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The Economic Progress Institute

Rhode Islanders Don't Move Because of Tax Policy

INTRODUCTION

In order to grow thriving families and communities and a prosperous economy, Rhode Island depends upon tax revenues to provide for critical public goods and services. Rhode Island's personal income tax system is moderately progressive, meaning that individuals and families with the lowest incomes pay a lower percentage than those with higher incomes. Those with the highest incomes can afford to meet more than their basic needs while paying higher income taxes, yet some fear that increasing taxes on those taxpayers with the highest incomes will cause them to leave Rhode Island, taking their money and their businesses with them. However, a wealth of data and research demonstrate clearly that Rhode Islanders and people, in general, do not pick up and move so easily and that if they do move, tax rates generally play only a marginal role in making that decision.

THERE IS NO CORRELATION BETWEEN MIGRATION AND TAX RATES

More than two decades worth of migration data demonstrate clearly that Rhode Islanders are not fleeing the state in large numbers, that people continue to move to Rhode Island, and that there is no correlation between migration and tax rates.

As Figure 1 shows, Rhode Island's out-migration rates for tax return filers have remained low and consistent, and net migration rates show that even the low out-migration is largely offset by newcomers. Rhode Island's annual out-migration rates have varied between 3% and 4% in 22 of the last 26 years. The gray line in Figure 1 shows that, on balance, the net migration of tax filers rarely exceeds 1% in either direction. In only 4 of the years did the net migration rate show a loss of slightly more than 1%, and 4 of the years demonstrated a net gain for Rhode Island.

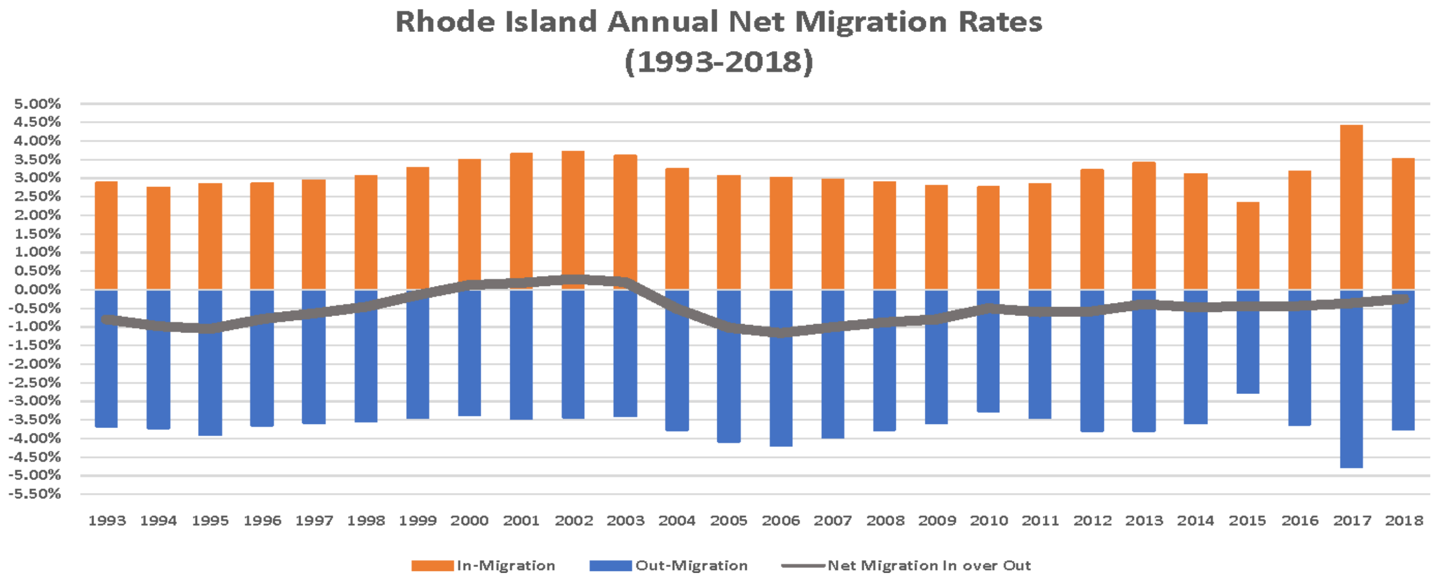

FIGURE 1

Source: Economic Progress Institute and Center on Budget and Policy Priorities analyses of IRS Statistics of Income Migration Data, https://www.irs.gov/statistics/soi-tax-stats-migration-data.

