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Could GOP tax bill cause millionaire migration?

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As Republicans work to approve a tax reform bill before the end of the year, some experts warn that eliminating state and local tax (SALT) deductions could cause wealthy individuals to leave places like New York, New Jersey and California, in favor of states with more favorable income tax rates.

“Elimination of the state-local income tax deduction would encourage high-earners to leave the wealthy high-tax states,” Chris Edwards, director of tax policy studies at Cato and editor of **www.DownsizingGovernment.org** , told FOX Business. “The marginal income tax rate in states such as California and New York will be over 50%, meaning that high-earners and entrepreneurs would have to hand over to the government more than half of every dollar from new investments.”

Eliminating the popular deductions could increase federal revenue by $1.3 trillion over the next decade, according to the Tax Policy Center. However, as a result, about 24% of taxpayers nationwide would see an increase in taxes. Those increases would be outsized for residents in high-tax states where residents would pay more than 30% of the tax increase from trashing the deduction. Additionally, individuals with incomes in excess of $100,000 would have the largest tax increase in both dollars and as a percentage of income – paying 90% of the increase associated with eliminating SALT.

Jeffrey Geida, who advises high-net worth individuals at Los Angeles-based law firm Weinstock Manion, said individuals will likely make decisions on a case-by-case basis. In California, for example, he said his clients may accept paying a higher premium in exchange for the quality of living, but for individuals in New Jersey, the cost-benefit analysis could look different, especially considering the proposal would impact those who already pay a large percentage of state and federal tax revenues. People without children or close to retirement – those with mobility – are the candidates most likely to move, he added.

According to public accounting and advisory services firm Marcum LLC, and as first reported by Bloomberg, if SALT is eliminated, an individual with a yearly salary of $1 million would owe an additional $21,000 in taxes. However, GOP proposals circulating both the House and Senate aim to repeal the Alternative Minimum Tax (AMT), which would offset some of the tax increases for those high-earners, Geida pointed out.

Edwards said wealthy individuals could flee their homes in New York and Connecticut in favor of states like Texas and Florida, where they would pay nothing in income taxes. Geida added that Nevada is often the tax-haven of choice for the West Coast elite.

A potential millionaire migration could have real economic consequences in the states where individuals have traditionally taken advantage of the SALT deductions.

“It won’t happen all of a sudden, but over time it will be a steady drag on the economies of such states,” Edwards said. “Wealthy people don’t just earn high incomes, but they often add diverse entrepreneurial efforts to states through their investments in start-up businesses and charities that are close to home where they live.”

Nevertheless, U.S. Treasury Secretary Steven Mnuchin has said that the government should not be engaged in subsidizing states. He also said that he hoped eliminating the loophole might act as a warning for high-tax states.

“I do hope that this sends a message to the state governments that, perhaps, they should try to get their budgets in line,” Mnuchin said during a speech at the Economic Club of New York earlier this month. “And the question is: why do you need 13% or 14% state taxes?”

Indeed, Edwards agreed that a solution would be for high-tax states to “adopt fiscal restraint” and “reform their punishing tax codes.”