

A 9.25 Percent Top Income Tax Rate Would Drive Jobs, Investment, and Economic Opportunity Out of Michigan

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Key Findings

- Michigan's proposed 5 percent income surtax on high earners, yielding a top marginal rate of 9.25 percent, is also a tax on the small businesses that employ nearly 2 million Michiganders.
- In response to higher tax costs, small business owners could raise the prices of their goods and services, opt to hire fewer workers and pay lower wages, or delay investments in equipment and other means to grow their business.
- Adopting a 9.25 percent top rate would cost an estimated 43,000 jobs, cut wages by about 1 percent, and shrink Michigan's overall economy by \$8.5 billion. The higher tax would also increase net out-migration.
- An examination of high-earner taxes imposed in other states, like California, New York, and New Jersey, shows increased out-migration, the loss of Fortune 500 companies, reduced in-state investment, and slower economic growth.
- Since 2021, 23 states have reduced their top marginal income tax rates in pursuit of greater economic competitiveness. By contrast, under this proposal, Michigan would have one of the highest top rates in the country, particularly when accounting for the existing municipal income tax rates in 24 cities, led by Detroit where the combined rate would be 11.65 percent.
- If Michigan chooses to follow the path of states like California, New Jersey, and New York, the result would be fewer jobs, lower pay, a higher cost of living, a smaller economy, and growing brain drain as people leave for better opportunities elsewhere.

Introduction

Michigan has long boasted a competitive individual income tax rate, currently at 4.25 percent. A proposed ballot measure would change that, giving the state the second-highest top rate of any state situated between New York and California. The inevitable result: fewer jobs, lower wages, further out-migration, and a heavy burden on Michigan's small businesses.

The proposed "Invest in MI Kids" measure would amend the state's constitution to impose a 9.25 percent top rate on earners with annual taxable incomes over \$500,000 for single filers and \$1 million for joint filers, effective January 1, 2027. Proponents estimate that the new marginal rate would generate an additional \$1.7 billion in revenue per year, earmarked for public education.

As a tax on high earners, only a small share of Michigan's population would pay the tax directly, as proponents are keen to point out. But the economic ramifications of such a high-rate tax would touch the lives of far more than those subject to the new rate. By adopting a 5 percent surtax and transitioning to a progressive income tax structure with a top rate of 9.25 percent, Michigan would immediately become an outlier regionally and nationally.

Currently, neighboring states Indiana and Ohio have flat individual income tax rates of 2.95 percent and 2.75 percent, respectively. Meanwhile, Michigan would join the ranks of states with the highest marginal income tax rates in the country, including California (13.3 percent), Hawaii (11.0 percent), Minnesota (9.85 percent), New Jersey (10.75 percent), New York (10.9 percent), Oregon (9.9 percent), and the District of Columbia (10.75 percent).

Twenty-four Michigan cities levy municipal income taxes, led by Detroit at 2.4 percent. The all-in top rate in Detroit under this plan, 11.65 percent, would only be exceeded by California; Portland, Oregon; New York City; and Newark, New Jersey. Among Michigan's other larger cities, Grand Rapids has a 1.5 percent municipal income tax, and Lansing and Flint each add 1 percent to the state rate.

Michigan's proposed tax increase comes against the backdrop of a nationwide trend of income tax reductions and greater tax competitiveness. This paper explores the economic consequences of adopting a high-rate individual income tax in Michigan, with a particular emphasis on the implications for Michigan workers and small business owners. We estimate that the proposed rate would cost 43,000 jobs, cut wages by about 1 percent, and shrink the private sector economy by \$10 billion.

The New Rate Is a Tax on Small Businesses

On the website for the advocacy campaign behind the proposed tax increase, the first of the frequently asked questions reads, "Is this a tax on small businesses?" The organization's answer, unfortunately, rests on a misunderstanding of how most small businesses pay taxes. They write: "No, The 'fair share surcharge' is levied only on individuals [emphasis theirs] whose annual taxable income exceeds \$500,000 for single filers or \$1,000,000 for joint filers. The fair share surcharge is not a tax on businesses."¹

¹ Invest in MI Kids, "Frequently Asked Questions," <https://investinmikids.org/faqs>.

This is, however, highly misleading, because the vast majority of small businesses are pass-through businesses, where business income is “passed through” to the returns of owners and investors. This contrasts with C corporations, where the business is initially taxed at the entity level. The individual income tax is the tax that small businesses pay, with real consequences for the competitiveness of Michigan’s Main Street businesses.

There are four different types of pass-through businesses: sole proprietorships, partnerships, limited liability companies (LLCs), and S corporations. Regardless of type, any pass-through business owner with more than \$500,000 in income (business and personal combined) would be subject to the new 9.25 percent income tax rate, as would joint filers with pass-through businesses making more than \$1 million..

