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## State Taxes Have a Minimal Impact on People's Interstate Moves

By Michael Mazerov

State tax levels have little effect on whether and where people move — certainly not to a degree that should lead state policymakers to enact unaffordable tax cuts to attract people or avoid enacting productive increases focused on the wealthy. U.S. residents have been moving away from the Northeast, the industrial Midwest, and the Great Plains to the Sun Belt and West for decades, and this pattern is substantially independent of state tax levels or the presence of an income tax.

As just one example, California has the highest marginal tax rate in the nation but has had the second lowest out-migration rate among households earning \$200,000 or more during roughly the past decade.

People move to other states in large part for employment opportunities and family reasons. Secondly they move for less expensive housing, and especially among retirees, a warmer, snow-free climate. More recently, there has also been a notable trend of migration to coastal states like Maine, Oregon, and Washington and ones in the Rocky Mountain West like Colorado, Idaho, and Montana, that appear to be largely driven by growing tastes for an outdoors-oriented lifestyle.

Accordingly, policymakers in states like California, Connecticut, Illinois, Massachusetts, Minnesota, and New York should ignore warnings by anti-government advocates that state taxes are causing massive “tax flight.” Conversely, lawmakers in states like Iowa, Mississippi, Nebraska, and West Virginia that have recently cut their income taxes should harbor no illusions that such a move will stem — let alone reverse — their states’ long-standing net out-migration trends.

To the contrary, if deep tax cuts result in substantial deterioration in education, public safety, parks, roads, and other critical services and infrastructure, these states will render themselves less — not more — desirable places to live and raise a family.

To be sure, *some* individuals may relocate because they think their taxes are too high or consider tax levels in deciding where to move. Nonetheless, the evidence shows those cases are sufficiently rare that they should not drive state tax policy. Instead, state policymakers should recognize two main things:

- Ensuring the wealthy pay their fair share of taxes is an equitable way to raise substantial revenue, which will more than offset whatever small effect this policy approach will have on migration.
- States should not cut their income taxes expecting they will thereby reverse or even slow the flow of residents leaving their state. Such cuts may reduce rather than enhance a state’s attractiveness as a place to live by leading to deterioration in the quality of critical public services.

Anti-tax advocates have been especially vocal in calling for state personal income tax cuts in recent years, arguing that income taxes are leading individuals and families to relocate from the 41 states that levy them — and particularly from those that levy them at somewhat higher rates — to the nine states that don’t. This tax flight alarmism asserts that large numbers of people are consciously “voting with their feet” — leaving high-income-tax states for low- or no-income-tax states in large part because they want to retain more of their wages and salaries rather than pay them in state and local taxes. (See the text box, “This Report Addresses Only One of Three Claims Regarding Taxes and Interstate Migration.”) Some also claim or imply that highly educated, high-income individuals are disproportionately fleeing states with relatively high and progressive income taxes. All claim that these moves harm state economies.

The available evidence, however, fails to support claims that much interstate migration is driven by high-income people — or anyone else — moving because of taxes. A careful look at Census and IRS data on interstate migration, and a review of academic studies, reveals that:

- **Interstate moves are decreasing, despite increasingly disparate state tax systems.** Only a small percentage of people move to another state in a given year, and that percentage has steadily decreased in recent decades, even while tax differences between states have increased. In 1990, combined state and local taxes per person in the ten highest-tax states were, on average, 69 percent higher than those in the ten lowest-tax states; by 2020 they were 85 percent higher. Yet the annual interstate migration rate has *fallen* from about 3 percent in the 1980s to roughly 1.5 percent.
- **The vast majority of people who do move to other states are not pursuing lower taxes.** We know this because they have said so. When surveyed, a large majority of people making an interstate move — 68 percent in 2020 — cite job- and family-related reasons as the primary driver of the decision. Only 9 percent cited one of the three other categories that *might* encompass a desire to pay lower state and local taxes.
- **Large numbers of households — including high-income households — move *into* higher-tax states every year.** Most households moving out of higher-tax states are replaced by ones moving in. In six of the 18 highest-tax states, more high-income households (incomes above \$200,000) moved in than moved out between 2011 and 2021. At least 70 percent of departing high-income households were replaced by high-income households in all but three of those 18 states. Even in New York, the state with the lowest replacement ratio, almost half of high-income households moving out were replaced by high-income households moving in.
- **Large numbers of people even move from states without income taxes to those with relatively high taxes.** For example, since 2011, more than half of the households who

moved from New York to no-income-tax Florida were replaced by households who made the reverse move. This replacement rate was almost two-thirds between California and no-income-tax Texas.

- **Out-migration from higher-tax states that have experienced more households moving out than in during the past decade is not being driven by out-migration of the wealthy.** Net out-migration of households with incomes above \$200,000 represents less than 25 percent of total net out-migration in every higher-tax state.
- **The vast majority of interstate moves are from one low-tax state to another and one higher-tax state to another.** From 2011 to 2021, 35.3 million households made an interstate move. Only 3.7 million of these moves — less than 11 percent — were from one of the 18 states with the highest taxes to one of the nine states without broad-based income taxes.
- **There is essentially no evidence that taxes have been causing low- and moderate-income people to leave higher-tax states.** For households with incomes below \$200,000, California actually has had the third lowest rate of out-migration averaged over roughly the past decade, and New York’s out-migration rate for this income group has been lower than Florida’s. California and New York have experienced net out-migration in this income group because of low in-migration, not high out-migration, with the former substantially explained by high housing costs.
- **High-income households are more likely to leave *some* high-tax states, but certainly not to an extent that would justify terms like “mass exodus.”** Out-migration rates for households with incomes above \$200,000 are higher in some higher-tax states than in no-income-tax states of a similar size, but this is not universally true. For example, California, the state with the highest top income tax rate in the country, actually has had the *second lowest out-migration rate* among the \$200,000-plus income group of any state since 2011. Where higher-tax states do have higher out-migration rates for households in this income group, the differences are not as dramatic as the tax flight drumbeat would suggest. Even New York, which has the highest out-migration rate, only loses an average of 3.4 percent of high-income households annually, while low-tax Florida loses an average 2.5 percent. Moreover, *the existence of these differences does not establish that they are due to taxes.* Job opportunities and lower housing costs have also made Florida an attractive place to move. So have its warm winters and large coastlines. (On the climate issue specifically, as with the majority of this report, the data are approached from a backward-looking perspective. As climate change worsens, some Sun Belt states that have long been attractive may be much less so due to water shortages and more frequent extreme weather events like tornadoes and hurricanes.)
- **Highly educated and high-income households in higher tax states are not disproportionately moving to no-income-tax states.** Census Bureau data (which, unlike IRS data, provide information about the income and education levels of people moving between specific pairs of states) also do not support claims that high-income and highly educated people are moving disproportionately to states without income taxes. For example, 39 percent of New York households are headed by someone with a bachelor’s degree, and such households represented 39 percent of 2017-2021 New York-to-Florida migrants. Households with incomes above \$400,000 comprised 4 percent of California households and 4 percent of California-to-Texas movers from 2017-21. Households with incomes that high comprised only 2 percent of Texas households but 4 percent of Texas-to-California movers.

Thus, if anything, very-high-income households had a higher propensity to move from Texas to California than the reverse.

- **Achieving net in-migration does not guarantee state prosperity, and experiencing net out-migration does not doom a state to poor economic performance.** Over the past ten years, four of the nine states without income taxes ranked in the bottom half of states in per-capita personal income growth — including Texas. In contrast, several states labeled tax flight exemplars saw relatively strong per-capita income growth over this period. California ranked third; Massachusetts and Minnesota outperformed Florida; and Illinois and New York outperformed Tennessee and Texas.
- **Academic research has found that high housing costs and undesirable winter weather deter people from moving to several of the higher-tax states.** States like California, Connecticut, Massachusetts, and New York have long experienced net out-migration primarily because of relatively low rates of in-migration, not because of excessive out-migration. There are two major reasons: (1) they have some of the highest housing costs in the country. In fact, the median home price in California in 2019 was almost *twice* as high as it was in Texas. And (2) three of these four states have cold, snowy winters that many people in the steadily aging U.S. population wish to avoid. Substantial research demonstrates that housing prices are a major driver of interstate migration and that people — especially retirees — have a strong preference to live in a warm climate.
- **State income tax cuts for high-income people haven't meaningfully boosted in-migration.** In recent decades, three states with poorly performing economies and long-standing net out-migration — Kansas, New Mexico, and Ohio — deeply cut income taxes on high-income people with the aim of boosting economic growth. None of these experiments were successful overall, and none resulted in meaningful drops in their net out-migration rates — let alone generate net in-migration. Furthermore, a study of a 2003 Montana high-income tax cut found no evidence of improved out-migration and “evidence . . . consistent with the tax law change having [positively] affected high income in-migration, but . . . not strongly in favor of there being an effect.” And, finally, while North Carolina has seen an increase in its net in-migration rate since it began cutting the top rate of its income tax in 2013, it had experienced strong in-migration prior to that when it had the highest income tax rates in the Southeast, and its net in-migration since the tax cut has not reached levels achieved in some years prior to the cut.
- **State income tax *increases* on wealthy people have not led substantial numbers of them to move to lower-tax states, certainly not enough to erode more than a small fraction of the revenue the tax increases generated.** A handful of academic researchers have been granted access to the tax returns of very high-income people — generally those with incomes above \$1 million. This has enabled them to analyze the effects on their migration of both high-income tax increases enacted by New Jersey and California, and effective increases in state income taxes resulting from the 2017 cap on the deductibility of state and local taxes (SALT cap) on federal tax returns. These studies have all found that these tax increases have generated only small increases in (net) out-migration of the households subject to them. For example, the study of a substantial (3 percentage point) increase in the California tax rate on millionaires enacted in 2012 found a one-time loss of 535 millionaire households out of almost 67,000 such households residing there at the time of the increase. This out-movement resulted in an estimated loss of just 4.2 percent (\$200

million) of the \$5 billion annual revenue the tax increase had been expected to generate. (It ended up raising \$5.8 billion in its first year, and more in future years.) A nationwide study of the effects of the SALT cap found it had no meaningful effect on out-migration. It did deter at least some in-migration to higher-tax states, to the tune of about 380 millionaires in California, whose current millionaire population is 81,000.

- **The most comprehensive nationwide study of millionaire migration ever conducted concluded that “millionaire tax flight is occurring, but only at the margins of statistical and socioeconomic significance.”** A 2016, peer-reviewed study analyzed the state from which every tax return reporting more than \$1 million in income was filed between 1999 and 2011. It found that the “annual millionaire migration rate is 2.4 percent, which is lower than the migration rate of the general population (2.9 percent).” It also determined that state income taxes have only a tiny impact on millionaires’ moves; if the average state raised its income tax rate on millionaires by 1 percentage point while all other states kept their rates the same, 12 fewer millionaires would move into that state and 11 more would move out, compared to 9,000 existing millionaire households in that average state. Finally, it found that only 2.2 percent of U.S. millionaires make an interstate move to a lower-tax state in an average year, and that Florida is the only state for which there is any evidence that low income taxes attract them.

In sum, claims that interstate tax differences are a major driver of interstate migration — especially with respect to high-income and highly educated workers — do not withstand an examination of the evidence on this issue. State policymakers should reject calls to cut taxes in the name of attracting more people to their states and instead prioritize raising sufficient revenue to preserve and enhance investments in education, health care, roads, parks, and other critical services and infrastructure that make their states places where people want to live and businesses want to locate.

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## This Report Addresses Only One of Three Claims Regarding Taxes and Interstate Migration

People who assert that interstate tax differences are a major driver of interstate moves tend to make three distinct claims, although the differences between them are often glossed over. The first claim is that people “vote with their feet” by consciously moving from higher-tax states (or from states enacting new tax increases) to lower-tax states, in large part because they want to pay less tax or believe they don’t get their money’s worth of public services for the taxes they currently pay. The second claim is that states with lower tax levels and less progressive tax structures inherently generate faster income growth and create more jobs, and that this attracts people from other states seeking to improve their standard of living. The third, broader claim is that low state and local taxes are one element of a larger set of conservative policy choices, including few occupational licensing requirements, laws barring mandatory payment of union dues by non-union members in union shops (“right to work”), and similar “economic freedom” policies that together attract people who consciously want to live in such an environment and lead to faster economic growth that has the same magnet effect.

*This paper primarily addresses the first of these three claims* – arguably the one most frequently asserted – and it should therefore be read in this light.

We and other organizations have explained the flaws of the second claim elsewhere (see below). The third claim is not just flawed but so broad that it is impossible to tease out the relative role of interstate tax differentials in the asserted outcomes. A state business climate ranking along these lines, the Pacific Research Institute’s “Economic Freedom Index,” is no longer published. An evaluation found that it could not predict state economic performance.<sup>a</sup>

- Carl Davis, “Another Reason to Tax the Rich? States with High Top Tax Rates Doing as Well, if Not Better, than States Without Income Taxes,” Institute on Taxation and Economic Policy, September 23, 2020;
- Michael Mazerov, “Kansas Provides Compelling Evidence of Failure of ‘Supply-Side’ Tax Cuts,” Center on Budget and Policy Priorities, January 28, 2018; and
- Wesley Tharpe and Michael Leachman, “Cutting State Income Taxes Counterproductive to Prosperity, Racial Justice,” Center on Budget and Policy Priorities, January 14, 2021.

