

Tax-Hike Fears Trigger Talk of Exodus From Manhattan and Greenwich

By **Simone Foxman, Patrick Clark, and Sridhar Natarajan**

November 27, 2017, 6:00 AM EST

Even Bruce McGuire, founder of the Connecticut Hedge Fund Association, understands if wealthy Northeasterners flee the region due to changes in the tax code.

“It would almost be irresponsible if you weren’t thinking about moving,” he said.



Bruce McGuire Photographer: Qilai Shen/Bloomberg

The problem for the Connecticut hedge-fund set -- and, more broadly, for a lot of the Wall Street crowd -- is that Republican proposals in both the House and Senate would drive up taxes for many high-earners in the New York City area. By eliminating the deduction for most state and local taxes, an individual making a yearly salary of \$1,000,000 -- a figure not uncommon in the financial industry -- would owe the Internal Revenue Service an additional \$21,000, according to a preliminary analysis by accounting firm Marcum LLP.

Billionaire hedge fund managers have blazed the trail south in recent years. David Tepper, Paul Tudor Jones and Eddie Lampert are New York-area transplants to Florida, which has no personal income tax.

A final bill could still do away with the hike, but so far there are no signs coming out of Washington that will happen. Financially struggling New Jersey had the sixth-highest individual income rate this year, according to the Federation of Tax Administrators. New York ranked eighth and cash-strapped Connecticut 12th. Nine of the 10 states with the highest individual taxes, including Washington, D.C., voted Democratic in the 2016 presidential election.

Tax Refugees

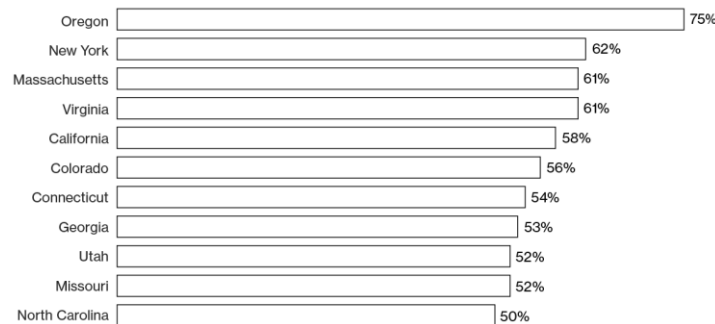
No one interviewed for this story would talk openly about making plans to move, but Goldman Sachs Group Inc. is estimating that New York City alone could lose as much as 4 percent of its top earners if the bill becomes law. In Florida, where there’s no state income tax, there’s the sense that this is a great opportunity to lure disgruntled tax refugees.

The Miami Downtown Development Authority is throwing a party next month during the annual Art Basel show, and Nitin Motwani, a real estate developer, has invited wealthy Northeasterners who've expressed interest in moving to the area. Because the proposed tax changes are practically begging them to relocate, Motwani expects a crowd.

State and local taxes, also called SALT, "can and should be a major catalyst," said Motwani, a development authority board member. Tax reform will "certainly be something we're highlighting" at the party, in the Perez Art Museum. "Inertia is a tough thing, but you add on another tax bill and maybe that pushes you over the edge."

States Where SALT Matters Most

State government income tax collections as share of total tax collections in 2016



Sources: U.S. Census Bureau, Bloomberg Economics

Bloomberg

Jeff Miller, director of luxury sales for Brown Harris Stevens in the Miami area, said he's fielded a half-dozen calls from clients motivated by higher taxes to step up their search for South Florida property.

Two clients who work at New York City financial firms have scheduled tours of a newly completed 7,000-square-foot (650-square-meter) home on the Venetian Islands, Miller said. The \$22.5 million asking price buys views of Biscayne Bay and a spot to moor a yacht.

"Usually it's a snowstorm that would push them to pick up the phone," Miller said. "The tax plan has the same effect."

Salary Earners

The amount of the raise depends as much on how taxpayers earn money as where they live, according to Marcum.

Salary earners would bear the biggest hike. Investors fare better. A person who makes \$1 million by investing would save about \$7,000, according to Marcum.

“Computations clearly show that high-net-worth individuals in a high-tax jurisdiction would get a benefit and save a decent amount of money if they moved,” said Carolyn Mazzenga, head of Marcum’s family-wealth-services business.

No Exodus

But David Silver, a senior manager at accounting firm MBAF in New York, said he doesn’t see the beginning of an exodus.

“I would argue it’s probably not all that likely to uproot your family, leave your friends, and put your kids in new schools just because of proposed tax changes,” he said. Still, technology that allows collaboration between colleagues in far-flung offices has made moving to Florida an easier decision.

Tepper, who heads Appaloosa Management, relocated to Miami Beach in 2015 from Short Hills, New Jersey. Jones kept Tudor Investment Corp. in Greenwich, Connecticut, when he moved to Palm Beach, Florida, last year. In 2012, Lampert, best known as Sears Holdings Corp.’s chief executive officer, took his hedge fund to Miami from the same tony Connecticut town.

State budgets feel the impact. When Tepper moved his firm to Florida, forecasters warned it could jeopardize New Jersey’s budget because the firm generated more than \$100 million in state income tax. In 2013, state income tax generated by residents of seven of the wealthiest towns in Fairfield County amounted to \$1.8 billion, according to the Hartford Courant, or about 9 percent of the Connecticut state budget.

“There is a certain amount of burying one’s head in the sand and naivete in Hartford,” Connecticut’s capital, McGuire said. “I don’t think they believe it can happen.”

Graphic: How the House and Senate Tax Bills Stack Up

Frustration was high among commuters in the northern New Jersey suburb of Summit early one recent morning. They know there’ll be little sympathy for them across the country and they aren’t necessarily ready to pack up and move, but they’re ticked off.

“Most people in this community don’t need a decrease, but I don’t think it’s right to have more taxes taken out and be told it’s a tax cut,” said Gary Bakalar, head of client relationships at insurer XL Catlin in New York. “I’m a lifelong Republican and this is starting to make me question the wisdom of that.”

— With assistance by Alexis Leondis