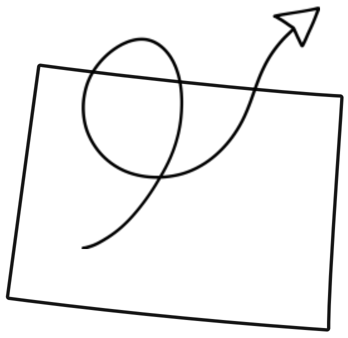
WHEN STATE TAXES RISE, WHO LEAVES?

How higher state taxes affect where wealthy households and businesses choose to live, invest, and operate



Colorado's tax code is unusual. The state has a flat income tax, meaning a gas station cashier and a millionaire pay the same income tax rate. Colorado also relies heavily on sales taxes, property taxes, fees, and other costs that tend to take a larger share of income from working families, while TABOR makes it especially difficult to update the tax code or keep public services funded as the state grows.

Over the years, lawmakers, advocates, and voters have proposed ways to turn this upside-down system right side up. The latest effort is **Initiative 195**, a proposed graduated income tax measure that would lower taxes for Coloradans earning less than $500,000 a year while raising rates on very high-income households and the most profitable corporations.

Opponents warn that the change would send wealthy people and businesses across the state line. This explainer looks at state and national historical data to examine whether that warning holds up against the research.

New Jersey: After the state increased taxes on millionaires in 2004, some additional high-income households moved out of state. Even so, New Jersey raised roughly $1 billion annually while losing an estimated $16 million from taxpayers who moved, less than 2% of the new revenue.[1]

Massachusetts: Early IRS data do not show an acceleration in out-of-state moves among higher-income households after the state's 4% surtax on taxable income above $1 million took effect in 2023. More years of data are needed, but the first year does not support claims of an immediate exodus.[2]

State estate taxes: Billionaires appear more responsive to state estate taxes than ordinary millionaires. Even among this highly mobile group, however, the revenue generated by an estate tax exceeded the cost of tax-related moves in the vast majority of states.[3]

Nationwide: An analysis of every U.S. millionaire tax return from 1999 through 2011 found that a 1 percentage-point increase in a state's top marginal income tax rate reduced its millionaire population by about 0.1%. The effect was measurable but small, partly because affluent households are often tied to local businesses, careers, families, and professional networks.[4]

Federal tax changes: A study of the 2017 federal cap on state and local tax deductions, which increased the financial advantage of living in a lower-tax state, found only a small overall increase in millionaire migration. The findings reinforced the importance of people's economic and social ties to where they live.[5]

International and U.S. research: A review of decades of research found that tax-related migration varies significantly by population. It is generally limited among high-income taxpayers overall and more pronounced among unusually mobile groups, such as elite athletes and internationally mobile professionals.[6]

Higher taxes may cause some high-income taxpayers to leave, but not enough to erase most of the additional money states collect.

HOW INITIATIVE 195 WOULD AFFECT COLORADO BUSINESSES

One of the prevailing arguments against a graduated corporate income tax is that higher rates will cause companies to leave Colorado, taking jobs and tax revenue with them.

The research suggests that concern is often overstated.[7] Taxes typically account for just 2% to 4% of a business's total costs, while relocating a company is both complicated and expensive.

Research has also found that tax incentives influence companies' location decisions only 2% to 25% of the time.[8]

Of the roughly 5% of corporate filers that would pay more under Initiative 195, most are not headquartered in Colorado.[9]

Initiative 195 would cut taxes for 95% of Colorado businesses while raising them only on the most profitable corporations. The revenue would also support health care, child care, and education, helping more people participate fully in the workforce. And because corporate income taxes are largely based on where companies sell their products, not where they locate their headquarters, moving offices would not necessarily eliminate a company's Colorado tax liability.

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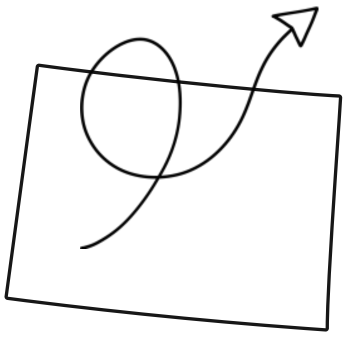

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Concerns about business competitiveness are legitimate, but they should be grounded in how a graduated corporate income tax would actually work rather than treated as a simple question of whether taxes go up or down. The effects depend on which businesses pay more, which receive tax cuts, how multi-state corporations are taxed, and whether the resulting revenue supports the workers, infrastructure, and public services businesses rely on. In other words, the relevant question is not just what a company pays, but what a business receives in return and whether the overall environment helps it operate, hire, and grow.

Three details are especially important when evaluating Initiative 195:

- **Most corporations would not face a higher tax rate.** The proposal lowers rates on the first $100,000 of taxable corporate income, keeps the current rate through $500,000, and raises marginal rates only on income above $500,000[10]. An Institute on Taxation and Economic Policy analysis estimates that about 95% of corporate filers would receive a tax cut.
- **Moving a headquarters does not automatically eliminate Colorado tax liability.** Colorado taxes multistate corporations largely based on where their sales occur, so income connected to sales in the state may still be subject to Colorado taxes.[11]
- **Taxes are only one part of the business climate.** Investments in schools, health care, child care, transportation, and other infrastructure can help employers recruit and retain workers. A complete competitiveness analysis should consider both the cost of taxes and the value of the public investments funded by the resulting revenue.

WHAT THIS MEANS FOR COLORADO

The research supports a measured conclusion. Initiative 195 could lead to some migration or shifts in business activity, particularly among the most mobile taxpayers and largest firms. Those risks should be considered, not dismissed. But the evidence also suggests that taxes are rarely the sole reason people or businesses relocate and that high-income migration is generally too limited to erase the revenue raised.

Colorado's choice is not between supporting the economy and funding public services. The more useful question is whether the projected revenue and public investments outweigh the likely, more modest effects on migration and business activity. That is a legitimate trade-off, but it is far from the mass-exodus scenario often described in public debate.

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