<sup>a</sup> See Peter Fisher, “Grading Places: What Do the Business Climate Rankings Really Tell Us?” Economic Policy Institute, 2005, Chapter 5, [https://files.epi.org/page/-/old/books/grading\\_places/grading\\_places\\_\(full\\_text\).pdf](https://files.epi.org/page/-/old/books/grading_places/grading_places_(full_text).pdf).

## “Tax Flight” Arguments Are Part of a Concerted Attack on State and Local Government

For roughly the past 15 years, anti-government advocates have been engaged in a concerted effort to strip states of revenue by cutting their personal income taxes and reducing the progressivity of income tax structures — at a minimum, substituting flat-rate taxes for those with graduated rates and, in the long run, repealing such taxes altogether. Exaggerated claims of tax flight should be understood as a key part of that effort. The preeminent example of this research is the annual “Rich States, Poor States” report (RSPS), co-authored by Arthur Laffer and Stephen Moore and issued since 2007 by the American Legislative Exchange Council (ALEC), an organization of conservative state lawmakers.

The centerpiece of the report is the “ALEC-Laffer State Economic Competitiveness Index,” which ranks states on what the authors consider to be their key economic policy choices. It includes the top personal income tax rate and the progressivity of the income tax structure as two of the 15 measures that allegedly determine the competitiveness of a state’s economy, with high levels of both scored negatively.<sup>1</sup> In addition, the study ranks states on their economic performance, with the (net) number of people moving into or out of the state in the most recent ten-year period being one of just three of the variables determining the ranking.<sup>2</sup> (As discussed below, there is some question whether net migration is appropriate as a state economic performance measure.)

In the first RSPS, Laffer and Moore labeled state income taxes a “monstrosity,” extolled the wisdom of those states that were in the process of reducing them and wrote: “Perhaps the era of the income tax is finally coming to an end. And better yet, we may not just see the rollback of income taxes, but their full repeal.” Full repeal has yet to happen anywhere, but nearly every RSPS since has urged states to do so.

State lawmakers who propose tax increases must frequently contend with claims or studies of the supposed economic consequences of tax flight issued in response. Anti-tax critics also use the frequent release of new data on interstate movement of households (there are four relevant federal government data releases annually and at least two issued by private companies)<sup>3</sup> as opportunities to

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<sup>1</sup> Similarly, the Tax Foundation’s annual State Business Tax Climate Index, issued since 2003, ranks states more negatively the higher their top income tax rates are, the higher the income level is at which their top rate kicks in, and the higher the number of different tax brackets the tax has. See <http://www.gradingstates.org/the-tax-foundations-state-business-tax-climate-index/>. The Tax Foundation has issued dozens of reports and blogs in which they argue that cutting state income tax rates, even minimally, inevitably enhances the economic “competitiveness” of the state’s tax structure. See, for example, Katherine Loughhead, “Idaho to Consider Flat Income Tax in Special Session,” September 1, 2022, in which it touted as “making the state’s tax code more economically competitive” a bill that proposed to cut the top income tax rate from 6.0 percent to 5.8 percent.

<sup>2</sup> The other two are the annual growth rate in state nonfarm employment and state GDP averaged over the ten most recent years. See Arthur B. Laffer, Stephen Moore, and Jonathan Williams, “Rich States, Poor States,” 15<sup>th</sup> Edition, American Legislative Exchange Council, 2023, p. 57.

<sup>3</sup> In addition to the annual Internal Revenue Service interstate migration data that are cited at length below, the Census Bureau’s “Annual Estimates of the Components of Resident Population Change” table, its annual “State-to-State Migration Flows” table based on the American Community Survey (ACS), and the United Postal Service’s Change of Address report all provide data that measure the number of household moves into and out of specific states. The United Van Lines and U-Haul companies also issue data annually on the states their moving vans and rental trucks are leaving and entering. These datasets all show nearly identical and persistent patterns of in- and out-migration, but anti-

make similar assertions. New academic studies purporting to find statistically significant effects of state taxes on interstate migration are touted regardless of how economically significant the identified effects may be, while prior research and new studies finding no meaningful effects are rarely acknowledged.<sup>4</sup> Even states with relatively low tax levels and low levels of out-migration are told that they can mitigate their loss of residents or their “brain drain” of college graduates if they only cut their income taxes further. Most recently, dozens of articles have appeared warning that both the cap on the deductibility of state and local taxes established by the 2017 federal tax overhaul law and an increase in remote work attributable to the COVID-19 pandemic will sharply increase tax flight.<sup>5</sup>

This report is an update of two previous papers on the issue and, like its predecessors, demonstrates that claims about tax flight are grossly exaggerated. As we detail in the following sections, an in-depth look at both IRS and Census data on interstate migration shows that the vast majority of people who are moving from state to state are not doing so in search of lower taxes. The raw data — confirmed by a series of careful academic studies — show that for the vast majority of people — including the vast majority of the rich — tax levels are a minor consideration or completely irrelevant. Even if some individuals relocate because they think their taxes are too high or weigh state and local tax levels heavily in deciding where to move once they have decided to do so for other reasons, those cases are sufficiently rare that they should not drive state tax policy decisions.

## So Many Factors Influence Migration That It’s Difficult to Untangle Them

Migration is an intensively studied social phenomenon.<sup>6</sup> Researchers seek to tease out the drivers of migration by examining the objective characteristics both of the movers themselves (age, education, family composition, income level, and risk tolerance, for example) and of the origin and destination locations (distance between them, unemployment rates, wage levels, climate,

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government-oriented media like the *Wall Street Journal* editorial page are nonetheless eager to take advantage of the opportunity their releases provide to attack the higher-tax states for which net out-migration has been reported. The widespread coverage the Postal Service, United Van Lines and U-Haul releases receive is particularly unfortunate given that their client bases are not a statistically valid representation of the U.S. population. See, for example: Karen Smith Conway and Jonathan C. Rork, “On Measuring U.S Interstate Migration with Moving Van Data,” *Population Research and Policy Review*, 2022.

<sup>4</sup> For example, the *Wall Street Journal* published an editorial touting the Rauh-Shyu study discussed below on the effect on migration of California’s 2012 Proposition 30 tax increases (see “California’s Tax-the-Rich Boomerang,” October 21, 2019) and an earlier one highlighting two studies on the tax-motivated migration of scientists and investors (“Why Everyone Needs a Tax Cut,” July 4, 2016). In contrast, the only mention in the *Journal* of the major 2016 Young-Varner-Lurie-Prisinzano paper also discussed below occurs in the final paragraph of a news article appearing more than a year later, (Ben Leubsdorf, “Deduction Rollback Hurts High-Tax States, But Exodus Isn’t Assured,” December 18, 2017), while a Google search turned up no *Journal* reference to a major 2022 follow-up study (Cristobal Young and Ithai Lurie, “Taxing the Rich: How Incentives and Embeddedness Shape Millionaire Tax Flight,” Washington Center for Equitable Growth).

<sup>5</sup> See Appendix A for a discussion of the effect of remote work on interstate migration during the first two years of the pandemic.

<sup>6</sup> Searching Google Scholar with the keywords “interstate migration” and “United States” identifies over 9,400 articles. There are many additional studies examining *intrastate* migration within the U.S. (for example, from urban to rural areas) and international migration to the U.S.

geographical amenities like mountains and coastal access, urban/suburban/rural character, housing costs, and — increasingly — tax levels and the quality of state and local government services).<sup>7</sup>

A general consensus has emerged from this research that most short-distance moves are motivated by a desire for better housing (cheaper, higher quality, closer to work, transition from renter to owner, location in a preferred neighborhood). Long-distance moves are more likely to be job related (as people transition from school to the workforce, are laid off, are transferred by their employer, or simply decide to look for a higher-paying job elsewhere) or family related (moving due to marriage, retirement, or a desire to be closer to parents or adult children and grandchildren).<sup>8</sup>

Even given this broad consensus, it remains a major challenge for researchers that dozens of factors have been found to influence migration<sup>9</sup> and that they are often highly correlated.<sup>10</sup> For example, Florida is a relatively low-tax state without an income tax, but it is also a sunny, snow-free state with over a thousand miles of coastline. All other things being equal (and we know in practice they are not), most people would prefer paying lower taxes to higher taxes, and many people would like to live near the ocean and in a warm place where they can engage in outdoor recreation in the winter.

Moreover, Florida's housing costs have been much lower than those in the Northeast, so a New York, Connecticut, or New Jersey retiree could cash in the value of the home where they raised a family, buy a high-quality condominium in the state, and have money left over to live on. In addition, they know many of their friends are planning to make the same move, which makes it even more attractive.

This population flow generates a secondary flow of younger workers to the Sunshine State seeking job opportunities, for instance in physical therapy and health care services. So, given all

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<sup>7</sup> Ning Jia *et al.*, "The Economics of Internal Migration: Advances and Policy Questions," Federal Reserve Board of Governors Finance and Economics Discussion Series paper 2022-003, is a noteworthy recent summary article. Arthur P. Hall, Scott Moody, and Wendy P. Warcholik, "The County-to-County Migration of Taxpayers and Their Incomes, 1995-2006," Center for Applied Economics, University of Kansas School of Business, March 2009, summarizes much of the literature up to that date in addition to including the statistical analysis discussed below.

<sup>8</sup> "[H]ousing drives local moves, and jobs drive long-distance moves. . . . For long-distance moves (between states), the most common motivator is job-related (51 percent) followed by family-related reasons (25 percent). . . ." Riordan Frost, "Are Americans Stuck in Place? Declining Residential Mobility in the U.S.," Harvard University, Joint Center of Housing Studies, May 2020, p. 5. That said, there is evidence that housing costs have become a more significant influence on interstate moves in recent years, particularly affecting the states people choose to move to once they've decided to move in search of a higher-paying job.

<sup>9</sup> Some of the factors influencing migration are anything but obvious. A recent study, for example, concluded that changes in family law that have allowed more fathers to have joint custody of their children have measurably suppressed interstate migration since court orders often limit how far parents with joint custody can live from their former spouses. See Daniel Bonin, "Policy Induced Migration in the United States," unpublished Ph.D. dissertation, Economics, Purdue University, August 2021, Chapter 3.

<sup>10</sup> Indeed, one of the most puzzling yet widely recognized facts about migration is that states that experience high rates of in-migration frequently also experience high rates of out-migration. See Peter R. Meuser and Michael J. White, "Explaining the Association between Rate of In-Migration and Out-Migration," *Papers of the Regional Science Association*, 1989. This would seem to defy logic, since factors that tend to attract people to states (like warm weather and plentiful jobs) should also deter current residents from leaving. As will be discussed below, however, it is quite possible that some of the factors affecting out-migration and in-migration are different.

these factors that arguably have contributed to the strong and long-standing flow of people into Florida, it is difficult for even skilled researchers to isolate the effect of Florida's relatively low taxes.

Other challenges to the migration equation are state differences in the demographic characteristics of their residents. For example, while 69 percent of people alive in the U.S. reside in the state in which they were born, Connecticut, Maryland, Massachusetts, New Jersey, and New York are all slightly below average on this score.<sup>11</sup> Some might cite this as evidence that the states' relatively high taxes eventually cause an above-average share of the people raised in them to leave. However, it has also been established that college-educated people have less of an attachment to their birth state than less-educated people do,<sup>12</sup> and these states rank among the top ten in the share of their residents with college and graduate degrees.<sup>13</sup> Moreover, people who leave their home state to attend college are more likely to establish ties that mediate against their returning to their home state, and all these states except New York rank in the top ten in the share of their high school graduates who enroll in an out-of-state school. (New York is still above average, at 20<sup>th</sup>.)<sup>14</sup> So, again, there are plausible explanations other than taxes for why these states are below average in their lifetime retention of the people born there.

Academic researchers use sophisticated statistical techniques to try to isolate the independent effects of the different factors that explain migration, but achieving this objective is extremely challenging and sometimes nearly impossible. For example, one study that sought to identify comprehensively the factors leading people to move to a different county (in the same state or a different one) began with 64 different plausible explanatory factors identified in prior research. Many of these factors turned out to be so highly correlated that 25 of them had to be dropped from the model. Even then, the 39 remaining explanatory variables only explained 18 percent of the variation in out-migration rates among all U.S. counties.<sup>15</sup> And while many of the variables were determined to be of independent statistical significance (including, it should be acknowledged, the tax level variables), the magnitudes of the effects were so small that the authors did not even attempt to rank their relative importance in explaining the differences in migration rates.