The taxation of small businesses matters to Michiganders. As in many states, Michigan’s economy is bolstered by a strong contingent of small businesses. In 2023, there were over 900,000 small businesses in the state, representing 99.6 percent of the state’s total businesses.² These businesses are collectively responsible for almost half of the state’s employees. As such, any tax policy that lands on small businesses will affect residents throughout the state, whether small business owners or employees.

Not all small businesses are pass-through businesses, but most are. And the number that counts the most for Michigan’s economy is the roughly 150,000 small businesses (about 16 percent of Michigan’s small businesses) with employees. The other businesses are sole proprietorships or single-member LLCs, some of which represent successful one-person businesses, though many others are inactive or part of some other business enterprise. These small business employers will bear the brunt of the proposed tax increase.

According to IRS data, in tax year 2022, almost 12 percent of partnerships and S corporations in Michigan reported incomes of over \$500,000. There is a high degree of overlap between the 12 percent of businesses generating owner incomes above \$500,000 and the 16 percent of businesses with employees. More to the point, 79 percent of all partnership and S corporation income in Michigan was reported on returns with at least \$500,000 in income.³ The businesses that would be subject to the much higher rate are precisely those responsible for employing nearly 2 million Michiganders.

Table 1. Pass-Through Businesses Subject to the Proposed Tax Yield 79% of Pass-Through Income

Returns and Total Income of Michigan Pass-Through Businesses with Adjusted Gross Income Above \$500,000

| Pass-Through Range | No. of Returns | % of Total Returns | AGI | % of Total AGI |
|-----------------------|----------------|--------------------|----------------|----------------|
| \$500,000–\$999,999 | 17,170 | 7.09% | 4,239,331,000 | 17.45% |
| \$1,000,000 + | 11,580 | 4.78% | 14,848,449,000 | 61.13% |
| Total Above \$500,000 | 28,750 | 11.88% | 19,087,780,000 | 78.58% |

Source: IRS, Statistics of Income; Tax Foundation calculations.

² US Small Business Administration Office of Advocacy, “2023 Small Business Profile: Michigan,” <https://advocacy.sba.gov/wp-content/uploads/2023/11/2023-Small-Business-Economic-Profile-MI.pdf>.

³ Internal Revenue Service, *Statistics of Income – Historic Table 2 (Michigan)*, <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2>.

Higher rates would reduce small business profitability and put Michigan's small businesses at a competitive disadvantage against out-of-state rivals. These higher rates would yield some combination of (1) reduced investment and growth, (2) business attrition, (3) lower wages, and (4) higher prices. Which of these effects predominates will vary across businesses and industries.

Small businesses could pass some of their higher tax costs along to consumers through higher prices. Their ability to do so, however, will be constrained by competition. Passing costs to customers is most likely in situations where all competing businesses are subject to the same tax increase.

If federal income taxes rise, for instance, businesses in Michigan would be competing with businesses throughout the country that face similar cost curves, and thus may all land on a new price equilibrium that passes at least part of the increased cost on to consumers. However, a state-level tax makes this approach more difficult, as Michigan's businesses will be competing with out-of-state businesses that do not face these higher tax costs. If a small business in this situation tries to pass on its losses to consumers, it could experience even more losses as customers shift loyalty to their competitors.

There are specific situations, however, in which a pass-through business could raise its prices. If a good or service is sufficiently localized, consumers could see higher prices after the passage of this ballot measure. Consider a business that provides tours of wineries in Traverse City. There are many similar companies, but most—perhaps all—are similarly situated pass-through businesses, and no out-of-state business would be able to provide the same services. In that case, a Traverse City tour company and its competitors could raise prices to help offset the extra tax.

The actual amount that prices could rise is limited, of course, as their customers may decide to drive to some wineries on their own or find an entirely different tourism destination if prices rise too steeply, but this too is a cost for consumers, who no longer pursue the activity or purchase they would have favored in the absence of higher taxes. In time, moreover, consumers may also find themselves with fewer choices and higher prices due to reduced competition, as the higher tax deters businesses from locating and expanding in the state.⁴

To the extent that tax costs cannot be passed along to consumers initially, they will be borne by workers in the form of fewer jobs and lower wages, and by business owners in the form of a lower return on investment, which affects future decisions to grow and invest in the state. A business owner might decide to hold off on buying a new piece of equipment that would increase capacity, or to scale down her vision of a second location. Since small businesses, most of them pass-throughs, account for nearly half of the jobs in Michigan, any wage or employment changes for these businesses will impact working Michiganders across the state.

⁴ For the deterrence effect, see, e.g., Shawn Rohlin, Stuart S. Rosenthal, and Amanda Ross, "Tax Avoidance and Business Location in a State Border Model," *Journal of Urban Economics* 83 (September 2014).