Furthermore, Figures 2a and 2b show that out-migration and net migration rates for the highest-income Rhode Islanders are similar to those of other Rhode Islanders. For 6 out of 7 years, the rate (and number) of filers in the highest income group leaving Rhode Island was lower than for all Rhode Island filers.

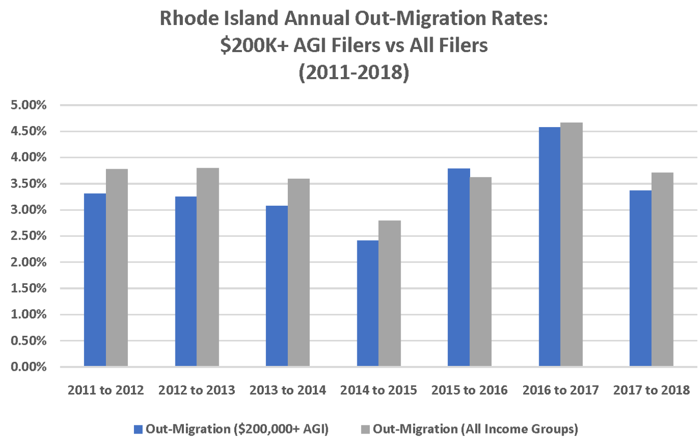

FIGURE 2a

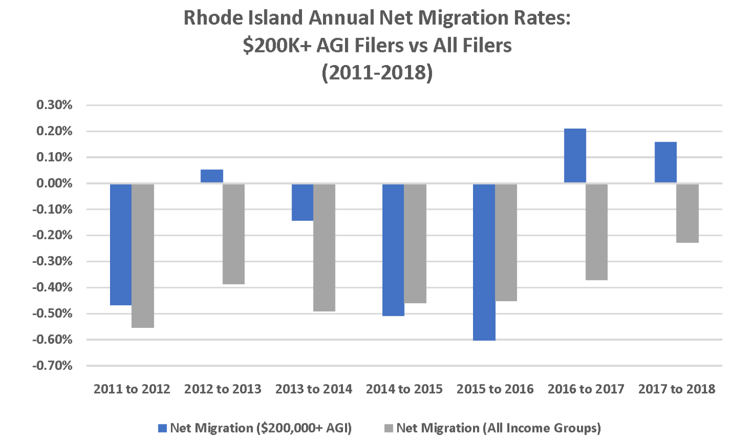

FIGURE 2b

Source: Economic Progress Institute analysis of IRS Statistics of Income Migration Data, Individual Income Tax Returns: Gross Migration for Selected Income Items by State, Size of Adjusted Gross Income, and Age of Taxpayer, https://www.irs.gov/statistics/soi-tax-stats-migration-data.

Putting together out-migration and in-migration data, one sees that the net migration rate for those in the highest income group has been higher than that of all filers for 5 of the 7 years—and in 3 of these years, those in the highest income group have demonstrated a positive net migration—meaning more of them have moved into the state than out of it—something not seen in any year for migrants of all income levels.

In its migration rates, Rhode Island is not at all unusual. The data in Figure 3 demonstrate that Rhode Island shares with its New England neighbors a strikingly similar pattern of out-migration over a 26-year period, with most states in most years showing rates between 3% and 4%. The in-migration patterns are likewise similar across the six states. In terms of net migration, Rhode Island finds itself in the middle of the pack in most years, though the differences remain slight, with almost all net migration in any one year for any one state falling under 1.0% on balance moving in or out.[1]