In sum, the first reason to be skeptical of claims that interstate differences in tax levels are a major driver of moves out of relatively high-tax states is that there are so many overlapping factors that have been identified as contributing to migration that it is inherently unlikely that any except the

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<sup>11</sup> The analogous figures are 60 percent for Connecticut and New York, 64 percent for Maryland and Illinois, and 63 percent for Massachusetts. Calculated from U.S. Census Bureau, "State of Residence by State of Birth: 2019," 2019 American Community Survey 1-year estimates, [https://www2.census.gov/programs-surveys/demo/tables/geographic-mobility/2019/place-of-birth-acs-2019/State\\_of\\_Residence\\_By\\_State\\_of\\_Birth\\_Table\\_2019.xls](https://www2.census.gov/programs-surveys/demo/tables/geographic-mobility/2019/place-of-birth-acs-2019/State_of_Residence_By_State_of_Birth_Table_2019.xls).

<sup>12</sup> Ryan M. Gallagher and Joseph Persky, "Heterogeneity of Birth-State Effects on Internal Migration," *Journal of Regional Science*, 2020.

<sup>13</sup> "List of U.S. states and territories by educational attainment," [https://en.wikipedia.org/wiki/List\\_of\\_U.S.\\_states\\_and\\_territories\\_by\\_educational\\_attainment](https://en.wikipedia.org/wiki/List_of_U.S._states_and_territories_by_educational_attainment).

<sup>14</sup> National Center for Education Statistics, "Residence and migration of all first-time degree/certificate-seeking undergraduates in 4-year degree-granting postsecondary institutions who graduated from high school in the previous 12 months, by state or jurisdiction: Fall 2020," Table 309.30, [https://nces.ed.gov/programs/digest/d21/tables/dt21\\_309.30.asp](https://nces.ed.gov/programs/digest/d21/tables/dt21_309.30.asp).

<sup>15</sup> See Hall, Moody, and Warcholik.

“big three” — housing, jobs, and family — could clearly be identified as a primary (let alone the top) one.

## People Themselves Say That Jobs and Family Are Top Reasons for Interstate Moves

Survey data generally confirm the findings of statistical research on migration. Every year since 1998, the Census Bureau has surveyed people who move, asking them the main reason they did so.<sup>16</sup> The most common reasons cited for an interstate move in the survey conducted just prior to the beginning of the pandemic were job- and family-related, explaining more than two-thirds of such moves. Some 43 percent of respondents who moved between 2019 and 2020 said they had moved due to a “new job or job transfer,” to look for work or because they lost a job, or to be closer to work or have an easier commute.<sup>17</sup> (See Figure 1.) Twenty-five percent said they had moved due to marriage, moving in with an unmarried partner, or to another family-related reason.<sup>18</sup> Aside from the effects of the pandemic,<sup>19</sup> these shares have remained remarkably stable over the nearly 25-year period in which the survey has been conducted.<sup>20</sup>

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<sup>16</sup> For a chart showing responses to this survey since 2000 regarding interstate moves, see Jia *et al.*, p. 18.

<sup>17</sup> Of course, many interstate moves are local moves, since many major urban job centers, such as New York City, Boston, Portland (Oregon), Chicago, and Washington, D.C., are located within multi-state commuting zones. All these cities except New York sit close to the border of a state where income taxes are not levied (New Hampshire and Washington State) or where tax levels have long been substantially lower (Indiana and Virginia). Yet, hundreds of thousands of people choose to live in these four cities, even when their residents could retain their current jobs while paying lower taxes by making a short move across state lines.

<sup>18</sup> Calculated by Center on Budget and Policy Priorities staff from the March 2020 Annual Social and Economic Supplement to the Census Bureau’s Current Population Survey.

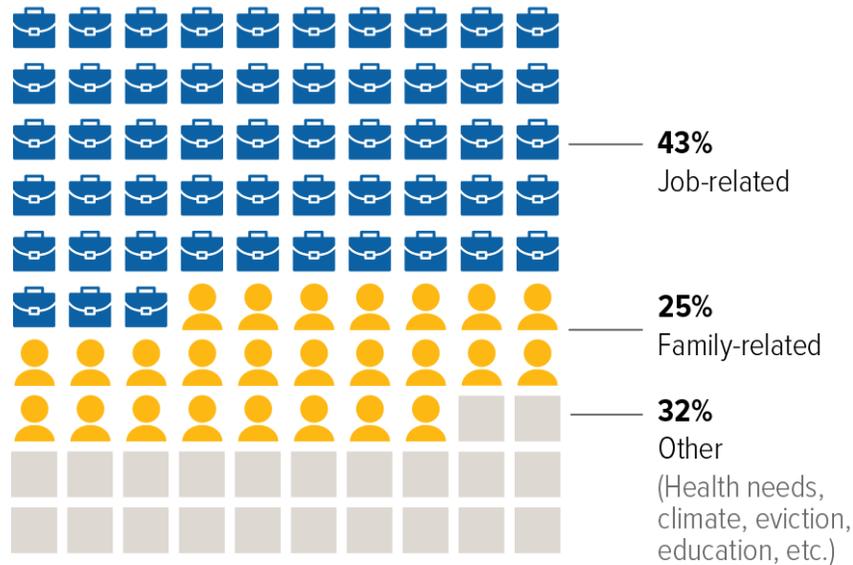
<sup>19</sup> Reflecting the disruption of the labor market that occurred in the first year of the pandemic, job-related reasons for interstate moves dropped to 31 percent and family-related increased to 29 percent in the March 2021 survey.

<sup>20</sup> See “Table A-5. Reason for Move (Specific Categories): 1999-2021,” [https://www2.census.gov/programs-surveys/demo/tables/geographic-mobility/time-series/historic/hst\\_mig\\_a\\_5.xlsx](https://www2.census.gov/programs-surveys/demo/tables/geographic-mobility/time-series/historic/hst_mig_a_5.xlsx). Note that this table combines results of the survey for intrastate and interstate moves, so the shares differ significantly from those reported in the text above.

FIGURE 1

## Job- and Family-Related Reasons Are People’s Primary Explanations for an Interstate Move

Share of people surveyed who moved between 2019 and 2020



Source: CBPP calculations of U.S Census Bureau, Current Population Survey

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The Census Bureau survey does not explicitly offer respondents the option of answering “Wanted to reduce my state and local taxes” — itself perhaps an indication that the professional demographers responsible for designing the survey recognize that this is unlikely to be a common enough reason to merit a separate category. Nonetheless, people for whom that is the main reason for a move could choose another category the survey offers, such as “cheaper housing,” or “other housing reason” (which might encompass wanting to pay lower property taxes) or “other reason.” Yet only 9 percent of people who moved interstate between 2019 and 2020 chose one of those three answers.<sup>21</sup> Moreover, it is highly unlikely that that entire 9 percent had state and local taxes in mind when answering that way; there are many other reasons why people would answer “other” or “other housing.” For example, people might want to live near the ocean or within a specific school district.

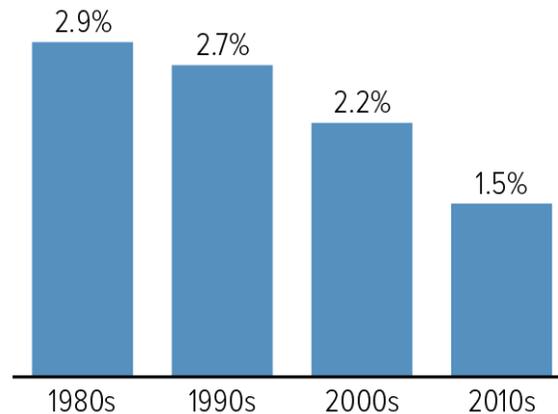
In sum, one of the most compelling pieces of evidence that state and local taxes are not a major reason for interstate moves is that few people say that they are.

<sup>21</sup> Thirteen percent of people who moved between March 2020 and March 2021, the first year of the pandemic, offered those three reasons.

FIGURE 2

## Interstate Migration Is About Half as Common as It Used to Be

Average interstate migration rates of U.S. residents



Source: U.S. Census Bureau, Current Population Survey

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## Interstate Tax Differentials Have Widened, But Interstate Migration Has Fallen

Another piece of evidence that interstate tax differences are not a major driver of interstate moves is that the national rate of interstate migration has dropped sharply in recent decades even as the gap between the tax levels of higher-tax and lower-tax states has grown.<sup>22</sup> If tax differentials were a major driver of interstate moves, one would have expected to see their widening to coincide with increased migration.

From the 1950s through the 1980s, around 3 percent of U.S. residents on average moved to another state each year. Beginning around 1990, however, the annual interstate migration rate started trending downward; since 2010, it has averaged 1.5 percent, half its former level.<sup>23</sup> (See Figure 2.) Yet, since 1990, the disparity in tax levels among states has widened. In 1990, combined state and local taxes per person in the ten highest-tax states were, on average, 69 percent higher than those in

<sup>22</sup> Migration changes resulting from specific states widening or narrowing the gap between their tax levels and those of other states will be discussed below.

<sup>23</sup> U.S. Census Bureau, “Table A-1. Annual Geographic Mobility Rates, By Type of Movement: 1948-2020,” <https://www2.census.gov/programs-surveys/demo/tables/geographic-mobility/time-series/historic/tab-a-1.xls>. (See Column I, Rows 95-179.) “[I]nterstate migration appeared to peak at 3.3 percent in 1990, before declining and then stabilizing in recent years around 1.5 percent.” Frost, p. 3.

the ten lowest-tax states. By 2020, they were 85 percent higher.<sup>24</sup> These trends further undermine the theory that taxes are motivating interstate moves.<sup>25</sup>

## Careful, Separate Examination of Data on Out-Migration and In-Migration Substantially Undermines Tax Flight Claims

A deeper dive into the data on moves into and out of specific states and between specific pairs of states casts even greater doubt on tax flight arguments. Most of the rest of this report examines such state-specific data.

Before doing so, however, it is important to understand two key facts.

First, regardless of whether more people have moved into a particular state than out of it in recent years, every state experiences both substantial in-movement and out-movement. In other words, even states that experience what demographers refer to as “net out-migration” — more people moving out than moving in — also experience substantial gross in-migration. And the converse is true: states that experience net in-migration — more people moving in than moving out — still have a substantial number of people moving out. In every state, net migration is a small fraction of total or gross migration.

Second, in-migration and out-migration are not the only sources of state population change. Population changes are also affected by relative rates of births and deaths, which demographers refer to as “natural increase.” Most states that experience net out-migration still experience growth in their total population each year due to an excess of births over deaths that is large enough (at least in combination with in-migration from foreign countries) to offset the domestic out-migration.

Turning to the data, seven of the nine states without broad-based<sup>26</sup> income taxes (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming) have long experienced net in-migration, while the states with highest taxes are almost all net out-migration states. For example, for the ten most recent years for which interstate migration data are available from the IRS, 2011-2021 (see Appendix B), all states without broad-based income taxes except Alaska and Wyoming experienced net in-migration, while the higher-tax states of Connecticut, Illinois, New Jersey, and New York were four of the five states that had the highest rates of net out-migration during this period.<sup>27</sup> At the extremes, the number of Nevada households increased an

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<sup>24</sup> The source of the data used for the calculation is the Census Bureau’s Government Finances series. The data were accessed using an online tool created by the Tax Policy Center, available at <https://state-local-finance-data.taxpolicycenter.org/pages.cfm>. The calculation is a straight average of per capita taxes in the two groups of states, not a weighted one. It omits Alaska, North Dakota, and Wyoming, whose especially heavy reliance on oil, gas, and coal severance taxes combined with very small populations renders total state and local taxes per person a misleading measure of the taxes for which households are liable.

<sup>25</sup> Economists and demographers have identified many factors that may explain the sharp decline in interstate migration rates — such as growing numbers of two-earner couples who must identify better job opportunities for two people rather than one to make a move worthwhile. However, there is little consensus on the major factors driving this decline. See Frost, *op. cit.*

<sup>26</sup> Tennessee’s limited income tax on interest and dividends was repealed effective January 1, 2021. New Hampshire’s similar tax is being phased out.

<sup>27</sup> No-income-tax Alaska had the highest rate of out-migration from 2011-2021.

average of 1.2 percent annually due to net (domestic) migration over this period, while New York lost 1.0 percent of its households annually due to migration.<sup>28</sup>

Focusing only on net migration patterns obscures the full picture of what is happening and can be misleading.<sup>29</sup> For instance:

- Focusing only on net numbers obscures the large number of people moving *into* states experiencing net out-migration.
- Discussing only net numbers obscures the fact that many higher-tax states have out-migration *rates* that are lower than similarly sized states.
- Conversely, using net migration data to make the case for tax flight helps its advocates to evade consideration of the non-tax factors that might lead people who have decided to leave their current states to avoid moving into states like California, Illinois, and New York — factors such as higher housing costs and, in the case of the latter two states, climate.

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<sup>28</sup> These data refer to changes in the number of households due solely to domestic (within-U.S.) migration, which will be the case throughout this report. International migration is ignored. It is assumed that migrants to the U.S. would rarely have sufficient information and understanding about state tax structures to base their initial states of residence on those. For people choosing to emigrate *from* the U.S., it is assumed that, even if this were partially tax motivated, it would be primarily attributable to federal tax levels, not state taxes, since the former are much higher.