The Higher Tax Would Shrink Michigan's Economy

Proponents claim that the new 9.25 percent top rate would raise \$1.7 billion annually, but it would do so at the cost of jobs, investment, wage levels, and economic activity. Economic studies show that higher income tax rates are associated with declines in gross state product (GSP), consumption expenditures, private investment, and employment rates. (We explore some of these studies later.) They also show that marginal rates matter, and that substantially raising the marginal rate on high earners magnifies the impact of a tax increase compared to raising the same amount of revenue with smaller rate increases on a broader base. A 9.25 percent top rate in Michigan would cost 43,000 jobs, cut wages by about 1 percent, and shrink the private sector economy by \$10 billion.

Economic decisions are made on the margin, and many small business owners, in particular, would be subject to the proposed higher rate. Their propensity to invest in their business, their ability to grow it, and the number of people they can employ are all affected by higher rates on any additional income they earn. Consequently, the economic harm from high marginal tax rates is larger than the harm from smaller rate increases on broader bases.⁵

Economic studies provide elasticities for rate changes that can inform our analysis of the Michigan proposal. Elasticities are a measure of how responsive one thing—like GSP or employment—is to another (like marginal rates or taxes as a percentage of GSP). Accounting only for the overall amount of the tax increase as a percentage of Michigan's GSP, and ignoring the marginal rates, we would expect a \$1.7 billion income tax increase to reduce GSP by about \$5.1 billion and reduce personal consumption by an estimated \$4.2 billion. Accounting for *how* the additional revenue is generated, with a 5 percentage point increase in the top marginal rate on high earners, the estimated impact on Michigan's economy grows to \$8.5 billion. In the long run, wages would decrease by 0.99 percent, and unemployment would increase by 0.85 percent, equating to a loss of 43,000 jobs.⁶

By shrinking the economy, the proposed tax increase would also reduce the revenue-generating capacity of the existing tax structure. Based on the estimates above, collections on the income tax's existing 4.25 percent rate on all income would come in about \$155 million lower in fiscal year 2027, while sales tax collections would decline by \$85 million. Even if the state generates an additional \$1.7 billion from the additional 5 percent on high earners, net collections across the broader tax environment would be lower—perhaps \$1.46 billion, taking reduced collections on other income and sales tax into account. Michigan's private sector economy would shrink by \$10 billion to generate less than \$1.5 billion in additional state revenue. (Government spending is included in calculations of GSP, so an estimated GSP reduction of \$8.5 billion represents about \$10.2 billion in private sector losses and \$1.7 billion in public sector increases.)

Much of this economic shrinkage comes from changed behaviors by individuals and businesses in the state. The marginal return to additional labor and investment is lower, reducing income and available capital, and decreasing propensity to work and invest more on the margin. But some of it also comes from increased out-migration and reduced in-migration. As a midpoint estimate, we find that a 5 percentage point increase in the top individual income tax rate in Michigan would be associated with additional net

5 See Timothy Vermeer, "The Impact of Individual Income Tax Changes on Economic Growth," Tax Foundation, Jun. 14, 2022, <https://taxfoundation.org/research/all/state/income-taxes-affect-economy/>.

6 Tax Foundation analysis based on Romer & Romer (2010), Mertens & Olea (2017), and Cloyne (2013), discussed later.

out-migration of about 17,000 people per year. The estimate range for loss of adjusted gross income (AGI) to other states is broad, but the midpoint estimate is just under \$1.5 billion, which is more than the state currently loses in existing annual net out-migration.⁷

Innovators are particularly sensitive to higher taxes and are more likely to relocate for better tax treatment. Consequently, high income taxes undercut innovation, both by changing incentives and by driving out (or failing to attract) innovators and inventors. Multiple studies have found that higher income tax rates are inversely correlated with patent formation and other measures of innovation, with one major study finding that a 1 percentage point increase in the top marginal tax rate on high earners is associated with a 6 percent decline in patents, citations, and inventors, and an 8 percent decline in “superstar inventors.”⁸ Under this proposal, Michigan’s top rate would be 5 percentage points higher.

Indeed, this is not an abstract question for Michigan. When Michigan adopted its income tax in 1967, it resulted in what new Nobel laureate Philippe Aghion called a “pronounced decline in innovation,”⁹ with the state experiencing a significant drop in both patents and inventors.¹⁰ Future innovation and entrepreneurial risk-taking would be undercut by higher taxes.

Most States Are Cutting Taxes, Not Raising Them

States have implemented a wave of individual (and corporate) income tax cuts since 2021, returning a share of revenue growth to taxpayers and prioritizing tax competitiveness in an environment in which both individuals and businesses are increasingly mobile.

