



EVALUATING THE MASSACHUSETTS MILLIONAIRES TAX

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EXECUTIVE SUMMARY

This November, Massachusetts voters will decide whether to raise taxes on high-earning residents and funnel the money to education, roads, bridges, and public transit.

It's part of a ballot question known informally as the "Millionaires Tax" or the "Fair Share Amendment," which would alter the state constitution to introduce a 4 percent surtax on annual income over \$1 million.

Though this tax would only apply to around 0.6 percent of Massachusetts households in any given year, it could raise a meaningful amount of money, as those few households account for more than one-fifth of all taxable income in the state.

However, the millionaires tax also could have some serious side effects if top earners opt to leave the state or shield their income to avoid paying.

Building on the latest economic research, and examining how similar taxes have affected other states, we find that:

- Factoring in expected behavioral changes by high earners, the Massachusetts millionaires tax would raise about \$1.3 billion in 2023 — and do so in a highly progressive way likely to advance racial and economic equity.
- Some high-income residents may relocate to other states, but the number of movers is likely to be small.
- Tax avoidance could be widespread, cutting substantially into the amount of revenue raised by the levy.
- Together, cross-border moves and tax avoidance would reduce millionaires tax revenue by roughly 35 percent. (Absent these responses, the tax would be expected to raise \$2.1 billion in 2023.)
- Any short-term impact on the Massachusetts economy is likely to be negligible. The long-term economic effect depends on whether the state durably increases the size of transportation and education investments or instead uses this money to support already-planned spending.

In the sections that follow, we discuss each of these findings in greater depth, while also providing fuller background on the ballot question and the make-up of the state's highest earners.

Future work from the Center for State Policy Analysis (cSPA) will consider additional opportunities and challenges associated with the millionaires tax, including its potential to curb economic and racial inequity, research on the high value of education spending, concerns about fungibility, and the risks of altering the constitution.

THE BASICS OF THE MILLIONAIRES TAX

If approved by voters, the millionaires tax proposal would introduce a new paragraph into the state constitution, with three core provisions:

- 1) Starting in 2023, taxable income exceeding \$1 million would be subject to a 4 percent surtax.
- 2) All revenue generated by this tax would be used for education and transportation, though specific funding plans would be determined by the Legislature.
- 3) Each year, the threshold for this surtax would increase with inflation, so that over time households would need to earn well over \$1 million to be subject to the tax.

The process for getting this millionaires tax proposal on the November 2022 ballot has been protracted and winding.

Whereas most ballot questions are really just new laws, this one is a constitutional amendment. And for that reason, it has involved a different, multiyear process, including a pair of votes from the Legislature. A nearly identical version was blocked by the courts in 2018, for procedural reasons that don't apply this time.

The majority of U.S. states — and the federal government — [have graduated income taxes](#) that apply higher rates to higher earnings. By contrast, Massachusetts has a flat-rate income tax; previous efforts to introduce multiple tax rates in the state have been rejected by voters.

The full text of the ballot question reads as follows:

To provide the resources for quality public education and affordable public colleges and universities, and for the repair and maintenance of roads, bridges and public transportation, all revenues received in accordance with this paragraph shall be expended, subject to appropriation, only for these purposes. In addition to

the taxes on income otherwise authorized under this Article, there shall be an additional tax of 4% on that portion of annual taxable income in excess of \$1,000,000 (one million dollars) reported on any return related to those taxes. To ensure that this additional tax continues to apply only to the commonwealth's highest income taxpayers, this \$1,000,000 (one million dollars) income level shall be adjusted annually to reflect any increases in the cost of living by the same method used for federal income tax brackets. This paragraph shall apply to all tax years beginning on or after January 1, 2023.

WHO WOULD PAY?

While very few households in Massachusetts earn over \$1 million in any given year, they account for a substantial share of total income in the state.