<sup>29</sup> Demographers have explained that using net migration data to evaluate the causes of migration also has serious mathematical and logical flaws:

Causal models of migration that seek to explain patterns of net migration are founded on inadequate perspectives. Net migration rates confound movement propensities with relative population stock levels. They hide well-established regularities in the age pattern of geographical mobility. *They can lead to misspecified explanatory (causal) models. . .*

Andrei Rogers, “Requiem for the Net Migrant,” *Geographical Analysis*, October 1990, emphasis added. Hall, Moody, and Warcholik, *op. cit.*, recognized these flaws and, accordingly, used statistical analysis to evaluate the factors that contribute to *out*-migration only.

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## How Are “Higher Tax” States Defined for Purposes of This Report?

There is no objective or universally agreed upon way to define a relatively high-tax state. For example, some analyses can reasonably compare taxes per person, and others examine taxes as a share of a state’s economy or its total personal income. States that may have low or no state income taxes may have very high local property and sales taxes, so comparing just income taxes or just state taxes can be misleading.

For purposes of most of the comparisons in this report (including most of the data tables and graphics), we will consider a state to be “higher tax” if, averaged over the 2011-2021 period, it fell in the top ten states ranked by the top-bracket personal income tax rate, personal income tax collections as a share of personal income (as reported by the Bureau of Economic Analysis in the Commerce Department), or total state and local taxes as a share of personal income.<sup>a</sup> Using all three criteria and looking at the top ten states that satisfy at least one of them resulted in a list of 18 states that includes essentially all the states that are regularly held up as tax flight examples while encompassing only a few that are rarely if ever so identified.

Those who exaggerate tax flight are *not* consistent in how they identify high-tax states. If they were, it would frequently undermine their argument. For example, many studies and columns have been written claiming that Illinois and Massachusetts are experiencing substantial tax flight, yet they rank 35th and 30th, respectively, in the level of their top income tax rate (averaged over the 2011-21 period). Conversely, Oregon and Maine ranked third and tenth, respectively, on this measure, but they are never acknowledged to be high-tax states because they have both consistently experienced net in-migration in recent years.

<sup>a</sup> We included one measure that includes local government taxes because it was necessary if our comparisons were to capture certain states (particularly Illinois) that are often described as exemplifying tax flight but have relatively low income taxes.

TABLE 1

### Large Majority of Households Leaving Higher-Tax States Are Replaced by Ones Moving In (Annual Average, 2011-2021)

State	Households Moving Out	Households Moving In	Share of Departing Households Replaced by New Arrivals
New York	234,067	153,437	66%
Illinois	140,859	99,0520	70%
New Jersey	111,661	92,140	83%
California	306,969	254,195	83%
Connecticut	48,559	40,312	83%
Massachusetts	82,979	69,060	83%
West Virginia	19,922	17,906	90%
Maryland	90,398	81,924	91%
Rhode Island	16,108	14,790	92%
Iowa	32,894	30,259	92%
Hawai'i	28,393	26,328	93%
Wisconsin	51,209	47,810	93%
Minnesota	51,092	48,061	94%
Vermont	10,247	9,944	97%
Kentucky	44,740	43,987	98%
Maine	14,349	16,899	118%
Delaware	15,199	17,984	118%
Oregon	52,817	63,415	120%

Source: Internal Revenue Service Gross Migration File

TABLE 2

## Large Majority of High-Income Households Leaving Higher-Tax States Are Replaced by Ones Moving In (Annual Average, 2011-2021)

State	Households Moving Out	Households Moving In	Share of Departing Households Replaced by New Arrivals
New York	18,275	8,357	46%
Illinois	9,579	4,664	49%
California	22,577	14,847	66%
Maryland	5,167	3,613	70%
Minnesota	2,769	2,015	73%
West Virginia	556	407	73%
New Jersey	9,120	6,974	76%
Massachusetts	5,914	4,642	78%
Iowa	1,065	849	80%
Connecticut	4,268	3,461	81%
Kentucky	1,353	1,237	91%
Wisconsin	2,142	2,037	95%
Rhode Island	686	733	107%
Hawai'i	758	961	127%
Oregon	2,140	2,813	131%
Vermont	394	550	140%
Delaware	663	971	146%
Maine	555	979	176%

Source: Internal Revenue Service Gross Migration File. Data are for households with federal Adjusted Gross Income of \$200,000 and above (the highest income grouping in the IRS data).

### High-Tax States Have Significant In-Migration — Including From States Without Income Taxes

In each state there are two different migration trends at work: people moving out of the state and people moving in. In every state, including those with higher taxes, a substantial majority of people moving out are replaced by people moving in. Table 1 reports these data for the roughly one-third of states with the highest taxes. It shows that, in all but two of these states, at least 80 percent of out-movers were replaced by in-movers. Even in the state with the lowest replacement share, New York, for every 3 households that left from 2011 to 2020, 2 moved in.

Of course, the net result is out-migration from New York. But focusing only on the out-migration result obscures that a lot of people moved into New York, generally from states with lower taxes. That fact helps paint a fuller picture and raises more questions about tax flight claims, such as, why would so many people move to New York if taxes were such a powerful factor in where people move?

Even large shares of high-income taxpayers leaving higher-tax states are replaced by other high-income households moving in. Table 2 presents these data. Although the replacement shares are generally lower for the highest-income group than for all income groups taken together, they are still above 70 percent for all but three states. Six of the 18 states shown in the table experienced more high-income taxpayers moving in than moving out over the period. In New York and Illinois, about 1 high-income household moved in for every 2 that moved out.

Again, that net migration result might support a tax flight argument if other factors weren't driving the patterns. (For instance, both New York and Illinois experience harsh winters, both New York City and Chicago have some of the most expensive housing in the country, and employment in New York's high-paying finance industry has been flat in the past decade.<sup>30</sup>) Regardless, focusing only on the net result obscures the more complete story.

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<sup>30</sup> Employment in New York's financial sector grew only 3.6 percent between 2011 and 2021, according to Bureau of Labor Statistics data available at <https://www.bls.gov/sae/data/>.

TABLE 3

### Large Numbers of People Move From States Lacking Income Taxes to Higher-Tax States

<b>% of 2011-2021 moves to:</b>	<b>Florida</b>	<b>Nevada</b>	<b>New Hampshire</b>	<b>South Dakota</b>	<b>Tennessee</b>	<b>Texas</b>	<b>Washington</b>
<b>Replaced by reverse moves to:</b>							
<b>California</b>	91%	56%	103%	64%	58%	64%	69%
<b>Connecticut</b>	48%	63%	60%	63%	52%	60%	60%
<b>Delaware</b>	64%	78%	111%	73%	82%	72%	69%
<b>Hawai'i</b>	92%	50%	92%	83%	87%	79%	77%
<b>Illinois</b>	53%	57%	81%	71%	51%	58%	60%
<b>Iowa</b>	74%	92%	101%	83%	79%	80%	78%
<b>Kentucky</b>	79%	99%	120%	104%	85%	87%	92%
<b>Maine</b>	76%	102%	120%	104%	87%	94%	101%
<b>Maryland</b>	63%	75%	82%	75%	73%	74%	74%
<b>Massachusetts</b>	65%	79%	63%	84%	73%	74%	65%
<b>Minnesota</b>	61%	80%	99%	95%	85%	78%	75%
<b>New Jersey</b>	46%	55%	63%	64%	53%	54%	55%
<b>New York</b>	52%	61%	71%	75%	56%	61%	66%
<b>Oregon</b>	111%	111%	128%	111%	97%	101%	84%
<b>Rhode Island</b>	59%	78%	79%	31%	67%	73%	77%
<b>Vermont</b>	66%	87%	97%	66%	59%	85%	79%
<b>West Virginia</b>	68%	81%	89%	71%	67%	75%	85%
<b>Wisconsin</b>	65%	75%	100%	97%	66%	71%	70%

Source: IRS State-to-State Migration Flows data. The 91 percent figure in the top left cell means that the number of households that moved from Florida to California between 2011 and 2021 was 91 percent of the number that moved from California to Florida.

There not only is substantial in-movement to higher-tax states overall, there even is substantial in-movement to higher-tax states from states without income taxes. Table 3 shows the share of moves from the 18 previously identified higher-tax states to no-income-tax states that were replaced by moves in the opposite direction.<sup>31</sup> It shows that in all but three cases at least 50 percent of the moves from the higher-tax state to the no-income-tax state were replaced by moves in the opposite direction, with many replacement ratios being considerably higher.<sup>32</sup> (For example, 64 percent of the moves from California to Texas were replaced by moves from Texas to California, and 95 percent of the moves from Minnesota to South Dakota were replaced.) Overall, over the ten-year period, almost 2.5 million households moved from one of the no-income tax states to one of the 18 higher-tax states — an average of 248,000 each year.

If interstate differences in state tax levels were a major driver of interstate migration, it seems unlikely that more than 187,000 households would have moved from no-income-tax Florida to New York in this period and more than 227,000 would have moved from no-income-tax Texas to California (which, again, is the state with the highest top income tax rate). People who wanted or needed to leave Florida or Texas would have had plenty of other states to choose from, including eight other states without an income tax.<sup>33</sup>

In sum, the fact that a substantial majority of households moving out of higher-tax states experiencing net out-migration are replaced by households moving in suggests that tax differences among states are not major drivers of migration flows.<sup>34</sup> Thus, the explanation for why most of the higher-tax states experience net out-migration likely lies elsewhere; this will be discussed below.

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<sup>31</sup> Alaska and Wyoming are omitted because they have experienced net out-migration.

<sup>32</sup> The number of households moving from Florida to Connecticut and New Jersey between 2011 and 2021 were 48 percent and 46 percent, respectively, of the number that moved from those two states to Florida. The number moving from South Dakota to Rhode Island was only 31 percent of the number moving from Rhode Island to South Dakota, but the numbers were miniscule (a total of 39 and 126 households, respectively, over the ten-year period).

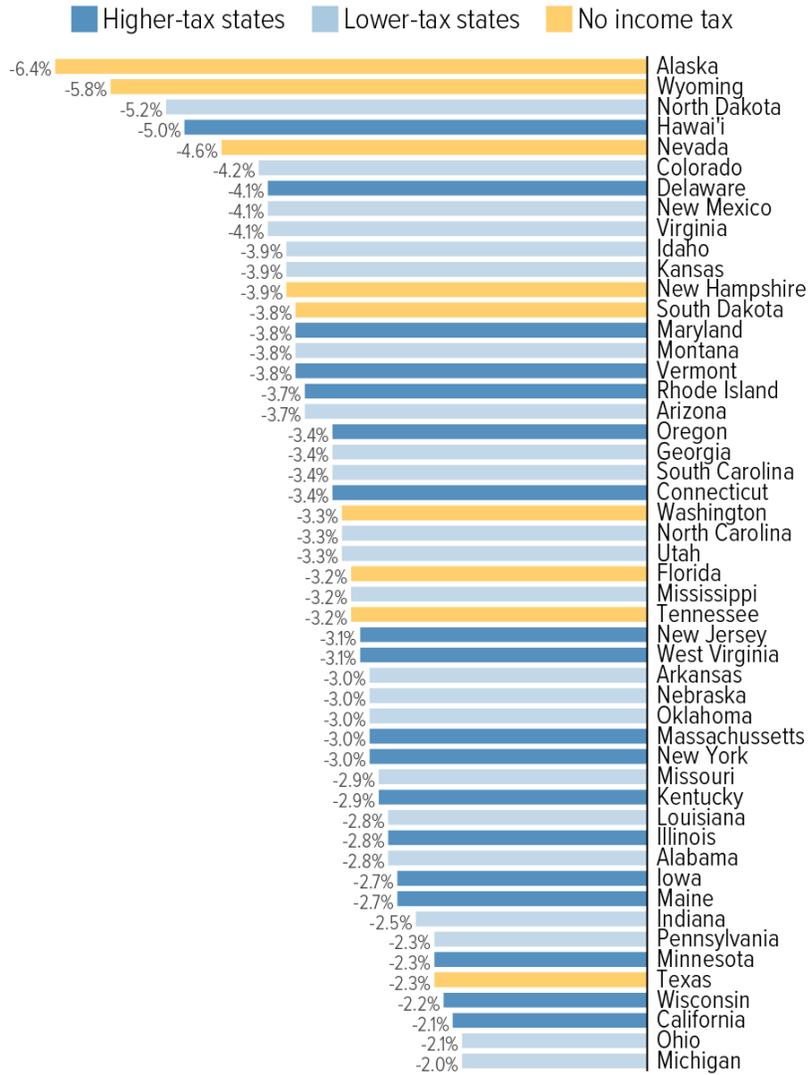
<sup>33</sup> Someone who wants to live in a no-income-tax state in the Northeast can choose New Hampshire; in the Southeast, Florida and Tennessee; in the Northern Plains, South Dakota; in the Southern Plains, Texas; in the Northern Rockies, Wyoming; in the Southwest, Nevada; and in the Pacific Northwest, Washington and Alaska.