At the beginning of tax year 2021, 42 states levied individual income taxes with top marginal rates ranging from 2.9 percent in North Dakota to 13.3 percent in California. Nine states had flat-rate tax structures, with the rest having graduated-rate structures. Since 2021, significant reforms to state individual income tax codes have taken place. Most of those reforms occurred from 2021 to 2023, with top marginal rate cuts being the primary focus, though states continue to adopt—and phase in further—relief.¹¹

Between 2021 and 2025, 23 states reduced their top marginal rates, and three others reduced lower rates while keeping the top rate unchanged. Conversely, only three states and the District of Columbia increased their top rate on wage income since 2021, though two others raised rates on capital gains income. Arizona and North Dakota now tie for the lowest top marginal individual income tax rates in the country at 2.5 percent, and New Hampshire and Tennessee eliminated their tax on interest and dividend income, joining the ranks of states with no income tax whatsoever.¹² Currently, 10 income-taxing states have rates lower than Michigan’s 4.25 percent rate, including other midwestern states like Indiana (2.95 percent), Iowa (3.8 percent), North Dakota (2.5 percent), and Ohio (2.75 percent).

⁷ Tax Foundation estimates by Andrey Yushkov based on regressions of state-by-state migration data for 2018-2022.

⁸ Ufuk Akcigit, John Grigsby, Tom Nicholas, and Stefanie Stantcheva, “Taxation and Innovation in the Twentieth Century,” *The Quarterly Journal of Economics* 137:1 (February 2022): 329–385, <https://doi.org/10.1093/qje/qjab022>.

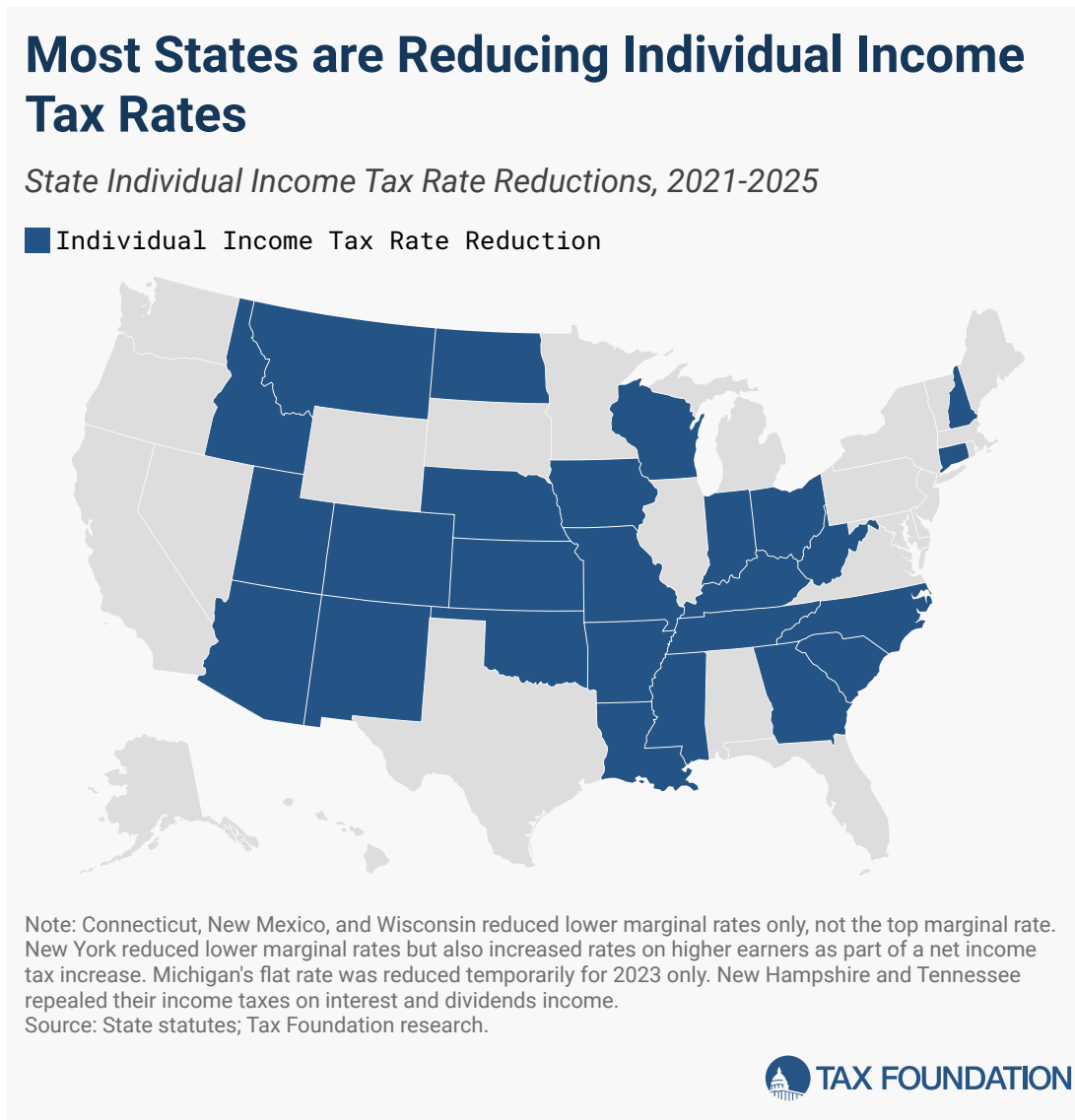
⁹ Philippe Aghion, Céline Antonin, and Simon Bunel (transl. Jodie Cohen-Tanugi), *The Power of Creative Destruction* (Cambridge, MA: Belknap Press, 2023), 100.

