

# Taxes Have Little to do with People's Decisions to Move to or From a State

Taxes have little or nothing to do with people's decisions to move from one state to another. Arthur Laffer and his co-authors, in ALEC's *Rich States, Poor States*, make much of interstate migration patterns in an effort to validate their tax cutting approach to state economic policy, but it does not match up with research on this issue.

Over their lifetimes, the majority of Americans do not move far with most remaining in the state they grew up in.<sup>1</sup> Of those who do move, many move to a neighboring state, rather than across the country. Those who move farther away do so for many reasons: job availability, climate, marriage or proximity to family, housing costs, and other factors, according to years of research on this issue. This **research consistently finds that taxes have a negligible effect on people's decisions to move.**<sup>2</sup> This should not be surprising as people are averse to moving because finding a new job, selling and buying a home, and leaving family and friends are difficult and expensive.

## Higher Taxes on the Wealthy Do Not Drive Them Away

Ignoring the large body of careful research about the causes of migration, Laffer and his co-authors claim that high personal income taxes and estate or inheritance taxes are major reasons why people leave a state and why a state population may shrink or stagnate. Contradicting these claims by Laffer et al is a substantial body of serious research. A study published in 2011 of the New Jersey 2.6 percent income tax surcharge on those with incomes over \$500,000 found that "exposure to the new tax did not affect migration rates."<sup>3</sup> Furthermore, the surcharge generated nearly \$1 billion in additional annual revenue and had a modest effect in reducing income inequality. In other words, the tax did not drive people from the state.

Similarly, **Maryland's imposition of a new higher tax rate on those with incomes above \$1 million did not cause the massive flight of wealth predicted by some.** The decline in the number of millionaire filers after the new tax rate went into effect was largely the result of the Great Recession: there were simply fewer people with million-dollar-plus incomes, both in Maryland and every other state. Furthermore, a few hundred wealthy taxpayers had been leaving the Maryland tax rolls every year (because they died or left the state) prior to the tax increase, for any number of reasons. Even if all of the millionaires who moved in 2008 and 2009 were induced by the tax increase and not any of the other possible motivations such as climate, job availability, or housing, it would represent merely two percent of the high-earner tax filers.<sup>4</sup>

## Taxes Have Little Effect on Migration of the

## Elderly and Others

Even the elderly, who could move more easily as they are not tied to job, aren't motivated to leave their state due to taxes. A recent study focused on the elderly looked at data from four decennial censuses (1970 to 2000), over a period when a number of states enacted or expanded tax preferences for the elderly (such as exempting income from private pensions or Social Security). The authors concluded that, "Across all of these samples, specifications and tax measures, **our results are overwhelming in their failure to reveal any consistent effect of state income tax breaks on elderly migration.**"<sup>5</sup>

Even in metropolitan areas split by a state line, where tax differences could most easily tip the balance and cause people to move to the lower-tax part of a metro area, research has shown that location choices are affected very little by tax differences.<sup>6</sup>

In sum, those who have conducted serious studies that actually test Laffer's assertions—with large samples over long time frames, and generally in the peer-reviewed literature—consistently find that taxes have little to do with rates of migration into and out of states.

1. Jeffrey Thompson, *The Impact of Taxes on Migration in New England*. Political Economy Research Institute, University of Massachusetts, Amherst. April 2011. [http://www.peri.umass.edu/fileadmin/pdf/published\\_study/Migration\\_PERI\\_April13.pdf](http://www.peri.umass.edu/fileadmin/pdf/published_study/Migration_PERI_April13.pdf)

2. For a review of this research, see Robert Tannenwald, Jon Shure, and Nicholas Johnson, "Tax Flight is a Myth: Higher State Taxes Bring More Revenue, Not More Migration." Washington, D.C.: Center on Budget and Policy Priorities, August 4, 2011, at <http://www.cbpp.org/files/8-4-11sfp.pdf>

3. Cristobal Young and Charles Varner. "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment." *National Tax Journal*, vol. 64, no. 2, pt. 1, June 2011, p. 221.

4. See Institute on Taxation and Economic Policy, "Five Reasons to Reinstate Maryland's 'Millionaire Tax'," Washington, D.C., March 9, 2011; and Tannenwald et al, "Tax Flight is a Myth."

5. Karen Conway and Jonathan Rork, "No Country for Old Men (or Women) – Do State Tax Policies Drive Away the Elderly?" *National Tax Journal*, vol. 65, no. 2, June 2012, p. 244.

6. Paul Coomes and William Hoyt. "Income Taxes and the Destination of Movers to Multistate MSAs." *Journal of Urban Economics*, vol. 63, no. 3, pp. 920-937.