<sup>34</sup> There is also good reason to question whether most people are aware of or able to accurately predict how much more state and local tax they might be liable for if they moved to another state. As Lyman Stone, an economist who has written extensively about interstate migration, has noted: “Because different states have different tax bases and rates, it is not always clear to a non-expert which areas actually have lower taxes.” Lyman Stone, “Yes, California Loses People to Texas,” Medium, November 14, 2016. Elsewhere, he has explained: “The signals received by an outflow [migrant] vs. an inflow [migrant] can vary widely. A person who leaves has already collected larger amounts of residency-based information than a person who is just arriving. That is, outflows reflect better-informed preferences than inflows. . . . Inflows don’t have as much information about local conditions as outflows, so they can’t be seen as being as reliable of indicators.” Lyman Stone, “Illinois, Again, and Why Nets Aren’t Everything,” Medium, June 21, 2017.

FIGURE 3

## People Leave Many No-Income-Tax States at Greater Rates Than From Many Higher-Tax States

Average annual out-migration rates, all households, 2011-2021



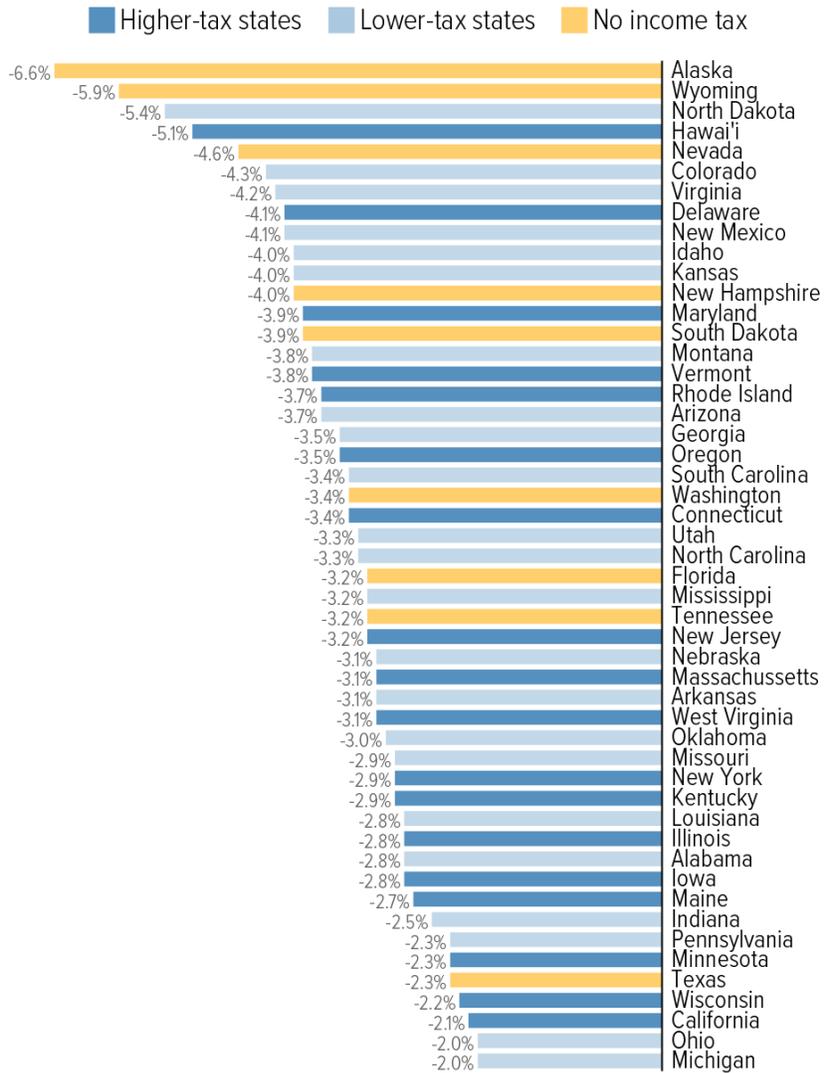
Note: The 18 higher-tax states are those ranking among the top ten states in highest income tax rates, state income taxes as a share of state personal income, or total state and local taxes as a share of personal income for the 2011-2021 period.

Source: Internal Revenue Service, Gross Migration File

FIGURE 4

## People With Income Less Than \$200,000 Leave Many No-Income-Tax States at Greater Rates Than From Many Higher-Tax States

Average annual out-migration rates, 2011-2021



Note: The 18 higher-tax states are those ranking among the top ten states in highest income tax rates, state income taxes as a share of state personal income, or total state and local taxes as a share of personal income for the 2011-2021 period.

Source: Internal Revenue Service, Gross Migration File

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### Higher-Tax States Generally Are Not Disproportionately Driving People Away

Focusing only on net migration rates obscures the fact that many higher-tax states have out-migration rates that are *lower* than comparable states. Gross out-migration should not be ignored, for

reasons including that people tend to have better ideas regarding their tax liability in states in which they reside versus those where they might move to. Figure 3 reports annual out-migration rates<sup>35</sup> averaged over all ten years for which data are available for all income groups combined. Figure 4 shows those rates for those with federal adjusted gross income below \$200,000. (Migration rates for the highest-income group the IRS tabulates, \$200,00 and above, will be discussed separately, given the focus on tax flight by top income earners.) Figure 4 reveals little correlation — much less causation — between the level of state incomes taxes and the number of households earning under \$200,000 leaving a state. For example:

- California has long been cited as a prime example of a state experiencing massive tax flight given its relatively high income tax rates. Yet California had the third lowest overall out-migration rate of any state from 2011-2021 for all income groups below the top one. California’s out-migration rate was even lower than that of Texas, which is frequently cited as the state to which many California taxpayers are allegedly moving to escape their state’s taxes.
- Minnesota and Wisconsin, two other states that have long been held up as having tax structures causing people to flee, also had the same (Minnesota) or lower (Wisconsin) out-migration rates among these income groups than Texas.
- Four other states often identified as experiencing high levels of tax-induced migration — Illinois, Massachusetts, New Jersey, and New York — have all had lower out-migration rates for this group than Tennessee and Florida, two other states without income taxes whose high rates of net in-migration are often cited as evidence in support of tax flight claims.
- Four other net out-migration states often cited as experiencing substantial tax flight — Connecticut, Maryland, Rhode Island, and Vermont — while among the upper half of states in their rate of out-migration for those earning under \$200,000, nonetheless have out-migration rates for this group that are lower than four states without income taxes: Alaska, Nevada, New Hampshire, and Wyoming.
- Maine and Vermont, ranking third and fourth respectively in total state and local taxes as a share of state personal income, have out-migration rates for those earning less than \$200,000 that are lower than their no-income-tax neighbor, New Hampshire, which had the sixth-lowest total state and local tax levels.<sup>36</sup>

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<sup>35</sup> The most appropriate way to evaluate the causes of migration is to compare migration *rates* (number of movers as a share of total population) among states, not raw counts of movers. At any point in time, a certain share of people in every state are likely to be experiencing the factors that drive migration — job loss, marriage, retirement, for example — so, larger states will have larger *numerical* flows of movers than smaller states. Unfortunately, the media frequently report only raw counts, misleading readers into thinking that taxes *must* be a major driver of migration since California and New York are two large states with many people leaving each year and Texas and Florida are large states with many people moving in. A recent example of this is Mike Winters, “Americans earning \$200,000 or more have fled these 10 places,” CNBC, August 18, 2022 (summarizing a study by WalletHub), <https://www.cnbc.com/2022/08/18/americans-earning-200000-or-more-have-fled-these-places.html>. This story compounded the misinformation by citing net migration statistics while referring to people who “fled” the states in the title.

<sup>36</sup> This measure calculates the major state and local taxes imposed on individuals — property, sales, and personal income taxes — as a share of state personal income and averages it for the 2011 through 2020 period.

TABLE 4

### Many States Lacking Income Taxes See Higher Out-Migration Among Residents With Incomes Below \$200,000 Than Do Comparably Sized States With Relatively High Taxes

Each comparison group consists of a no-income-tax state (shaded, bolded), followed by a higher-tax state, except when Wyoming and Alaska (no income tax) are compared to Vermont

	Average Number of Tax Returns Filed Annually, 2011-21	Average Annual Out-Migration Rate, 2011-21
<b>Texas</b>	9,781,886	2.3%
California	14,361,598	2.1%
<b>Florida</b>	7,920,939	3.2%
New York	7,851,379	2.9%
<b>Nevada</b>	1,121,942	4.6%
Connecticut	1,435,804	3.4%
<b>New Hampshire</b>	570,944	4.0%
Maine	538,070	2.7%
<b>South Dakota</b>	338,334	3.9%
Rhode Island	431,549	3.7%
<b>Tennessee</b>	2,443,134	3.2%
Wisconsin	2,346,197	2.2%
<b>Washington</b>	2,851,075	3.4%
Massachusetts	2,746,369	3.1%
<b>Wyoming</b>	225,941	5.9%
<b>Alaska</b>	279,301	6.6%
Vermont	270,747	3.8%

Source: IRS Gross Migration File

Table 4 presents another way of looking at the IRS migration data and shows that, contrary to the tax flight rhetoric, more people with incomes below \$200,000 are leaving states without income taxes than are leaving comparably sized states with high income taxes. The table compares the average annual out-migration rates from 2011 to 2021 for all the states without income taxes and a

higher-tax state of a comparable size that levies an income tax.<sup>37</sup> For every one of the pairs, the no-income-tax state had a *higher* average out-migration rate than the higher-tax state. It's particularly noteworthy that Texas had a higher out-migration rate than California and that Florida's was higher than New York's, since large California-to-Texas and New York-to-Florida net migration flows are arguably the two most frequently cited to support claims that interstate tax differentials are a major driver of interstate moves.

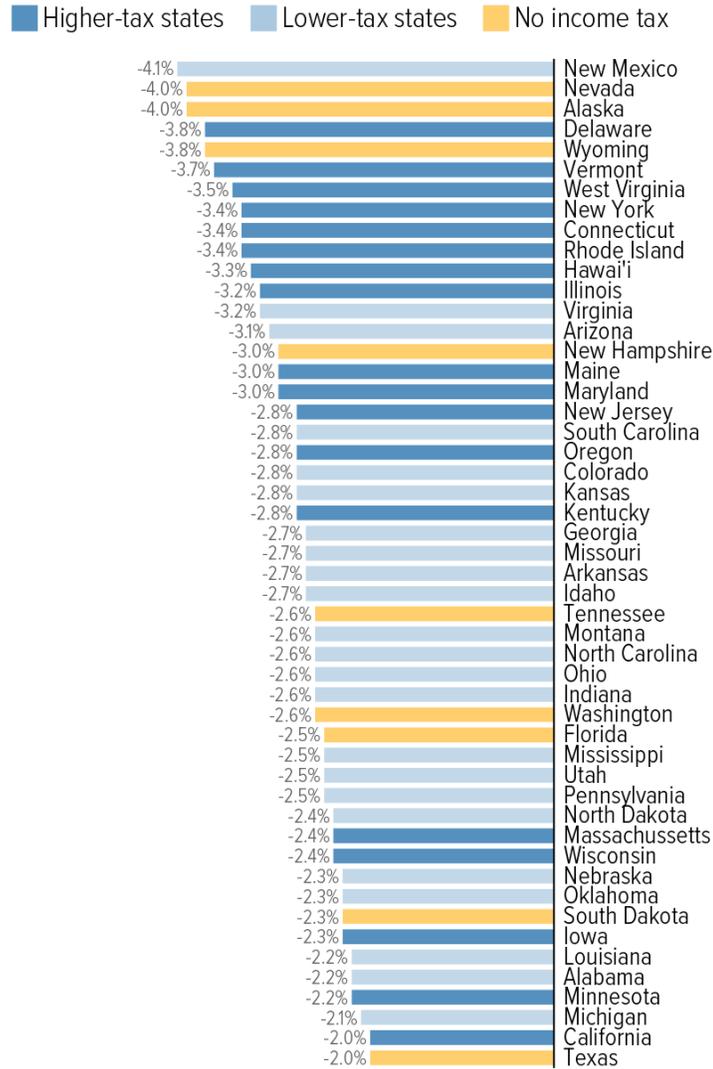
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<sup>37</sup> As discussed above, comparing raw counts of people moving between states can give a misleading picture of the drivers of these flows if the relative populations of the states are not considered. But some argue this can also be true in comparing migration *rates*. (See Alan Cole and Lyman Stone, "CBPP Misses the Mark on Migration," Tax Foundation, August 26, 2014; <https://taxfoundation.org/cbpp-misses-mark-migration/>.) For example, during any given year, a certain number of people in every state are going to be dissatisfied with their jobs and open to leaving them for a better one. For such a person residing in a small-population state, those better jobs are more likely to be found in a different state than would be the case for such a person residing in a large population state, all other things being equal. This phenomenon may contribute to the disproportionate number of very small population states with high out-migration rates. The analysis presented in Table 4 is a rough approach to controlling for it. Of course, people claiming that failing to adjust migration rates for population are, in effect, acknowledging a central argument of this paper, which is that actual and perceived job opportunities far outweigh tax differentials as a driver of interstate migration. Nonetheless, we have offered the data in tables 4 and 5 and the analysis of it to show that, even if one does adjust for population, the data largely do not support tax flight claims.

