A new study suggests that states that target the rich for tax hikes may pay a stiff price. (See: Will More States Target The Rich?)

It's not just that some wealthy people may flee those states. The bigger problem is that they won't move there.

At least that's the implication of a new analysis of wealthy folks' movements into and out of New Jersey from 1999 through 2008. In all, the state suffered a $70 billion net outflow in wealth from 2004 through 2008, compared with a $98 billion net inflow in the prior five years. The Garden State's reversal in fortune was due to a large drop in the number of wealthy households entering the state and a moderate increase in the number of wealthy households leaving. (See: The United States Of Debt).

"I hadn't expected to see such a big decline in wealthy people moving in," said study author John Havens, senior associate director of the Center on Wealth and Philanthropy at Boston College.

In Pictures: The 10 Highest State Income Tax Rates For 2009
Interactive Map: The Debt Atlas Of America

The loss in wealth in New Jersey coincides with a notable state tax hike. In 2004 New Jersey was one of the first states to adopt a "millionaires" tax, imposing an 8.97% rate on income over a half-million dollars. The major change in New Jersey wealth came from large reductions of immigration to New Jersey by wealthy households from foreign countries, New York state and Pennsylvania. Also the number of affluent and wealthy households who left the state rose while the number of less wealthy households who left dropped.

In June 2009 New Jersey Gov. Jon Corzine pushed through a one-year tax hike for the rich that included a 10.25% rate on incomes over $500,000, and a 10.75% rate for incomes over $1 million. That gave New Jersey the second highest state income tax rate in the nation, until Oregon adopted an 11% rate, pushing New Jersey back to third. In November Corzine lost his bid for re-election to Republican Chris Christie who ran on a promise of income tax relief.

New Jersey wasn't alone in raising rates last year. New York increased its top rate to 8.97% from 6.85%, prompting Forbes 400 member B. Thomas Golisano to change his official residence from high-tax New York to no-income-tax Florida. He told Forbes: "I'm not bailing out on the state. If anything New York has bailed out on us."

At the same time, New Jersey is one of only two states (Maryland is the other) with both a state estate tax and a state inheritance tax, making it less hospitable for older wealthy folks thinking about passing on wealth. Moreover, New Jersey exempts only $675,000 of each estate from its estate tax, the next to lowest exemption in the nation.

Interactive Map: Where Not To Die In 2010

"We have had a preponderance of anecdotal evidence that New Jersey's tax policies have a negative impact on wealth and charitable giving," said Hans Dekker, president of the New Jersey Community Foundation, which, along with the state Chamber of Commerce, commissioned the new study. "We need to add this new evidence of declining wealth into the debate on tax and policy issues."

Not surprisingly, the wealthy leaving New Jersey tend to be older and many head to Florida, which has no state income or estate tax. From 2004 through 2008 Florida was the destination for 17% of the departed households and 20% of the departed wealth. Of those leaving New Jersey who had net worth of $1 million or more, 20% were older than 64. By contrast, only 9% of millionaires entering the state were older than 64.

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Most of the migration in and out of New Jersey involves New York, Pennsylvania and Florida, plus migration from foreign countries. In the 2004 to 2008 period the number of wealthy households coming from New York declined by half from the prior five years, while the aggregate wealth they brought to the state declined by 75%.

Note that northerners who move to Florida still have to be wary of the Northeast tax collector, especially if they keep a home up north or if they have income that can be tied to their original state.

For example, New York has a bill pending that would require nonresidents to pay New York state income tax on income from severance packages and non-compete agreements received for past employment in New York. The bill would also tax certain S corporation gains and amend the definition of resident trusts to reduce tax avoidance by using nonresident trustees.
See Also:

Where Not To Die In 2010

Will More States Target The Rich?

In Pictures: The 10 Highest State Income Tax Rates For 2009

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