CTBA | Center for Tax and Budget Accountability

70 East Lake Street, Suite 1700
Chicago, IL • 60601
www.ctbaonline.org

The Millionaire Migration Myth: Why a Fair, Graduated Rate Income Tax Won't Drive Away Millionaires

March 2014

1. **The Context.**
Last year, state Senator Don Harmon and state Representative Naomi Jakobsson introduced identical resolutions in the General Assembly to amend the income tax provisions of the 1970 Illinois State Constitution.[1] The purpose of the proposed amendment is to eliminate the requirement that the state's personal income tax be imposed at one, flat rate. Instead, the amendment would permit Illinois to tax lower levels of income at lower rates and higher levels of income at higher rates, thus allowing the state's income tax to track ability to pay. More recently, Speaker Michael Madigan proposed a two-tier income tax structure, with a higher rate imposed on the taxable income that is in excess of $1 million, and a lower rate for all other income.

Both proposals have been attacked on the grounds that imposing higher rates on higher levels of income — and particularly on income above $1 million — is unfair because it somehow punishes success and ultimately will drive millionaires out of the state causing economic harm. As it turns out, however, the overwhelming body of evidence show that these attacks have no merit.

2. **To be Fair, Income Tax Rates Must Vary in Accordance with Ability to Pay.**
Both all the data — as well as best fiscal policy practices — dispel any argument that having lower rates apply to lower levels of income and higher rates to higher levels of income unfairly punishes success. Start with best fiscal practices. Far from punishing success, an income tax structure that assigns lower rates to lower levels of income and higher rates to higher levels of income is the only way to respond fairly to how income growth is actually shared among different income classes. This venerable principle goes back to 1776 and Adam Smith, the father of capitalism. In his seminal work, the *Wealth of Nations*, Smith posited that a fair tax in a capitalist economy should "remedy inequality of riches as much as possible, by relieving the poor and burdening the rich."[2]

Smith contended that would be fair taxation in a capitalist economy, because affluent folks would receive a disproportionate share of income growth over time. A recent analysis of IRS data shows Smith was right. Over the 1979-2011 sequence, after adjusting for inflation, the wealthiest 10 percent in America realized 139.8 percent of national income growth—or more than all of it. That means fully 90 percent of all Americans on average earned 39.8 percent less in real terms in 2011 than in 1979.

So, to treat taxpayers fairly, Illinois needs the flexibility to tax lower levels of income at lower rates than higher levels of income—something the state Constitution prohibits. This makes Illinois a tax outlier. Thirty-three of the 41 states in America with an income tax have a fair, graduated rate structure.[3] Illinois doesn't. According to a national study, that's a primary reason Illinois ranks as one of the three most unfair taxing states in the country—imposing tax burdens (as a percentage of income) on low and middle income families that are more than double that of millionaires.[4]

3. **A Fair, Graduated Income Tax will not Drive Millionaires out of Illinois.**
Research on the migration of people generally and high-income households specifically finds there is no statistically significant correlation between a state's tax policies and the propensity for a family to migrate.[5] Indeed, other factors like proximity to family or a job, housing prices and even weather are what really matter. Following is a short summary of the research in this area.