In 2019 — the last year for which we have complete data — there were 21,000 state taxpayers with incomes of more than \$1 million, amounting to just 0.6 percent of all households. Yet those households earned 22 percent of all taxable income in Massachusetts.

The farther you go up the income ladder, the starker this imbalance. Combining state and federal data, we estimate that Massachusetts had around 2,000 households earning above \$5 million in 2019, but those 0.06 percent of taxpayers garnered 11 percent of all income.

Salaries and paychecks comprise about a third of the income for these million-dollar-a-year households; a similar amount comes from capital gains, and another 20 percent is passed through from business income.

Racial inequities among big earners are trickier to pin down, as publicly available tax data doesn't generally capture details about race or ethnicity. But separate surveys suggest that non-Hispanic whites comprise nearly 90 percent of all million-dollar earners in Massachusetts, and that white families are three to four times more likely to earn seven figures than Asian, Hispanic, or Black families.

CHANGING FACE OF HIGH EARNERS

One vital thing to understand about high-earning households is that they're always changing.

A very small number of taxpayers take home more than \$1 million [on a consistent basis](#). Indeed, just 6 percent of Americans who exceeded the threshold between 1999 and 2007 did so in every one of those years; only 20 percent did so more than half the time.

By contrast, half of all million-dollar earners between 1999 and 2007 were one-timers.

This matches what we know about life-cycle earnings. It's much more common for families to experience a one-time million-dollar windfall than to make \$1 million year after year: think of dentists who sell their practices, business-owners bought out by their partners, or individuals selling a valuable investment they've held for decades.

If Massachusetts passes a millionaires tax, such households would pay the surtax in their one high-earning year, and likely never again.

And as the tax only applies to income in excess of \$1 million, families that barely cross that threshold would owe very small amounts.

ESTIMATING THE IMPACT

To gauge the likely impact of a millionaires tax, we need to address the following questions: How many millionaires might leave the state as a consequence? How much energy would they devote to tax avoidance? And how might lawmakers spend the additional revenue?

As a starting point, we can estimate how much money the millionaires tax would generate if it had no effect on the behavior of residents with more than \$1 million in annual income. In that case, our calculations suggest it would raise \$2.1 billion from 26,200 taxpayers in 2023.

However, economic research suggests there would be some behavioral changes, which need to be incorporated into any meaningful projections.

Note, further, that there's an important asymmetry to these behavioral responses. For every additional dollar that a top earner collects in 2023, the state would receive 4 cents via the millionaires tax. But every time that person deliberately reduces their taxable income — say, by deferring capital gains — the state actually misses out on 9 cents, because it not only fails to collect the 4 cents from the millionaires tax but another 5 cents from the regular income tax.

All of our estimates incorporate this asymmetric effect, where impacted residents who move or engage in tax avoidance not only reduce expected revenues from the millionaires tax but also from the state income tax. In other words, we are calculating the net impact of a millionaires tax on total income tax revenue.

MOVING OUT OF STATE

Determining how many people might move because of the millionaires tax is a challenging endeavor, as families are constantly moving in and out of state, whether for education, warmer weather, jobs, or other opportunities.

Fortunately, in this case, we can build off a relatively robust economic literature, including studies focused on other states with similar tax changes.

The general consensus from this research is that while some high earners are indeed likely to move, the number is relatively small. Various studies that look [across the 50 states](#), consider [recent changes in California](#), and analyze [regions of Spain](#) suggest that Massachusetts might lose around 500 families, which would reduce expected millionaires tax revenue by around 5 percent and cost the state roughly \$100 million in 2023.

One reason for the relatively small number of movers is that big earners tend to be deeply connected to the communities where they live and work. Among other things, they are more likely to

be married, with kids in schools and nearby businesses to run. In Massachusetts, the average million-dollar-a-year family has twice as many kids at home as a typical household.

What's more, wealthy movers may lose access to the network of investors, mentors, and collaborators that helped drive their success.

