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Editorial | A cautionary tale on taxes

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Liberals, conservatives, Democrats and Republicans have been at odds for years on the question of how much — if at all — people's behavior is affected by the amount of state and federal taxes they pay.

Will they work less if they resent high tax rates applied to their income? Or work about the same as they always have?

Will they sit on their stock purchases to avoid paying high capital-gains taxes on their profits or buy and sell without regard to the impact on taxes?

One of the most bitterly argued questions,

particularly in high-tax states like Illinois, is whether people will simply decide to leave a high-tax state to move to a lower-tax state in search of a lower tax bill.

Everyone will know more about that in a few years, after the impact of recent tax cut legislation is studied.

Here's why.

A relatively small percentage of taxpayers — upper-income earners — itemize their federal income taxes. Most take the standard deduction.

Starting with the 2018 tax year, however, taxpayers who itemize the deductions face a $10,000 cap on their state and local taxes.

That means that if a taxpayer pays a total of $40,000 in state and local taxes, that taxpayer will no longer be able to deduct the full amount on their federal taxes. Instead, they can take $10,000, leaving the $30,000 balance they claimed in previous years on the table.

Congress increased the standard deduction and limited the state and local deduction for two reasons — to end the practice of low-tax states subsidizing high-tax states and make the tax-preparation process simpler.

Federal legislators and elected officials from high-tax states cried foul over the move, but to no avail.

Now, experts are speculating about the impact of that decision on upper-income earners from high-tax states — specifically, how many of them will move from high-tax states like Illinois, New York, Connecticut and California to low-tax states like Florida, Texas, Washington and Nevada.

A recent report from the Cato Institute, a libertarian think tank in Washington, D.C, provides some guidance on the question.

Cato analyst Chris Edwards reports that of the 25 states with the highest taxes, 24 of them have more people moving out than moving in. At the same time, of the 25 states considered to be low tax, 17 had more people moving in than moving out.

High-tax New York had the worst out-migration, while low-tax Florida had the greatest in-migration.

Here are the numbers from 2016 — 600,000 people with a combined income of $33 billion moved from the 25 highest-tax states to the lowest-tax states.

Edwards characterized many of those leaving high-tax states as "wealthy" individuals who are "philanthropists," "high-skill" job holders and retirees.

Their absence comes at a cost to the state and local communities they leave.

Cato cited Illinois as one example. It lost 42,000 people in 2016, representing $4.8 billion in total income, a huge loss in state and local tax revenues.

It would be unreasonable to attribute that level of departures merely to Illinois' status as a high-tax state. Illinois has so many serious problems, mostly financial, that there are many reasons why people are checking out.

But there clearly are limits to what people can — or will — stand, particularly if they feel they are not getting a bang for their tax buck.

Unfortunately, this is a complicated issue that no amount of debate can bring to an end — it's driven by ideology, past practice and power politics. Nonetheless, the Cato study represents a cautionary tale, one that policy makers should consider when they confront issues involving taxes and spending.