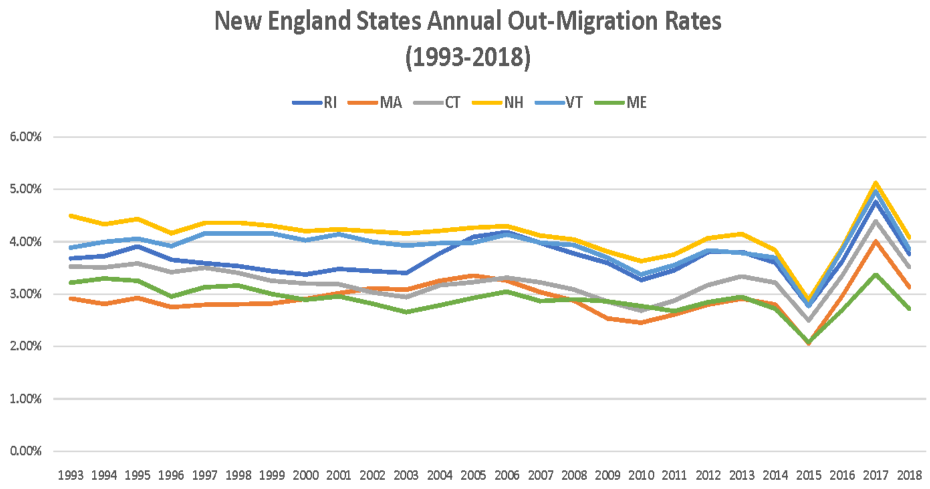

FIGURE 3

Source: Economic Progress Institute and Center on Budget and Policy Priorities analyses of IRS Statistics of Income Migration Data, https://www.irs.gov/statistics/soi-tax-stats-migration-data.

What is noteworthy is that these patterns across New England states and the small differences across states exist and persist despite major differences in tax policies. New Hampshire has no personal income tax, whereas Connecticut has traditionally figured among the highest-tax states. Massachusetts has had a flat tax for a number of years. If tax policy and personal income tax rates had such a major impact upon migration, one would expect to see correspondingly different migration rates; the absence of such differences suggests that other reasons motivate movement from state to state, and that these are reasons shared by people across states: the hope to improve housing, work, and family situations, and perhaps for New England states and other northern states, moving to states with warmer climates.

THE WEALTHIEST PEOPLE TEND TO MOVE LESS FREQUENTLY

According to the United States Census Bureau's Annual Social and Economic Supplement from its Current Population Survey, close to 90% of respondents cite jobs, family, and housing as their main reason for moving (see Figure 4).