¹⁰ Akcigit et al., “Taxation and Innovation in the 20th Century,” NBER Working Paper 24982, September 2018, https://www.nber.org/system/files/working_papers/w24982/revisions/w24982.rev0.pdf, 73. The working paper version of this paper includes additional case study details, including an analysis of the effect of income taxes on innovation in Michigan.

¹¹ Katherine Loughhead, “State Tax Reform and Relief Trend Continues in 2023,” Tax Foundation, Jun. 8, 2023, <https://taxfoundation.org/research/all/state/state-tax-reform-relief-2023/>.

¹² Andrey Yushkov and Katherine Loughhead, “State Individual Income Tax Rates and Brackets, 2025,” Tax Foundation, Feb. 18, 2025.

Figure 1.



Eight states have enacted laws transitioning to a flat individual income tax structure since 2021. Seven of these laws have taken effect, most recently with Ohio's implementation of a 2.75 percent flat-rate tax in January, bringing the current total to 15 states with flat income taxes.¹³ Ohio's 2.75 percent flat-rate structure took effect as of January 1, and Kansas will begin transitioning to a flat rate contingent upon revenue triggers. Other states have considered moving to no income tax and flat tax systems, and those deliberations are anticipated to continue in 2026 and beyond.

Flat-rate tax structures promote simplicity in the tax code, but even more importantly, they signal a commitment to competitive tax rates. Decisions about whether, where, and how much to work and invest are made on the margin, which is to say, on the basis of the effect on the next dollar of income.¹⁴ Top marginal rates, therefore, are the most important for economic decision-making, and single-rate taxes help keep rates competitive and signal that commitment to individuals and businesses.

¹³ Jared Walczak and Katherine Loughead, "The State Flat Tax Revolution: Where Things Stand Today," Tax Foundation, Oct. 8, 2025, <https://taxfoundation.org/data/all/state/flat-tax-state-income-tax-reform/>.

¹⁴ Id.

Table 2. Most States Are Cutting Income Tax Rates

State Individual Income Tax Rate Changes, 2021-2025

| Reduction to Top Rate (23) | Reduction to Lower Rates (3) | No Rate Change (13) | Increase in Rates (6) |
|----------------------------|------------------------------|---------------------|-----------------------|
| Arizona | Connecticut | Alabama | Maryland |
| Arkansas | New Mexico | California | Massachusetts |
| Colorado | Wisconsin | Delaware | Minnesota** |
| Georgia | | Hawaii | New York |
| Idaho | | Illinois | Washington** |
| Iowa | | Maine | District of Columbia |
| Indiana | | Michigan | |
| Kansas | | New Jersey | |
| Kentucky | | Oregon | |
| Louisiana | | Pennsylvania | |
| Mississippi | | Rhode Island | |
| Missouri | | Vermont | |
| Montana | | Virginia | |
| Nebraska | | | |
| New Hampshire* | | | |
| North Carolina | | | |
| North Dakota | | | |
| Ohio | | | |
| Oklahoma | | | |
| South Carolina | | | |
| Tennessee* | | | |
| Utah | | | |
| West Virginia | | | |

* Repeal of tax on interest and dividend income.

** Increase on capital gains income only.

Note: Michigan's individual income tax was temporarily decreased but later restored to 4.25 percent.

Source: Tax Foundation analysis.

Several factors impact where one decides to live, work, or start a business. These may include employment opportunities, educational opportunities, the cost of living, the availability of skilled employees, the desire to be near family and friends, and preferences around climate, geography, and culture. While most decisions are made based on a broad view of quality of life, affordability—and within that, tax burdens—plays an important role.

Financial well-being and cost-of-living considerations become part of the equation for workers and businesses alike, both directly and indirectly. Because marginal rates impact economic decision-making, states with lower top marginal income tax rates are more competitively positioned to attract workers and businesses. Additionally, in an increasingly mobile economy with more workers having the option for remote work arrangements, top marginal tax rates can have an even greater impact on workers and businesses. Some people may migrate for lower tax burdens. Others may go where the jobs are—increasingly, places that attract businesses and facilitate expansion through a competitive tax environment.

