December 29, 2011

Group says Kim Kardashian isn't paying her fair share in taxes

Alain Sherter

Political activists want reality TV star Kim Kardashian and other rich Californians to pay a "millionaires tax."

COMMENTARY Kim Kardashian may be famous for her curves, but it's her flat taxes that are attracting attention of late.

Advocates of a proposed tax hike on the wealthy in California say the reality TV star made more than $12 million last year, yet paid only slightly higher state income taxes -- at a rate of 10.3 percent -- than did middle class residents, who paid 9.3 percent. With California facing spending cuts in education, health care and other social services to close a $2.2 billion budget gap, the group Courage Campaign says Kardashian symbolizes how the state's tax system favors the rich. Courage Campaign is pushing for a so-called millionaires tax.

The grass-roots organization, joined by labor unions, education activists and community groups, wants to raise taxes by 3 percent for Californians with incomes of $1-2 million per year and by 5 percent for those earning more than $2 million. That would boost state tax receipts by $6 billion a year, Courage Campaign claims, allowing California to create jobs by repairing transportation infrastructure, reverse increases in college tuition, and restore essential services to the elderly and to children.

California Gov. Jerry Brown also wants to boost taxes on the rich: He is expected next year to urge voters to approve a plan to temporarily raise taxes on people with annual income of more than $250,000. The state's sales tax would rise, too, hitting all consumers. Brown says the combined hikes would raise $7 billion a year.

Channeling the conventional wisdom among political conservatives, some financial pundits contend that states that increase taxes on the rich will chase high-income earners to lower-tax parts of the country. Tax expert Daniel Mitchell of the Cato Institute, a think-tank that supports a flat-tax, writes in *Forbes* that "higher tax rates would accelerate the emigration of investors, entrepreneurs, small business owners and other rich taxpayers to zero-tax states such as Nevada."

And here is *The Wall Street Journal's* William McGurn coming to Kardashian's defense this week and bashing Courage Campaign's push to raise taxes on affluent Californians:

[I]f Ms. Kardashian responded to the millionaires tax by relocating, then instead of gaining an additional few hundred thousand in revenue, the state would be out the more than $1 million she's now paying (assuming the $12 million that Courage Campaign lists is all taxable income).

But is Kardashian likely to trade Southern California's Orange County for one of the nine U.S. states with no income tax? Hardly, according to the Center on Budget and Policy Priorities, which concluded in an August report that state tax increases have a negligible impact on people's decision to migrate to other states. Indeed, found the think-tank, the impact is small enough so that states that boost taxes on the wealthiest households can expect a significant gain in government revenue.

Other states' track records seem to bear that out. After New Jersey raised taxes on residents with annual income exceeding $500,000 in 2004, for instance, only 70 filers earning $200,000-$500,000 left the state over the next three years because of the tax hike, researchers found. Although those departed residents cost the state $16 million in tax revenue, that was a fraction of the $3.8 billion gain the state generated by raising taxes.

Why don't rich people flee to lower-tax states? For one, most people have strong ties to their state through jobs, family and the community -- whatever their income. On average, fewer than 2 percent of U.S. residents moved from one state to another per year between 2001 and 2010. Over a person's lifetime, only about 30 percent of native-born Americans change their state of residence.

It may seem intuitive to think that the rich, with their greater financial resources, are more open to pulling up the stakes when faced with higher taxes than less upwardly mobile people. Not so. Considerable research shows that many of the factors that discourage people from moving are most common among affluent households, CBPP notes. For instance, wealthier individuals are more likely to own homes, which makes it harder and pricier to relocate. Married couples, which generally have higher incomes than singles, are also often reluctant to move if both spouses work, while parents with children tend to value the stability that comes from staying in their homes state.

Here's another reason state tax increases don't send richer residents fleeing for greener pastures: They like the government services that tax revenues buy. As Jeffrey Thompson, an economist at the University of Massachusetts Amherst, says in a statement touching on the impact of taxes on migration in New England:

Regardless of how they feel about the tax itself, people value the public services paid for with those taxes. Most important for the issue of migration, though, is the job opportunities that the state government creates by spending that tax revenue. [T]axes have no measurable impact on people's decisions to leave a state. Once households have decided to relocate -- because of job loss, divorce or whatever other reason -- they seen to be slightly influenced by the taxes in their potential destination states. Even in choosing a destination state, though, the impact of taxes is relatively small and outweighed by job opportunities and other conditions.

So rest easy, Californians. As long as Kardashian's career prospects are better in the O.C. than in, say, Nome, Alaska, a modest tax increase is unlikely to send her packing.