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A new study shows which states are losing their young and wealthy.

The High-Tax State Brain Drain

More bad news for California, Illinois and New York. A recent analysis finds that their most upwardly mobile millennials are fleeing for lowertax states. Call it a high-tax state brain drain. The flight of the young and newly affluent promises to compound the states' budget and economic problems.

Using IRS data, the fintech company Smart-Asset ranked states based on net migration of young households (ages 26 to 35) in 2022 that earned at least \$200,000 a year. The biggest losers: California (-3,226), Illinois (-1,323), Massachusetts (-1,102), New York (-345) and Pennsylvania (-320).

Michigan, Louisiana, Delaware, Minnesota and Missouri round the top 10 losers. Delaware (6.4%) and Illinois (4%) lost the largest share of their young, higher-earning households.

The biggest gainers were Florida (1,786) and Texas (1,660), which have no income tax. They attracted more than twice as many such households as any other state. "Half of states attracting the most young and rich households don't charge state income tax," the study notes. The other big gainers without an income tax are Tennessee (347) and Nevada (162).

Washington state (383) also ranked in the top 10 gainers of young affluent households, along with Colorado, North and South Carolina, Arizona, and of all places New Jersey. The Garden State had significant movement of young households into and out of the state, and perhaps it benefited on net from young families moving out of New York City.

Although Washington state doesn't tax wage income, Democrats imposed a 7% tax on capital gains above \$262,000 in 2022. An initiative to repeal the tax is on the ballot this November. Do Washington voters want their software engineers and entrepreneurs following those migrating from Silicon Valley to Austin?

Damage to high-tax state economies will compound as more young, upwardly mobile people leave. Local businesses and their workers will lose customers. On the other hand, lower-tax states will benefit from the influx of high-earning young professionals who will grow wealthier as they get older. Newcomers may also start families and businesses.

And don't ignore the fiscal impact. According to the study, the average adjusted gross income for California households in the "young and rich" demographic is \$480,776. These folks pay a top marginal tax rate of at least 9.3%, and those making more than \$1 million pay 13.3%. Their flight will result in billions of dollars in less tax revenue for the state as their incomes climb.

This means the middle class in these states will inevitably have to pay higher taxes to support the state's political promises to public unions. The Blue State governance model keeps giving taxpayers the blues, which is why more of the young and mobile want out.

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