States Show Tax Hikes and the 'Buffet Rule' Don't Work

By Jason Bradley **February 17, 2012**

Gov. Jerry Brown wants to hit California's highest-income taxpayers with billions of dollars in new taxes, and is jousting with other groups with their own tax-the-rich measures over which, if any, will win voter approval.

But the number of Californians with $500,000-plus annual incomes declined dramatically from 2007 to 2009 as the state's economy stagnated, leaving fewer to tax, the California Taxpayers Association points out in a compilation of data from the Franchise Tax Board.

The latest FTB statistical report covers the 2009 tax year, and Cal-Tax points out that it listed just 98,610 California tax returns with adjusted gross income of $500,000 or more, down nearly a third from the 146,221 in 2007. Data for 2010 are not yet available.

Those 98,610 tax returns were just over a half-percent of the 14.6 million returns filed for 2009, but they accounted for 18.8 percent of the taxable income and 32 percent of the income taxes paid that year.

Economists believe that most of the decline reflects lower incomes, rather than an exodus of high-income taxpayers from the state, but there are no hard data on that point.

Oh but there is plenty of hard data on that point. In fact, this is nothing new. Over the last few years, we have been witnessing more than $100 billion in combined state deficits and the governors of these states such as California, New York, and Illinois to only name a few, are trying the Obama-style soak the rich policies.

Here's the problem for states that want to pry more money out of the wallets of rich people. It never works because people, investment capital and businesses are mobile: They can leave tax-unfriendly states and move to tax-friendly states. And the evidence that we discovered in our new study for the American Legislative Exchange Council, "Rich States, Poor States," published in March, shows that Americans are more sensitive to high taxes than ever before. The tax differential between low-tax and high-tax states is widening, meaning that a relocation from high-tax California or Ohio, to no-income tax Texas or Tennessee, is all the more financially profitable both in terms of lower tax bills and more job opportunities.

Updating some research from Richard Vedder of Ohio University, we found that from 1998 to 2007, more than 1,100 people every day including Sundays and holidays moved from the nine highest income-tax states such as California, New Jersey, New York and Ohio and relocated mostly to the nine tax-haven states with no income tax, including Florida, Nevada, New Hampshire and Texas. We also found that over these same years the no-income tax states created 89% more jobs and had 32% faster personal income growth than their high-tax counterparts.

Why does this phenomenon occur? Because much to liberal chagrin, we do not have a unitarian system. We have a federalist system where states compete. Also abhorrent to the liberal mind is that wealth isn't found in government, it's found in the tax system and spending restraint. States that have a pro-growth tax structure and an economically friendly environment will flourish; whereas those states who practice the opposite will see stagnation and an overall decrease in wealth and population.

Is it any wonder why Utah has led the nation for several years in economic outlook? The National Center for Policy Analysis ranks the top ten states and bottom ten states. Really, this could be classified as Red States vs. Blue States.

Top 10 / Bottom 10

Utah / Pennsylvania
South Dakota/ Rhode Island
Virginia / Oregon
Wyoming / Illinois
Idaho / New Jersey
Colorado / Hawaii
North Dakota / California
Tennessee / Maine
Missouri / Vermont
Florida / New York