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Macro Roundup Article

Headline: Behavioral Responses to State Income Taxation of High Earners: Evidence from California

Article Link: https://www.aeaweb.org/articles?id=10.1257/pol.20200500

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Tweet: After a 2012 increase in marginal tax rates of up to 3% for high-income California households 0.8% of the impacted tax base left the state in 2013 and others restructured income, eroding 61% of "windfall revenues" within the first 2 years. @joshrauh

Summary: Using administrative data, we analyze the response to Proposition 30, a 2012 measure that increased California marginal tax rates by up to 3 percentage points for high-income households. Relative to baseline departure rates, an additional 0.8 percent of the residential tax base that landed in the top bracket left California in 2013. Using matched out-of-state taxpayers as controls reveals an income elasticity with respect to the marginal net-of-tax rate of 2.5–3.2 for high earners who stayed. These responses eroded 45.2 percent of state windfall tax revenues within the first year and 60.9 percent within 2 years, driven largely by the intensive margin.

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Primary Topic: Taxation

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