FIGURE 5

## High-Income People Leave Many No-Income-Tax States at Greater Rates Than From Many Higher-Tax States

Average annual out-migration rates, households with income of \$200,000 and above, 2011-2021



Note: The 18 higher-tax states are those ranking among the top ten states in highest income tax rates, state income taxes as a share of state personal income, or total state and local taxes as a share of personal income for the 2011-2021 period.

Source: Internal Revenue Service, Gross Migration File

TABLE 5

### Many States Lacking Income Taxes See Higher Out-Migration of High-Income Households Than Do Comparably Sized States With Relatively High Taxes

Each comparison group consists of a no-income-tax state (shaded, bolded), followed by (a) higher-tax state(s)

State	Number of High-Income Tax Returns Filed Annually 2011-2021	Average Annual Out-migration Rate 2011-21
<b>Texas</b>	533,435	2.0%
New York	508,354	3.4%
California	1,080,543	2.0%
<b>Florida</b>	366,160	2.5%
Illinois	293,713	3.2%
New Jersey	315,403	2.8%
<b>Washington</b>	197,862	2.6%
Connecticut	123,980	3.4%
Maryland	171,469	3.0%
Minnesota	127,012	2.2%
<b>Tennessee</b>	94,527	2.6%
Wisconsin	90,803	2.4%
<b>Nevada</b>	44,293	4.0%
Iowa	45,971	2.3%
<b>New Hampshire</b>	34,790	3.0%
Maine	18,849	3.0%
<b>Alaska</b>	14,719	4.0%
Delaware	17,645	3.8%
<b>Wyoming</b>	9,814	3.8%
Vermont	10,623	3.7%
<b>South Dakota</b>	13,728	2.3%
Delaware	17,645	3.8%

Note: High-income returns are those with \$200,000 or more of Federal Adjusted Gross Income.

The evidence on the out-migration of just high-income households is more mixed, but there's enough to cast considerable doubt on tax flight arguments. Figure 5 and Table 5 do the same comparisons as Figure 4 and Table 4, but only for the highest-income group in the IRS data: households with federal adjusted gross income of \$200,000 or more. Figure 5 shows that California, Massachusetts, Minnesota, and Wisconsin — all frequently cited as having substantial high-income tax flight based on net migration comparisons — actually had among the *lowest* out-migration rates for high-income households; indeed, they had lower out-migration rates for high-income households than Florida, Tennessee, and Washington. And despite its highest-in-the-nation top income tax rate (13.2 percent), *California had the second lowest out-migration rate of high-income households of any state*, only marginally higher than that of Texas. Conversely, no-income-tax Alaska, Nevada, and Wyoming were three of the five states with the highest out-migration rates among high-income households.

Figure 5 does also show that some of the states often cited as experiencing high-income tax flight — Connecticut, Illinois, and New York, for example — did appear in the top third of the states ranked by out-migration. That is in contrast to Figure 4, where none of them ranked in the top third when only incomes below \$200,000 were considered.

Table 5 provides a similarly mixed picture.<sup>38</sup> For five of the nine no-income-tax states, the comparably sized higher-tax state had a lower or identical out-migration rate. Furthermore, Minnesota had a lower out-migration rate than Washington, and California's out-migration rate was only marginally higher than that of Texas. However, Connecticut, Delaware, Illinois, Maryland, New Jersey, and New York, all had out-migration rates that were higher than those of the no-income tax states with which they are paired.<sup>39</sup> Yet, even in those states, the somewhat higher out-migration rates for the highest income group do not explain why they are net out-migration states overall, because that group comprises such a small share of the total state population. Net out-migration of the above-\$200,000 income group represents less than 25 percent of total net out-migration in every higher tax state.

In sum, comparisons of overall out-migration rates lend little support to claims that state taxes are a substantial driver of out-migration. In most cases, the higher-tax states have experienced marginally *lower* total out-migration in recent years than comparably sized no-income-tax states for households with incomes below \$200,000. *Some* of the high-income-tax states have higher out-migration rates for high-income taxpayers than comparably sized no-income-tax states, but the gaps are much smaller than implied by references to “mass exodus,” “people fleeing in droves,” and similar characterizations.<sup>40</sup> The largest such gap is New York's 70 percent higher out-migration rate than Texas'; in the other four states with such a gap (Connecticut, Illinois, Maryland, and New Jersey) the out-migration rates of the higher-tax states are less than 35 percent greater than those of

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<sup>38</sup> Table 5 uses different state pairings than Table 4, because it is based on the number of high-income returns rather than the number of total returns. Iowa is paired with Nevada in Table 5. Iowa is not usually thought of as a high-tax state, but during this period it had the seventh-highest top income tax rate and ranked 13th in combined state and local taxes as a share of state personal income.

<sup>39</sup> Delaware is used as the comparison state for both Alaska and South Dakota. Its out-migration rate is lower than that of Alaska but higher than that of South Dakota.

<sup>40</sup> For example, see Arthur B. Laffer, Stephen Moore, and Jonathan Williams, “Rich States, Poor States,” 13<sup>th</sup> Edition, American Legislative Exchange Council, 2021, p. 2: “California continues suffering a mass exodus of residents — a trend that has accelerated in recent years to reach record out-migration levels.” Also see Brittany De Lea, “New Jersey Residents Fleeing ‘In Droves’ as State Democrats Fight Over Millionaire’s Tax,” Fox Business, June 28, 2019.

the no-income-tax states with which each is paired. As will be discussed below, there are important factors other than taxes that could explain why relatively more people are moving out of states like Connecticut, Illinois, and New York than from lower-tax states with comparable populations — housing costs and climate in particular.

## **Many Specific State-to-State Migration Flows Are Inconsistent With Claims About the Impact of Taxes**

Tax flight alarmism also glosses over much of the detailed migration data about moves between specific pairs of states. These data reveal patterns that are at odds with the claim that the absence of an income tax is a powerful migration magnet and the presence of a relatively high one is a powerful incentive to leave. And importantly, the people who are moving from states with income taxes to those that lack them — there are of course some, though not to an extent that proves causality — do not have disproportionately higher incomes or levels of educational attainment.

### **Migration Mixed Across All No-Income-Tax States, State-Specific IRS Data Show**

States with higher taxes are not destined to experience net out-migration, and states with no income tax are not guaranteed net in-migration. Table 1 above already revealed that the higher-tax states of Delaware, Maine, and Oregon have experienced net in-migration since 2011, and Table 2 showed that all three plus Hawai'i, Rhode Island, and Vermont had more households earning above \$200,000 moving in than moving out. Conversely, two no-income-tax states — Alaska and Wyoming — experienced net out-migration during this period.

Consider, too, the following additional facts about migration to and from other no-income tax states that are inconsistent with tax flight claims. (Again, all data cited cover 2011-21, the entire period for which complete, comparable IRS data are available.)<sup>41</sup>

- **People move in and out of Texas in ways that suggest that the state's lack of an income tax is not a major draw.** If Texas' lack of an income tax were the major attraction some claim it to be, one would expect that it would get far more in-migrants from states with high income taxes than from states without them, lose few migrants to states with income taxes, and have little net migration either way with other no-income-tax states.

Yet, none of those is the case. In 2011, Florida and New York had roughly the same number of taxpaying households, but Texas has drawn more than twice as many households (gross) from Florida (235,477) as from New York (115,328) since then. If potential tax savings were the major source of Texas' attraction, the state would have drawn vastly more people from New York than from Florida, since New Yorkers would have experienced substantial income tax savings, while Floridians would have been trading one no-income-tax state for another. In fact, during this period, every other state without an income tax sent more households (gross) to Texas than did the comparably sized higher-tax state(s) with which it was paired in Table 4.

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<sup>41</sup> The IRS dataset that contains information about the number of households moving between specific pairs of states is not disaggregated by income level or age. American Community Survey data from the Census Bureau that do permit comparisons of moves between a limited number of state pairs that are disaggregated for different income groups are discussed in the next section.

Moreover, four states with income taxes (Colorado, Idaho, Montana, and Oregon) have attracted more migrants *from* Texas than they sent *to* Texas since 2011.

While much has been made of Texas as a magnet for migrants from some states,<sup>42</sup> there has been little discussion of these apparent contradictions to the tax-motivated migration hypothesis. But these facts illustrate a far more complex and nuanced story: perceived job opportunities, family considerations, and relative housing costs matter far more than taxes.

- **Many people left no-income-tax Florida for states levying income taxes.** Florida famously attracts a lot of interstate migrants — more than any other state. What is often lost, however, is how many people leave the Sunshine State each year.

From 2011 to 2021, Florida *lost* households on net to 12 states, seven of which levy an income tax. Georgia has an income tax, but almost 17,000 more households moved out of Florida to Georgia than moved the other way. Similarly, North Carolina had a relatively high average income tax rate for the Sun Belt over this period (despite recent cuts), yet almost 21,000 more households moved from Florida to North Carolina than moved the other way. South Carolina's top income tax rate was even higher than North Carolina's, and yet it, too, drew households from Florida on net.

More households (200,345) have moved to Florida from Texas than from California (155,712) despite California's income-tax-paying population in 2011 being 50 percent bigger than Texas'. Slightly more households moved into Florida from no-income-tax Tennessee than from relatively high-income-tax Maryland. Only slightly more households moved from California to Florida (155,712) than from California to New York (143,805).

Although Florida and Texas attract the most attention for their migration patterns, the other seven no-income-tax states also have patterns that undermine the tax flight hypothesis. (In each of the below examples the first state listed has no income tax, while those it's being compared with do.)

- **Nevada** had far less in-migration than Arizona, a neighbor with a similar climate. Since 2011, Nevada has experienced net out-migration to 11 states with income taxes, including Arizona. Almost 75 percent more households moved into Arizona as into Nevada from all the other states taken together, and Nevada attracted slightly fewer households from California. Nevada did have a much smaller population than Arizona, meaning that there are fewer potential jobs for in-migrants to fill. But that is precisely the point: jobs opportunities far outweigh taxes as a determinant of migration.
- **New Hampshire** lost migrants on net to Maine and 23 other states levying income taxes. Almost 4,000 more households moved from New Hampshire to Maine than from Maine to New Hampshire since 2011, despite Maine averaging the tenth-highest top state income tax

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<sup>42</sup> Laffer and Moore devoted a chapter of the 2009 edition of *Rich States, Poor States* to touting Texas' economic performance vis-à-vis California's. They wrote: "The insiders in Sacramento don't need to look to the original Thirteen Colonies to see small government in action. In fact, we direct their attention only three states to the east. Not only does Texas lack a highly progressive income tax — it doesn't have one at all! . . . [T]he Texas success story illustrates everything we have been recommending for California all these years." More recently, they wrote: "California continues suffering a mass exodus of residents . . . Texas is the largest recipient, with an estimated 86,000 former Californians moving to the Lone Star State in 2018." *Rich States, Poor States*, 13th Edition, 2021.

rate over this period.<sup>43</sup> Despite its lack of an income tax on wages and salaries (and its lack of a sales tax as well), New Hampshire would have been a net out-migration state but for its net gain of 35,630 households from Massachusetts. Based on historical trends, many of those recent Massachusetts-to-New Hampshire migrants likely continue to work in Massachusetts, subjecting them to that state's income tax, and demonstrating that avoiding the tax was not the reason for their move to New Hampshire.<sup>44</sup>

- **Tennessee** attracted far fewer migrants on net than did nearby South Carolina and neighbor North Carolina. Net in-migration of households to South Carolina (189,361) was larger than net migration to Tennessee (154,558) despite South Carolina's being a less populous state with a smaller labor force. North Carolina's net in-migration (249,189) was even larger, and the gap was proportionately larger than the gap in population. South Carolina had the highest average top income tax rate of any Sun Belt state (excluding California) between 2011 and 2021 and North Carolina's was third highest.<sup>45</sup>
- **Washington's** in-migration of households from California did not exceed Oregon's as much as might be expected given both the size of its population and its concentration of tech jobs at Amazon, Microsoft, and other e-commerce companies. Some 229,000 households moved from California to Washington between 2011 and 2021 — 29 percent more than the roughly 177,000 that moved from California to Oregon. But if Washington's lack of an income tax was a major draw, one might have expected that gap to be larger, given that the number of private-sector jobs in Washington started off the period 75 percent larger than the number in Oregon.<sup>46</sup> The gap also seems like it would be larger given what is likely a very robust employment pipeline between the many internet-related firms in San Francisco and Silicon Valley and the high-tech cluster in the Seattle area centered around Microsoft and Amazon.<sup>47</sup> Those factors probably are mitigated somewhat by Oregon sharing a border with California; still, if Washington's lack of an income tax were such a powerful draw, one might expect more robust out-migration from California to Washington given the economic connections between the two and California's (and Oregon's) relatively high income tax rates.

