millionaires moving to the state opt to relocate elsewhere instead. The second is a more limited impact, assuming a 5% departure rate. Both scenarios also incorporate a reduction in in-migration, with a portion of households that would otherwise move to the state opting to locate elsewhere.

The first graphic represents the economic impact for the 10% scenario. Overall, the number of private sector jobs drops by almost 20,000 annually and personal income drops by \$35 billion from 2028 through 2032. For the most part, these are jobs and wages that would materialize without the large increase in the top marginal income tax.

FIGURE 3.

Economic Impact of Washington's 9.9% Top Marginal Income Tax Rate

If only 10% of the 21,000 millionaire households decide to move out of the state and half of the households that would move to the state opt to fly over, the economic impact is a loss in annual private sector jobs of over 19,000 and a decline in personal income of \$35 billion from 2028 through 2032.

Category	Units	2028	2029	2030	2031	2032	Annual average (jobs) or cumulative (personal income)
Private Non-Farm Employment	Individuals (Jobs)	(4,801)	(19,735)	(23,159)	(24,756)	(25,136)	(19,517)
Personal Income	Billions of Current Dollars	-\$3.20	-\$6.44	-\$7.43	-\$8.32	-\$9.13	-\$34.54
Disposable Personal Income	Billions of Current Dollars	-\$2.75	-\$5.51	-\$6.36	-\$7.12	-\$7.82	-\$29.57

Source: CSI modeling using REMI Tax PI+ system



The second graphic represents the impact for the more limited, 5% impact scenario. Overall, the number of private sector jobs drops by almost 8,000 annually and personal income drops by almost \$19 billion from 2028 through 2032. For the most part, these are jobs and wages that would materialize if not for the large increase in the top marginal income tax rate.

FIGURE 4.

Limited Economic Impact Scenario of Washington's 9.9% Top Marginal Income Tax Rate

If only 5% of the 21,000 millionaire households decide to move out of the state and half of the households that would move to the state opt to fly over, the economic impact is a loss in annual private sector jobs of almost 8,000 and a decline in personal income of almost \$19 billion from 2028 through 2032.

Category	Units	2028	2029	2030	2031	2032	Annual average (jobs) or cumulative (personal income)
Private Non-Farm Employment	Jobs	1,002	(7,944)	(9,983)	(10,968)	(11,233)	(7,825)
Personal Income	Billions of Current Dollars	-\$1.78	-\$3.46	-\$3.97	-\$4.44	-\$4.89	-\$18.54
Disposable Personal Income	Billions of Current Dollars	-\$1.52	-\$2.96	-\$3.39	-\$3.79	-\$4.17	-\$15.84

Source: CSI modeling using REMI Tax PI+ system



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