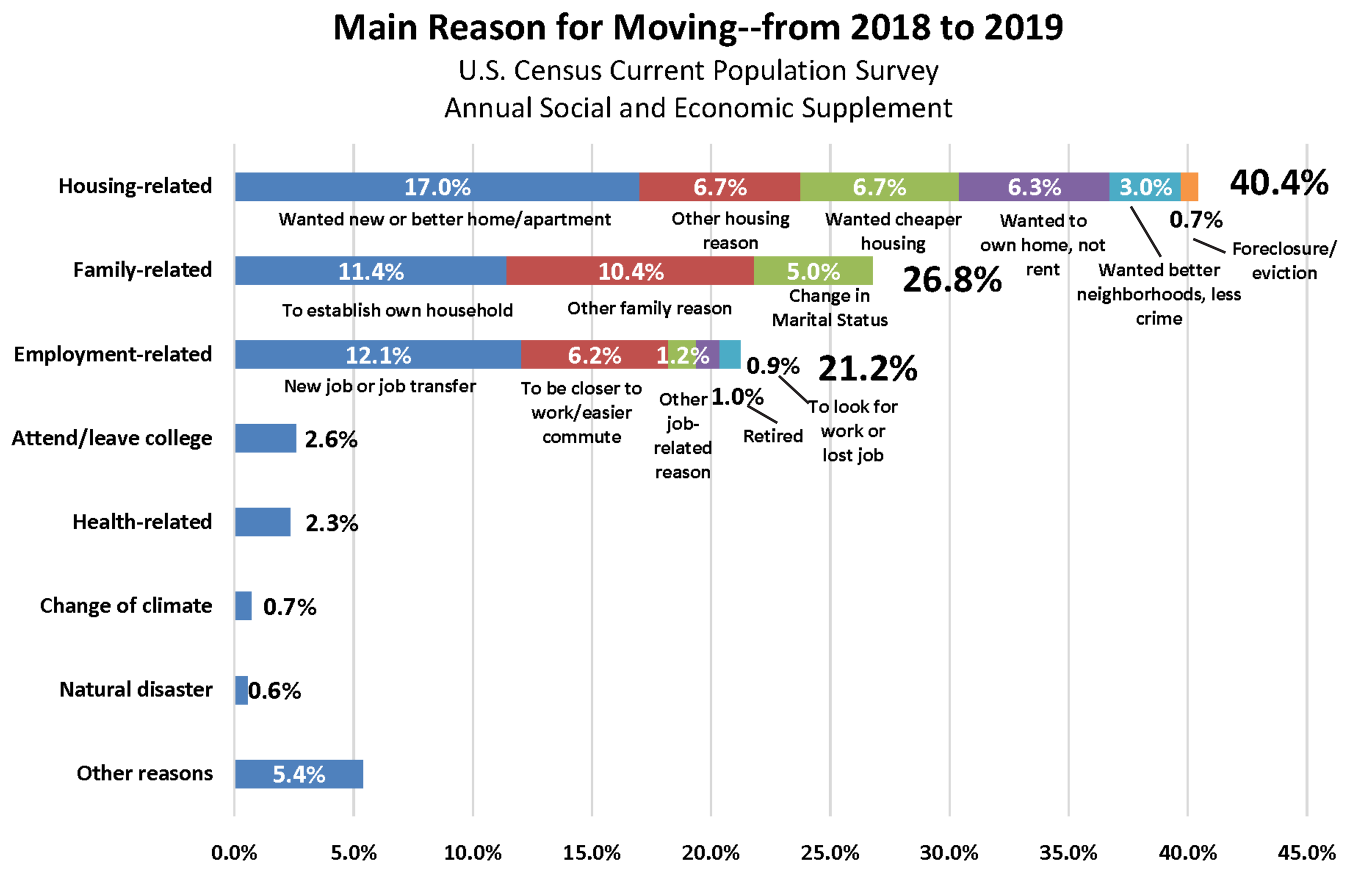

FIGURE 4

Source: Economic Progress Institute analysis of the United States Census Bureau's Current Population Survey, Annual Social and Economic Supplement,Table A-5. Reason for Move (Specific Categories): 1999-2019, https://www.census.gov/data/tables/time-series/demo/geographic-mobility/historic.html.

The wealthiest people actually tend to move less frequently than average. Nationally, the data have been consistent—the rates of people who move from one state to another never exceed the low single-digits, and this is true for all income groups, millionaires included. The scholar Cristobal Young and his colleagues undertook a massive study, using 45 million tax records spanning 13 years of filings, and they found that whereas the annual interstate migration rate was 2.9% for all filers, it was only 2.4% for millionaires, and even lower, at 2.0%, for millionaire business owners. Those millionaires who were married and had children were also less likely to move than those who did not. Additionally, the longer a taxpayer had been a millionaire, the less likely he or she was to move.[2]

The wealthy, especially those who own businesses, tend to be very connected to the places they live and to the communities where they built their businesses. They have considerable social capital and people connections they cannot easily transfer to another state. They are more likely than average to find themselves at a stage in life—in a dual-career household, married with school-age children, owning a home—when people are less likely to uproot themselves.[3] Even benefitting from a tax advantage of tens of thousands of dollars or more cannot itself provide enough to offset all that would be lost, much of which bears no price tag.

Those of the wealthy who do move are more likely to do so as they head into retirement. They tend not to take their businesses with them, and the choice to move to never a one-dimensional decision based upon income taxes—the warmer climate and lower property costs tend to play critical roles. Indeed, the data show that people from colder states tend to move to warmer states regardless of the tax rate differences. No-tax states such as Florida and Texas are popular, but so are other states such as Arizona and North Carolina, the latter considered a high-income-tax state. And no-tax states South Dakota and Alaska have had more people leaving than arriving.[4]

In brief, the wealthy have great motivation to stay in the places where they are already doing well and have family and social and business networks. When people move, the evidence is that they do so for family and housing and work, including for retirement. There is no evidence that tax policy plays a major role.

The wealthiest Rhode Islanders are not fleeing the state, and the data tell us they will not.

ENDNOTES

[1] Maine appears to do particularly well in terms of net migration, even slightly better than its no-income-tax neighbor, New Hampshire. For statistics specific to Maine and New Hampshire, see, from the Maine Center for Economic Policy, Sarah Austin, "Wealthy Mainers have deep roots: Why taxes don't spur interstate moves," (October 11, 2018); seehttps://www.mecep.org/wp-content/uploads/2018/10/Tax-Flight-2018-FINAL.pdf.
[2] Cristobal Young et al., "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," American Sociological Review, 81:3 (2016): 421-446.
[3] Ibid.
[4] Michael Mazerov, "State Taxes Have a Negligible Impact on Americans' Interstate Moves," Center on Budget Policies and Priorities,(updated May 21, 2014), https://www.cbpp.org/sites/default/files/atoms/files/5-8-14sfp.pdf.