And for the large number of taxpayers who only cross the million-dollar threshold infrequently, an interstate move may feel like an all-too-permanent solution to a very temporary issue.

Note, however, that there are still some real concerns. According to the research, the people most likely to move in the face of a tax increase are the highest-earning millionaires — and the loss of even a few of these residents could have a disproportionate effect on state coffers.

Moreover, the rise of hybrid and remote work has increased opportunities for high earners to sustain professional relationships across state lines, which could lead to a larger outflow than predicted by pre-Covid examples.

For instance, some top earners might decide to spend their time working remotely from out-of-state vacation homes — though the counterpoint is that households with \$1 million in income have long enjoyed a high level of autonomy over their working lives.

TAX AVOIDANCE

While mobility — and the threat of millionaire movers — gets a lot of attention, the more dramatic response may be a drop in reported incomes.

To some degree, lower reported incomes may reflect a reduced incentive to work, as higher marginal tax rates can mean a smaller payoff for additional work.

But tax avoidance is the larger issue, including everything from curtailed stock trading to broader financial restructuring that shifts economic activity out of state.

One reason to expect that the millionaires tax would spur avoidance is that high-earning households have the connections and wherewithal to engage in sophisticated tax planning. Moreover, many of them are associated with partnerships and pass-through businesses that offer a lot of accounting latitude and are already known to have [high rates of tax avoidance](#).

Exactly what this will mean for millionaires tax collections is uncertain. Unlike the question of relocation — where there's a fair amount of consensus among researchers — estimates of the relationship between tax rates, tax avoidance, and state tax collections vary widely.

Our central estimate is that behavioral changes related to tax avoidance would reduce revenues from the proposed tax by roughly 30 percent, or \$670 million in 2023.

But there's a wide range of possibility, in both directions. Some well-regarded research implies [far less avoidance](#); evidence from California points to [larger losses](#).

COMBINED BEHAVIORAL IMPACT

Accounting for both effects — cross-border movers and those who decide to shelter more of their earnings — we estimate that the Massachusetts millionaires tax would raise \$1.3 billion in 2023, roughly 35 percent less than the \$2.1 billion expected without behavioral changes.

These behavioral responses will likely persist over time. So long as the millionaires tax remains in effect, it will increase the value of tax planning and mildly reduce the incentive for high earners to reside in Massachusetts.

EQUITY AND THE MASSACHUSETTS ECONOMY

If voters decide to implement a millionaires tax, the near-term impact on the Massachusetts economy is likely to be small.

Critics of the proposal sometimes argue that it would cost jobs and blunt economic growth. But just as decades of research on tax cuts have failed to reveal large stimulative effects, tax increases of this size are unlikely to meaningfully dampen economic activity.

One broad reason is that the millionaires tax is relatively small compared with the Massachusetts economy. In our estimate, it would shift about \$1.3 billion per year from private hands into public coffers, which amounts to less than 0.3 percent of total personal income in the state — not enough to drive big changes in economic activity.

What is more, corporations would be unlikely to alter their operations, as they wouldn't be affected by increases in the income tax; and while partnerships and S-corporations are more sensitive, estimates from other states suggest these shifts will be [small as well](#).

Indeed, a lot of the risks associated with a millionaires tax are really paper risks, meaning they won't curtail real economic activity.

Top earners who pursue new tax-avoidance strategies aren't actually reducing their economic gains — just the accounting of them. And among people who move out of state, many will be partial movers who do just enough to claim residence elsewhere while still spending time and money in Massachusetts.

Facing the other direction, supporters argue that the money generated by the millionaires tax would boost growth by funding productivity-enhancing investments in education and infrastructure. This is plausible over the long term, particularly given recent evidence about the value of [increased spending on education](#).

However, there's tremendous uncertainty about how the money from the millionaires tax would actually be used, because it would still be subject to legislative appropriation and could end up displacing — rather than increasing — planned spending on education, roads, bridges, and transit. This is a

[well-known challenge with government earmarks](#), known as fungibility.