Washington also lost households on net to its income-tax-levying neighbor Idaho, as well as to Montana and Arizona, both of which also impose income taxes. And Washington attracted far more households from no-income-tax Florida and Nevada than it did from higher-tax states sized similarly to those two (New York and Connecticut, respectively) — again,

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<sup>43</sup> It does not appear that this can be attributed to more job opportunities in Maine; the populations of the two states differ by less than 1 percent.

<sup>44</sup> As of 2017, approximately 97,000 New Hampshire residents commuted into Massachusetts to work. An additional 19,000 New Hampshire residents worked in Maine or Vermont, both of which levied even higher income taxes than Massachusetts did before 2023. Roughly one-fifth of New Hampshire workers are employed in another state, the second highest share of interstate commuters among all states. New Hampshire Employment Security, Economic and Labor Market Information Bureau, "Interstate Commuting," *New Hampshire Economic Conditions* newsletter, February 2020, <https://www.nhes.nh.gov/elmi/products/documents/ec-0220.pdf>.

<sup>45</sup> Of course, Tennessee lacks the Carolinas' Atlantic coastline, but, once again, that is the point. Geographical amenities are strong "pull" factors driving in-migration, particularly among retirees.

<sup>46</sup> Bureau of Labor Statistics.

<sup>47</sup> As discussed in the next section, these high-tech jobs did, apparently, attract a disproportionate number of high-income Californians to Washington.

contrary to the higher number of migrants from income tax-levying states that the tax flight thesis would predict.

- **South Dakota** attracted half as many households from Minnesota as North Dakota did. More than twice as many households moved from higher-tax Minnesota to income-tax-levying North Dakota as to no-income-tax South Dakota between 2011 and 2021. (Minnesota shares a long border with both states.) South Dakota had a slightly larger population than North Dakota over the entire interval. More than three times as many people moved into North Dakota from Montana as moved into South Dakota.

The likely explanation for the greater number of moves into North Dakota was the rapid development of the state's Bakken oil field that began around 2009 — again demonstrating that job opportunities outweigh hypothetical tax advantages in the real world.

- Finally, **Alaska and Wyoming** experienced net *out*-migration from 2011-2021. Most cold, snowy states saw households leave over this period, in keeping with climate likely having more influence over recent patterns of in- and out-migration than state and local tax levels have.

In sum, the detailed IRS data on state migration flows between specific state pairs further undermine the case that the absence of a state income tax is a major attraction for people leaving their current state of residence.

TABLE 6

### Movers From States With Income Taxes to States Without Them Are Not Disproportionately High Income or College Educated

Migration From	To	Share of origin-state households with incomes above \$200,000	Share of migrants with incomes above \$200,000	Share of origin-state households with at least a bachelor's degree	Share of migrants with at least a bachelor's degree
<b>California</b>	Arizona	15%	10%	36%	34%
	Nevada*	15	7	36	30
	Oregon	15	10	36	46
	Texas*	15	14	36	47
	Washington*	15	18	36	54
<b>Illinois</b>	Arizona	10	9	37	43
	Florida*	10	12	37	45
	Texas*	10	14	37	55
<b>Massachusetts</b>	Florida*	17	10	46	45
	New Hampshire*	17	10	46	47
<b>New Jersey</b>	Florida*	17	15	42	42
	North Carolina	17	14	42	52
<b>New York</b>	Arizona	13	6	39	NA
	Florida*	13	12	39	39
	Georgia	13	8	39	45
	North Carolina	13	13	39	45
	South Carolina	13	9	39	NA
<b>Texas*</b>	California	9	16	32	54

Source: CBPP tabulations of American Community Survey data, five-year data for 2017-2021. Values shown subject to sampling error; not all differences between states may be statistically significant. Asterisk indicates state without income tax. NA indicates not enough data to provide statistically valid results.

## State-Specific ACS Data Undermine Claims of Tax Flight by People With High Incomes, Educational Attainment

American Community Survey (ACS) data permit a limited analysis of the incomes, education levels, and other characteristics of people who move between certain pairs of states.<sup>48</sup> The data in Table 6 generally show that people moving from states with income taxes to those that lack them don't have disproportionately higher incomes or higher levels of educational attainment than those moving to other states. (The table compiles these data for several of the states put forth as examples of tax flight, paired with the non-income-tax and other states to which many of their departing households move.) Specifically, the ACS data show that:

- There is little evidence of disproportionate out-migration of high-income households from higher-tax states to states without income taxes. In almost all cases, the share of interstate migrants in the \$200,000-plus income group is no higher than their share of the overall population of the state. The only exceptions to that are disproportionate moves of high-income households: a) from California to Washington (again, possibly attributable to a Silicon Valley-to-Amazon/Microsoft employment pipeline); b) from Texas to California — wholly inconsistent with tax flight claims, of course; and c) from Illinois to Florida and Texas (which could be cited as evidence of tax flight).
- While the data provide little evidence of tax-motivated departures, there is some evidence that high-income households are more likely to choose no-income-tax states as a destination. For example, 14 percent of California-to-Texas migrants have incomes above \$200,000, while only 10 percent of California-to-Arizona migrants do. Twelve percent of New York-to-Florida migrants have incomes above \$200,000, above the shares of migrants from New York to Arizona, Georgia, and South Carolina.<sup>49</sup> But once again, there can be reasons other than the absence of an income tax for such choices. For example, with its growing technology sector, it seems likely that Texas has provided more job opportunities for highly educated California workers than Arizona has.
- Neither do no-income-tax states disproportionately draw college-educated professionals. For example, 39 percent of the households moving from New York to Florida were headed by someone who had at least a bachelor's degree, and 30 percent of the households moving

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<sup>48</sup> Through 2000, the Census Bureau's decennial long-form survey asked respondents if they were living in a different location from where they had been five years earlier. The annual ACS, which was substituted for the census long form in 2005, changes the time frame on that question to *one* year earlier. Accordingly, the data are no longer compatible, and no analysis of the income, education, and employment characteristics of households moving *between specific states* spanning these two periods is any longer possible. That is why the discussion in this report of the migration-related information that can be drawn from the ACS is limited to the most recent five-year period for which ACS data are available, 2017-2021. The relatively small number of people who move between states each year (again, roughly 1.5 percent of the U.S. population) combined with ACS sample sizes means that it is only possible to discuss high-income migration between two specific states for a handful of very large states and, generally, only with aggregation of multiple high-income classes.

<sup>49</sup> Even here some of the migration flows are inconsistent with tax flight predictions. For example, higher shares of California-to-Arizona and California-to-Oregon movers had incomes above \$200,000 than did California-to-Nevada movers, even though Arizona and Oregon levy income taxes and Nevada doesn't. Thirteen percent of New York-to-North Carolina movers had incomes above \$200,000 and 12 percent of New York-to-Florida movers did (a difference that isn't statistically significant) even though North Carolina levies an income tax and Florida doesn't. The shares of New Jersey-to-North Carolina and New Jersey-to-Florida movers with incomes above \$200,000 are also essentially identical.

from California to Nevada did — generally in line with their respective 39 and 36 percent shares of their origin state’s population. In cases where no-income-tax states are receiving disproportionate shares of college-educated people leaving higher-tax states, job opportunities seem like a more plausible explanation than differences in taxes. For example, 36 percent of California households are headed by someone with a bachelor’s degree, while 47 percent of California-to-Texas migrants are. But an even larger gap is seen in looking at reverse Texas-to-California migration, where just 32 percent of Texas households have at least a bachelor’s while 54 percent of the migrants do. Once again, the draw of more and higher-paying jobs in California for the college educated apparently overcame the state’s higher housing and tax costs. Only 39 percent of New York-to-Florida movers have a bachelor’s, while 45 percent of New York-to-North Carolina do — again suggesting that the draw of jobs in fast-growing Charlotte, Chapel Hill, Durham, and Raleigh trump Florida’s lack of an income tax for those who are college educated.

In some cases, the ACS data allow an examination of moves between specific pairs of states for taxpayers with incomes even higher than the \$200,000-and-above top group in the IRS data. Once again, the data generally lend little support to tax flight claims. (The higher-tax states in these examples have been chosen because they are frequently cited as exemplifying tax flight, and the states they are paired with are states with and without income taxes that are significant destinations for departing high-income households.)

- There’s no evidence of disproportionate net out-migration of very-high-income households from California to Texas; in fact, the opposite is true. Households with incomes above \$400,000 comprised 4 percent of California households and 4 percent of California-to-Texas movers from 2017-21. Households with incomes that high comprised only 2 percent of Texas households but 4 percent of Texas-to-California moves.
- There is no evidence that Arizona’s income tax put it at a disadvantage to Nevada in attracting high-income movers from California. Households with incomes above \$400,000 comprised four percent of California households and three percent of California movers to both Arizona and Nevada from 2017-21.
- There is some evidence that Florida’s lack of an income tax helps attract very-high-income New Yorkers, especially retirees. Households earning more than \$400,000 represent three percent of all New York households and three percent of all New York-to-North Carolina migrants, but 5 percent of New York-to-Florida movers. Could this reasonably be cited as evidence that the state’s lack of an income tax is a factor drawing New Yorkers to the state? Yes. Does it prove it? No. There are likely other factors at play, including weather. Retirees are more likely than other migrants to move because of climate,<sup>50</sup> and 35 percent of New York-to-Florida migrants were 55 and older while only 27 percent of New York-to-North Carolina migrants were.

This relative attractiveness of Florida to New Yorkers, however, disappears at lower income levels. New York households with incomes between \$300,000 and \$400,000 comprised 2 percent of all New York households on average between 2017 and 2021. They comprised 2

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<sup>50</sup> See Paramita Sinha, Martha L. Caulkins, and Maureen L. Cropper “Household Location Decisions and the Value of Climate Amenities,” *Journal of Environmental Economics and Management*, November 2018.

percent of New York-to-Florida migrants during that period and 2 percent of New York-to-North Carolina migrants as well.

- **There is some evidence that Washington’s lack of an income tax attracts high-income Californians.** Households earning more than \$400,000 comprise 4 percent of all California households, 3 percent of all California movers to income-tax-levying Arizona, but 4 percent of California movers to Washington. But again, it is also possible there are much greater employment opportunities in Washington’s high-tech cluster for migrants from Silicon Valley and similar tech hotspots than there are in Arizona and that is what is attracting a slightly higher proportion of these highly paid workers. This is reinforced by the data in Table 6 showing a particularly high level of education among California-to-Washington movers. Thus, it is unclear how much competitive advantage Washington’s lack of an income tax is providing for households in this income group.

In sum, there are many state-to-state migration flows evident in both the IRS and ACS data that are not consistent with claims that taxes in general — and state income taxes in particular — are major drivers of interstate migration decisions for college-educated, high-income people residing in higher-tax states.

## Housing Costs and Climate Discourage In-Migration to Many Higher-Tax States

Housing costs and climate are much more credible explanations for why higher-tax states have lost residents on net since 2011.

### Many High-Tax States Have Some of the Highest Housing Costs in the Country

Migration analysts have long recognized the substantial influence of relative housing costs on interstate migration patterns. For example, a 2010 study found that:

[T]he relationship between relative housing affordability and out-migration appears to have become stronger over time. A one standard-deviation increase in relative housing affordability had no significant impact on migration during the 1977-86 decade but is associated with roughly a 4 percent decrease in the out-migration rate in the later two decades. One possible explanation for this shift is the increasing spatial variation in house prices since the 1980s which may have encouraged individuals to migrate in order to arbitrage differences in house prices across states.<sup>51</sup>

More recently, it has been noted that:

Fewer people are moving into some of the country's most expensive areas, including San Diego, Silicon Valley, and some Washington, D.C., suburbs. At the same time, places where the cost of living is lower, such as Las Vegas, Phoenix and parts of Florida, are showing bigger population gains, new census data show. A likely explanation: the cost of housing, which can eat up 30 to 50 percent of a household's income. It's the biggest factor for millennials planning a move. It's also a key factor for retirees looking to downsize. And it helps explain population growth in the Sun Belt, where it's often less expensive to live. "Available and affordable housing may be the new piece in the continued gains in Sun Belt counties," said William Frey, a demographer at the Brookings Institution. "The housing market is motivating some of the growth in Nevada, as well as Florida, and maybe for Arizona, too."<sup>52</sup>

Figure 6 shows the 16 states with the highest median single-family home list prices in 2019 and the comparable prices in three non-income-tax states with high levels of net in-migration — Florida, Nevada, and Texas. Eight of the 16 high-home-cost states are among those most often cited as experiencing substantial net out-migration due to taxes (that is, all higher-tax states shown except for Oregon, which has had net in-migration).<sup>53</sup> Statewide averages conceal even more extreme house price disparities in the major metro areas where most jobs are being created; the typical April 2022 home value was more than \$1.5 million in the San Francisco metro area, more than \$650,000 in

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<sup>51</sup> Alicia Sasser, "Voting with Their Feet: Relative Economic Conditions and State Migration Patterns," *Regional Science and Urban Economics*, May 2010, p. 130.