A positive relationship exists between state tax competitiveness and net migration. Overall, states with lower top marginal income tax rates experience less out-migration when compared with states that impose high top marginal income tax rates as reflected by data from the United States Census Bureau American Community Survey.¹⁵ The top five states experiencing the highest rates of net out-migration—the District of Columbia, New York, New Jersey, Massachusetts, and California—have some of the highest top marginal individual income tax rates in the country, ranging from 9 percent to 13.3 percent.¹⁶

Table 3. Top 5 States with Highest Out-Migration Rates, 2021-2023

| | |
|----------------|--------|
| Washington, DC | -7.21% |
| New York | -5.56% |
| New Jersey | -4.73% |
| Massachusetts | -4.69% |
| California | -4.67% |

Source: US Census Bureau State-to-State Migration Flows 2021, 2022, 2023.

Michigan's competitive individual income tax is the saving grace of its current tax code. It is notable, therefore, that when Michiganders leave, they predominantly migrate to other states with low (or no) income taxes and with overall tax codes more competitive than Michigan's. Census data shows that the top five states to which Michigan residents migrated from 2021 to 2023 were all states that either do not levy an individual income tax (Florida and Texas) or states with low top marginal rates (Arizona, North Carolina, and Ohio).

In 2023, Arizona's individual income tax was a flat 2.5 percent, North Carolina's individual income tax was a flat 4.75 percent, Ohio's top rate was 3.99 percent, and both North Carolina and Ohio were embarking on multi-year rate reductions.¹⁷ As of January 1, 2026, North Carolina's rate is 3.99 percent, and Ohio has a flat rate of 2.75 percent (albeit, in Ohio's case, augmented by local income taxes). A 9.25 percent top rate on Michigan small business owners and entrepreneurs would be a gift to tax-cutting Ohio—and no Michigander wants that.

Table 4. Top 5 States for Net Out-Migration of Residents from Michigan, 2021-2023

| Rank | 2021 | 2022 | 2023 | 3-Year Total |
|------|------|------|------|--------------|
| 1 | FL | FL | FL | FL |
| 2 | NC | TX | OH | OH |
| 3 | TX | AZ | AZ | TX |
| 4 | OH | IN | KY | AZ |
| 5 | AR | OH | NC | NC |

"Source: US Census Bureau State-to-State Migration Flows 2021, 2022, 2023. "

¹⁵ United States Census Bureau American Community Survey, "State-to-State Migration Flows," <https://www.census.gov/data/tables/time-series/demo/geographic-mobility/state-to-state-migration.html>.

¹⁶ Id.

¹⁷ Katherine Loughead, "State Tax Reform and Relief Trend Continues in 2023," Tax Foundation, Jun. 8, 2023, <https://taxfoundation.org/research/all/state/state-tax-reform-relief-2023/>.

High-Earner Taxes Have Backfired Elsewhere

In 2012, California voters approved Proposition 30 to levy a temporary income tax rate increase of 1 to 3 percent on the state's top three tax brackets beginning in tax year 2012. This catapulted the top state income tax rate on California's highest earners to 13.3 percent, the highest state rate in the country. California's Department of Finance reported that Proposition 30 would result in \$6 billion in additional annual revenue for education funding. A second ballot referendum, Proposition 55 in 2016, extended the tax increase through 2030.

A subsequent study examined behavioral responses by high-income earners to the increased tax rates, revealing that high earners consistently fled to no-income-tax states—neighboring Nevada as well as Florida and Texas.¹⁸ The rate of out-migration of the state's highest income earners increased from 1.5 percent after the 2011 tax year to 2.1 percent after the 2012 tax year. A combination of out-migration, reduced in-state investment, slower economic growth, and tax avoidance strategies ultimately eroded an estimated 61 percent of the anticipated revenue gains, and much of that behavioral response has been to the detriment of California's economy.¹⁹

In New York, new rates on high earners were adopted in 2009 and 2021. According to the Citizens' Budget Commission, New York's share of millionaires in 2010 was second highest in the nation, at 12.7 percent, and had fallen to fourth by 2022, at 8.7 percent. The Citizens' Budget Commission estimated that if New York's share of the nation's millionaires had remained constant, the state would have collected an additional \$10.7 billion in individual income tax revenue.²⁰

And in New Jersey, the 2004 adoption of a new top rate of 8.97 percent on incomes over \$500,000 was judged, by the New Jersey Department of the Treasury, to have resulted in a cumulative loss of 20,000 taxpayers between 2004 and 2009.²¹ Undaunted, New Jersey adopted an even higher top rate in 2019, for incomes above \$5 million. Perhaps unsurprisingly, the number of Fortune 500 companies in New Jersey declined from 22 in 2006 (first year of data) to 15 by 2021.²²

Finally, we only have preliminary economic data from Massachusetts, where a high earner's tax was implemented in 2023, but early enthusiasm from proponents of such taxes is unwarranted. Massachusetts has faced significant budget shortfalls in both 2024 and 2025, and assertions that the number of millionaire households has grown in Massachusetts despite the tax have (1) often been passed on pre-millionaire's tax data and (2) capture the nationwide growth in households valued at more than \$1 million, driven by inflation and rising home values, without noting that Massachusetts' increase has been among the lowest in the country.²³

18 Joshua Rau and Ryan Shyu, "Behavioral Responses to State Income Taxation of High Earners: Evidence from California," *American Economic Journal: Economic Policy* 16:1 (February 2024): 34-86, <https://www.aeaweb.org/articles?id=10.1257/pol.20200500>.