Even with a lockbox commitment to devote all new revenue to education, the result isn't always a large increase in education spending. Sometimes, the new money allows lawmakers to stop spending existing money on education, leaving schools in roughly the same budgetary position.

Given the high profile of the millionaires tax ballot question, it is likely that a resounding “yes” from voters would drive new investments to the intended areas, at least initially. But over the course of years and decades, that commitment could fade.

BOOSTING EQUITY

Even without knowing exactly how the money from the millionaires tax would be invested, it's likely to generate at least some improvement in racial and economic equity.

The typical dollar raised by this tax would come from an extremely high-income, white household; and however Massachusetts chooses to spend that dollar — on education, transit, transportation, or otherwise (via fungibility) — it is almost certain to end up helping families much lower down the income ladder, with some meaningful portion for the state's growing population of people of color.

In a system like ours, where state spending is fairly progressive (i.e., disproportionately benefiting lower-income families) and state taxes are somewhat regressive (i.e., disproportionately benefiting high-income families), anything that raises taxes on high earners is going to shift dollars and services toward lower-income folks, including in communities of color.

Note again, however, that the extent of this redistribution ultimately depends on the fungibility question — namely whether revenue from the millionaires tax leads to new investments or just substitutes for existing spending.

NEXT STEPS

In the coming weeks and months, cSPA will publish additional research on the opportunities and challenges associated with the millionaires tax ballot proposal. This includes:

- Inequality as a spur to action
- The pay-off of investments in public education
- Risks of embedding a tax in the constitution
- Fungibility as a threat to spending priorities
- The volatility of a millionaires tax
- Bracket creep, such that a growing number of households would pay this tax over time

We will also share research on other 2022 ballot questions, as part of our mission to provide non-partisan analysis that helps lawmakers and citizens assess complex policy issues in Massachusetts.

METHODOLOGICAL NOTES

The estimates in this analysis rely on public data and published economic research.

Information about the number of million-dollar earners in 2019, and their income, comes from the IRS.

Whenever possible, we use figures associated with Massachusetts. In some cases, such as estimating the number of taxpayers earning over \$5 million, we incorporate national data.

For 2023, we estimate the number of million-dollar earners and their income by calculating the trend increase between 2001 and 2019 — and then extrapolating. This also allows a straightforward calculation of the likely revenue generated by a millionaires tax, absent behavioral change.

All dollar figures are presented in current (2022) dollars, assuming a 3 percent inflation rate for the coming year.

Information about the racial make-up of million-aire-earners comes from the 2019 American Community Survey via IPUMS USA, University of Minnesota. This survey data is known to under-count very high earners, and so should be considered a supplement to IRS tax data.

To understand the likely impact of behavioral responses, we calculate the marginal tax changes associated with the 4 percent millionaires surtax and then apply established elasticities to see how a tax of that size would affect revenue.

For likely movers, we focus on results in key papers from [Young, Varner, Lurie, and Prisinzano](#), [Agrawal and Foremny](#), and [Rauh and Shyu](#). We find that their results imply a likely loss of 250 - 1,000 million-dollar earners in Massachusetts, with a central estimate of 500.

For tax avoidance and income reductions, the range of estimates is wider. Applying the methods and elasticities from work by [Saez, Slemrod, and Giertz](#), [Mertens and Olea](#), and [Rauh and Shyu](#), we find estimates of revenue losses from \$170 million to \$1.4 billion, with a central estimate of \$670 million based on an income elasticity of 1.

Anyone interested in a fuller discussion of our methodology and findings should reach out directly to cspa@tufts.edu



Contributors

In assembling this report, the Center for State Policy Analysis was aided by a number of experts in public finance and elsewhere. However, the final material reflects our best judgment and is not necessarily endorsed by reviewers.

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