Written Statement to the D.C. Tax Revision Commission

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Thank you for the opportunity to submit this testimony to the D.C. Tax Revision Commission. I am writing to share with the commission the results of my research with Joel Slemrod on the impact of state-level estate and inheritance taxes on the migration of high-wealth individuals. These findings are presented in a working paper published by the National Bureau of Economic Research. The journal article is **"Do the Rich Flee from High State Taxes? Evidence from Federal Estate Tax Returns,"** *National Bureau of Economic Research Working Paper Series, Paper 10645,* July 2004.

This paper analyzed the impact of changes in state estate and inheritance taxes between 1965 and 1998 on the number of federal estate taxes filed in each state. As noted, during this period, a number of states had estate and inheritance taxes that went beyond a "pick-up" tax tied to the credit estates could claim against their federal estate tax. This means that there was substantial variation among states in combined federal and state estate taxes. During this period, a number of states made changes to these taxes, creating a natural experiment to assess whether households relocate to seek lower taxes.

Focusing on the number of federal estate tax returns filed by state allowed this research to assess the extent to which households changed their official residence, whether they moved completely or established a new home for part of the year in another states. Because estate taxes apply only to relatively high-value estates, this analysis allowed us to focus on the migration behavior of high-wealth households.

This research found that differences do affect migration. We found that some households move to seek lower taxes – but the effect is relatively modest. We used these findings to estimate the impact on states facing the choice to phase-out their estate tax in the mid-2000s, in response to federal tax changes that phased out the credit that could be claimed for state-level estate taxes. The research estimated what would happen in states that maintained a state-level estate tax for any estate worth $675,000 or more. We note that D.C.'s estate tax currently applies to estates of $1 million or more.

Our research found that if households who were incentivized to move did so five years before death, a state that maintained an estate tax would face revenue losses equal to 10 percent to 23 percent of their estate taxes, based on the lost income, sales and property taxes in that period. If the assumption is that households moved 10 years prior to death, the revenue loss would equal 15 percent to 33 percent of estate taxes.

This means that while states would lose revenue as some residents move to seek lower taxes, the revenue loss would not be great enough to justify eliminating the estate tax. We concluded that "Our evidence is consistent with the idea that some rich individuals flee states that tax them relatively heavily, although it may reflect other modes of tax avoidance as well. The estimated amounts of deadweight loss and revenue loss from the flight are not large relative to revenue collected by the taxes, however.”