19 Id.

20 Ana Champeny, "The Hidden Cost of New York's Shrinking Millionaire Share," Citizens' Budget Commission, August 2025, https://cbcny.org/sites/default/files/media/files/CBCREPORT_NY-Millionaire-Share_08282025.pdf.

21 Andrew Lai, Roger Cohen, and Charles Steindel, "The Effects of Marginal Tax Rates on Interstate Migration in the U.S.," New Jersey Department of Treasury, October 2011, <https://www.nj.gov/treasury/news/2011/OCE-Migration%20Study.pdf>.

22 Tom Bergeron, "Fortune 500: How Does N.J. Rate with Its Competitor States? Not Great," ROI-NJ.com, Jun. 3, 2021, <https://www.roi-nj.com/2021/06/03/industry/fortune-500-how-does-n-j-rate-with-its-competitor-states-not-great/>.

23 Jared Walczak, "Taxes Still Affect Economic Growth, Contrary to Findings of Flawed IPS Study," Tax Foundation, Apr. 29, 2025, <https://taxfoundation.org/blog/institute-for-policy-studies-state-taxes-high-income-earners/>.

The Economic Literature on High Marginal Rates

Studies consistently show that taxes have a negative impact on economic growth.²⁴ In studies that distinguish between tax types, the individual income tax was the second most harmful, behind only the corporate income tax.

Economic growth is the result of increased productivity of goods and services over time. Contributing factors to economic growth include the hiring of workers and participation in the workforce, the innovations that foster greater efficiencies and new business models, and the risk-taking that accompanies starting and growing a business. Measures of economic growth are often discussed in terms of gross domestic product (GDP), or its state equivalent, GSP. These measures quantify the total value of all finished goods and services produced within a country or state's borders.

A 2010 study by Romer and Romer looked at the overall US federal tax burden as a share of GDP since World War II.²⁵ They identified tax shocks over time, meaning changes in tax policy like tax rate changes or the introduction of new taxes. Tax shocks can affect overall economic behavior, such as altered consumer spending due to changes in disposable income, altered business capital investment as resources must be reallocated, and altered human capital investment as wages change and the incentive to work changes. Their study found that if taxes are increased by 1 percent of GDP, personal consumption expenditures and private domestic investment decline for approximately two years following the tax increase, and GDP declines by 3 percent after three years following the tax increase. They concluded that tax increases are “highly contractionary,” with negative effects on the economy and investment.

More current research has also concluded that corporate and individual income taxes are more harmful than other taxes.²⁶ A 2021 study by Nguyen, Onnis, and Rossi examined the effects of individual income, corporate, and consumption taxes in the United Kingdom from 1973 to 2009.²⁷ They found that both individual income and corporate tax cuts had significant and immediate impacts on GDP, private consumption, and investment. A 1 percent decrease in the average income tax rate led to a 0.78 percent increase in GDP within one quarter of the tax change. While similar effects were not demonstrated by changes in consumption taxes, the authors did find that changing the composition of taxes from income to consumption was expansionary.

Studies on income taxes and economic growth have also revealed significant impacts on unemployment, wages, and innovation.²⁸ A 2018 study by Mertens and Olea examined time series data from 1946 to 2012 to determine the extent to which marginal tax rates affected individual decisions to work and invest.²⁹ They found that *marginal* tax rates—the amount of additional tax paid for every additional dollar earned as income—as opposed to average tax rates, are more influential in affecting economic behavior. Their

24 William McBride, “What Is the Evidence on Taxes and Growth?,” Tax Foundation, Dec. 18, 2022, <https://taxfoundation.org/research/all/federal/what-evidence-taxes-and-growth/>.

25 Christina D. Romer and David H. Romer, “The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks,” *American Economic Review* 100:3 (June 2010): 763–801, <https://www.aeaweb.org/articles?id=10.1257/aer.100.3.763>.

26 Alex Durante, “Reviewing Recent Evidence of the Effect of Taxes on Economic Growth,” Tax Foundation, May 21, 2021, <https://taxfoundation.org/research/all/federal/reviewing-recent-evidence-effect-taxes-economic-growth/>.

27 Anh D.M. Nguyen, Luisanna Onnis, and Raffaele Rossi, “The Macroeconomic Effects of Income and Consumption Tax Changes,” *American Economic Journal: Economic Policy* 13:2 (May 2021): 439–66, <https://www.aeaweb.org/articles?id=10.1257/pol.20170241>.

28 Timothy Vermeer, “The Impact of Individual Income Tax Changes on Economic Growth.”

29 Karel Mertens and José Luis Montiel Olea, “Marginal Tax Rates and Income: New Time Series Evidence,” *The Quarterly Journal of Economics* 133:4 (November 2018): 1803–1884, <https://doi.org/10.1093/qje/qjy008>.

results revealed that incomes in the top 1 percent of the income distribution displayed the strongest responses to tax rate changes. A 1 percent decrease in the marginal tax rate led to a rise in GDP of 0.78 percent two years after the tax rate change. The unemployment rate decreased by 0.39 percent in the same two years.

Proponents of progressive tax rates often cite a desire to mitigate income inequality through the redistribution of wealth, but a 1998 study by Feldstein and Wrobel found that state and local governments' attempts to do this are ineffective.³⁰ The authors found that a more progressive tax structure promotes migration as highly skilled workers realize their after-tax net income is actually higher in a lower-tax jurisdiction. This mobility results in adjustments to gross wages so that after-tax net wages remain equal across jurisdictions. As wages for highly skilled workers rise, businesses may reduce the number of highly skilled workers they hire and instead hire for more lower-paying jobs. The disruption in the labor mix created by increased income tax progressivity fails to achieve a redistribution of income.

High individual income tax rates are associated with a decline in the number of entrepreneurs and inventors and, therefore, the rate of innovation. In 2018, Akcigit et al. studied the impact of state corporate and individual income taxes on innovation and choice of residence by patented inventors in the United States from 1920 to the turn of the century.³¹ Their results showed that increased corporate and individual income tax rates have significant negative effects on innovation. High-tax states had fewer patented inventors living within their borders, and fewer patents filed. Additionally, the authors found that taxes also influenced an inventor's likelihood of producing a highly cited patent. They found that when a state lowered its marginal income tax rate on top earners by 1 percentage point, the annual number of patents in a state rose by 1.8 percent, and the number of citations rose by 1.5 percent.

The above literature review demonstrates why imposing a new income tax surcharge on Michigan's higher earners would be detrimental to the state's economy. By imposing high marginal rates on higher-income earners, states encourage behavioral responses to limit tax liability. Some of this comes in the form of legal tax avoidance, since higher-income earners have the resources to seek the advice of financial professionals to help with strategies that reduce their tax liability. These strategies are likely to be economically inefficient absent the tax savings, meaning that resources will not be allocated or invested as well as they would have been under current tax rates.

But tax avoidance strategies are just a small part of the picture. The greater concern is a contraction in Michigan's economy. As effective tax rates rise, entrepreneurs and investors will have fewer resources to inject into Michigan's economy and may reduce personal consumption that itself generates revenue and creates jobs in the state.

Businesses will also alter their spending. They may delay investment in capital, such as new equipment and technology, resulting in forgone improved efficiencies and productivity. They may also rethink wage structures, hiring fewer highly skilled employees and instead hiring for lower-wage positions.

30 Martin Feldstein and Marian Vaillant Wrobel, "Can state taxes redistribute income?," *Journal of Public Economics* 68:3 (June 1998): 369-396, [https://doi.org/10.1016/S0047-2727\(98\)00015-2](https://doi.org/10.1016/S0047-2727(98)00015-2).

31 Ufuk Akcigit et al., "Taxation and Innovation in the Twentieth Century," *The Quarterly Journal of Economics*.

Higher-income earners are also highly mobile and may decide to flee Michigan altogether. When they leave the state, Michigan will lose the income tax revenues, and other revenues like the state and local sales tax revenues, that leave with them.

Having a thriving labor market is not only important for wage growth and job growth, but it is also important due to the other economic growth that accompanies it. For example, as communities grow, the demand for housing can increase. New housing construction and housing renovation require a robust skilled trade labor supply. Additionally, the need for home maintenance supports a variety of service industries, as higher earners are more likely to hire businesses to provide lawn care, snow removal, pool maintenance, and housekeeping services. Similar effects occur throughout the economy.

Conclusion

A top marginal rate of 9.25 percent—higher in Detroit (11.65 percent) and 23 other cities—would undermine Michigan’s competitiveness both regionally and nationally. Most states are cutting income tax rates in response to greater economic mobility for both individuals and businesses, with the goal of growing their economies and encouraging in- rather than out-migration. If Michigan instead chooses to follow the path of states like California, New Jersey, and New York, the result would be fewer jobs, lower pay, a higher cost of living, a smaller economy, and growing brain drain as people leave for better opportunities elsewhere.