<sup>52</sup> Tim Henderson, "High Housing Costs Driving Population Shifts?" Stateline, April 8, 2016; <https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2016/04/08/high-housing-costs-driving-population-shifts>.

<sup>53</sup> Six of the eight (California, Connecticut, Hawai'i, Maryland, New Jersey, and New York) have all had so-called "millionaire's taxes" — top tax rates that kick-in at very high income levels — for most or all of the past decade.

Boston, more than \$600,000 in New York/Newark/Jersey City and more than \$560,000 in Bridgeport/Stamford/Norwalk, Connecticut.<sup>54</sup> Fourteen of the 50 metro areas with the highest April 2022 housing costs were in California.

High home values can encourage out-migration — particularly for retirees, who can convert their equity to cash, move to a state with lower housing costs, and have additional money to live on. Figure 6 shows that the 2019 median list price of a single-family home was 41 percent higher in New York than it was in Florida, which likely contributes to the strong retiree migration flow from the former to the latter.)<sup>55</sup> High or rapidly increasing rental costs can also drive low- and moderate-income renters from a state, especially if they aspire to be homeowners.<sup>56</sup>

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<sup>54</sup> Joint Center for Housing Studies of Harvard University, “The State of the Nation’s Housing 2022,” Appendix Table W-7, [https://www.jchs.harvard.edu/sites/default/files/interactive-item/files/Harvard\\_JCHS\\_State\\_Nations\\_Housing\\_2022\\_Appendix\\_Tables\\_0.xlsx](https://www.jchs.harvard.edu/sites/default/files/interactive-item/files/Harvard_JCHS_State_Nations_Housing_2022_Appendix_Tables_0.xlsx).

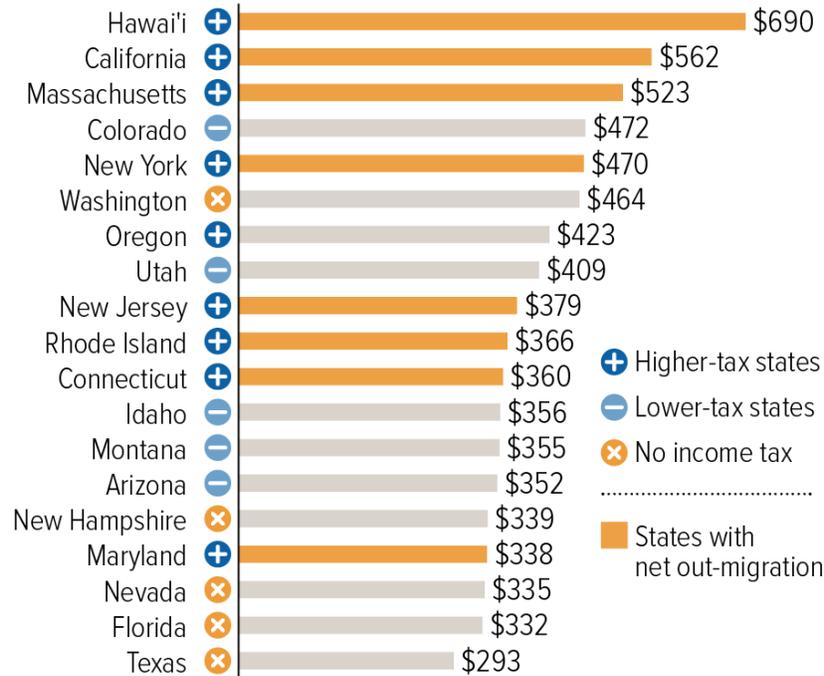
<sup>55</sup> Likewise, a compilation of city cost-of-living indices initially developed by the Council for Community Economic Research found that average housing costs (excluding property taxes) in New York cities in 2022 exceeded those in Florida cities by 78 percent and that housing costs in California cities exceeded those in Texas cities by 129 percent. Cities in Connecticut, Maryland, Massachusetts, and New Jersey all had housing costs at least 25 percent higher than national averages. See Missouri Economic Research and Information Center, “Cost of Living Data Series,” <https://meric.mo.gov/data/cost-living-data-series>.

<sup>56</sup> A recent study observed: “Previous explanations of rising inequality and polarization in big cities have largely relied on the features of the production technology. This paper proposes an alternative explanation that emphasizes the role of the housing market and the desire of many [renter] households to be homeowners. Empirical evidence supports this theory. I show that middle-income households are more likely than low- and high-income households to move for housing-related reasons to more affordable housing markets.” Andrii Parkhomenko, “Homeownership, Polarization, and Inequality,” July 21, 2021.

FIGURE 6

## Net Out-Migration States Have Higher Home Prices

States with highest median single-family home list prices, 2019  
(in thousands)



Source: Realtor.com

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The bigger effect on migration of high housing values and costs, however, may well be the deterrence of in-migration. Someone hoping to transition from renter to homeowner status as they take a job in another state will find it harder to do so if home prices are higher in the destination state. And, given the closing costs incurred in both selling and buying a home, even homeowners will be deterred if they have little equity in their current house or home prices are substantially higher where they hope to move.

Figure 6 shows that the 2019 median list price for a single-family home was higher in California than in every state except Hawai'i. It was almost twice as high in California as it was in Texas. Although some blame California's highly progressive income tax structure for its failure to attract more new residents, others have recognized that the state's net migration problem is substantially a housing shortage and cost problem. A study by California-based think tank Next 10 observed:

Despite the rhetoric regarding California's oppressive tax regime or its overall hostility to business, individuals coming to California are primarily concentrated in high-wage occupations, which enable them to better absorb the state's high housing costs and cost of living. . . . High housing costs have made California an increasingly difficult place for lower

income residents with less education to maintain their quality of life, while many middle-income residents are having trouble moving from renting to homeownership.<sup>57</sup>

Similarly, a California Franchise Tax Board study notes:

For California, the evidence . . . suggests that the single biggest factor driving migration decisions is the cost of real estate. The average home price in California is more than double the U.S. average. The high cost of housing in California makes it more difficult for current California renters to strengthen their ties to California by purchasing homes, makes it harder for potential in-migrants to move here, and encourages current homeowners to extract value from their homes by moving to less expensive states. . . . [T]he flow of net migration in and out of California [over time] has followed a pattern similar to that of the cost of housing in California relative to the rest of the country.<sup>58</sup>

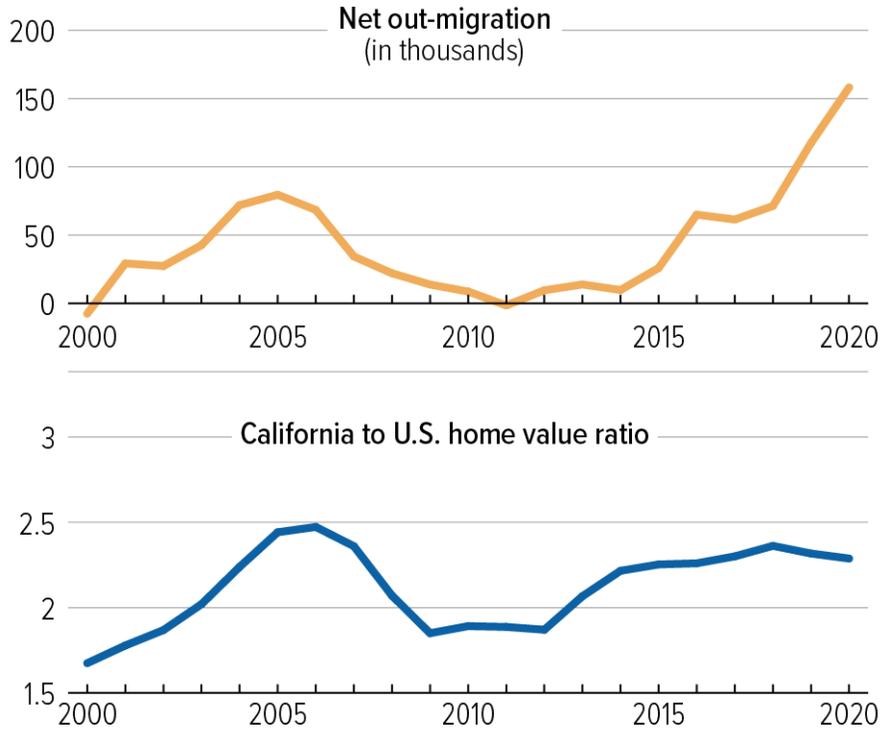
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<sup>57</sup> Beacon Economics, “California Migration: A Comparative Analysis,” published by Next10.org, March 2016.

<sup>58</sup> California Franchise Tax Board, Economic and Statistical Research Bureau, “The Impact of Migration on California Income Tax Revenues,” May 2021.

FIGURE 7

### California Out-Migration Closely Tracks With House Prices in the State



Note: Graph shows California typical home value as multiple of national typical home value for detached, semi-detached, and condominium homes.

Source: IRS state-to-state migration file. (Note that data prior to 2011 not directly comparable to later data due to change in methodology.) Zillow Home Value Index, All Homes Times Series, Smoothed and Seasonally Adjusted.

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Figure 7 reproduces and updates a graph from this Franchise Tax Board study and shows how closely net migration to the state tracks changes in California house prices.

A recent study from the Harvard Joint Center for Housing Studies observed:

High housing costs and the growing number of cost-burdened households . . . may also be limiting residential mobility. Rates of cost burdens (wherein households spend more than 30 percent of income for housing) are high in metropolitan areas of all sizes and rural areas, especially for renters with lower incomes. These cost burdens are becoming increasingly common for households higher up the income scale as well, especially in high-cost areas. . . [E]conomists argue that housing costs in particularly expensive areas discourage people from

moving there, as any job would need to have a sufficiently high salary to make up for the higher cost of living (Moretti 2012).<sup>59</sup>

Academic research has confirmed that higher housing costs in a potential destination state are a substantial disincentive for in-migration:

- A recent statistical analysis concluded that “higher destination [state] house prices are a deterrent to moving for residents in the South and Midwest regions,” noting that “house prices were higher in the Northeast and West than in the Midwest and South and the gap increased over time (particularly for the Midwest).”<sup>60</sup>
- A 2017 study showed: “(1) a disproportionate rise in housing prices in high-income areas; (2) that the returns to migrating to high-income areas for low-skill workers has fallen in recent years after taking into account housing costs; and (3) that low-skill workers have redirected their migration away from high-income places.”<sup>61</sup>
- Similarly, a 2022 study said: “Our results suggest that the decline in the urban wage premium for non-college workers has been especially steep once housing costs are taken into account. This has had dramatic consequences for the attractiveness of high-density areas: for non-college workers, there is now, on average, an urban wage penalty after accounting for the cost of shelter.”<sup>62</sup> New York, San Francisco, Boston, Newark, Chicago, Washington, D.C., Long Beach (California), and Los Angeles are eight of the 12 densest cities in the U.S. — all of them located in states experiencing net out-migration.<sup>63</sup> And with job creation in recent decades concentrated in many such “superstar cities,” seeing the cost of housing deter migration to cities by non-college workers is tantamount to its deterring migration to the states in which such cities are located.

Combined state and local taxes usually absorb about 8 to 12 percent of income for low- and moderate-income households, even in higher-tax states,<sup>64</sup> while housing costs frequently absorb

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<sup>59</sup> Riordan Frost, “Are Americans Stuck in Place? Declining Residential Mobility in the US,” Joint Center for Housing Studies at Harvard University, May 2020, pp. 6-7 (citing Enrico Moretti, *The New Geography of Jobs*, 2012).

<sup>60</sup> Jeffrey Zabel and Joseph C. Chance, “Explaining the Decline in U.S. Residential Migration: Have Net Benefits Declined?” unpublished dissertation, May 2022, pp. 75-76 and 77-78; <https://www.proquest.com/openview/b930acf6321d1136e394c33a7b3a0a01>.

<sup>61</sup> Peter Ganong and Daniel W. Shoag, “Why Has Regional Income Convergence in the U.S. Declined,” National Bureau of Economic Research Working Paper 23609, July 2017, p. 5.

<sup>62</sup> Philip Hoxie, Daniel Shoag, and Stan Veuger, “Moving to Density: Half a Century of Housing Costs and Wage Premia from Queens to King Salmon,” American Enterprise Institute Working Paper, updated April 2022. While this study focuses on urban areas, it has implications for state-to-state migration as well since a large share of the jobs being created in many of the states that residents are supposedly fleeing for tax reasons are located in large metro areas like San Francisco, Los Angeles, Boston, Chicago, and New York.

<sup>63</sup> Nami Sumida, “San Francisco May Be Small, But It’s Among America’s Most Densely Populated Cities,” *San Francisco Chronicle*, November 29, 2021.

<sup>64</sup> On average, the bottom 20 percent of non-elderly households devoted 11.4 percent of their incomes to paying state and local taxes, and the middle 20 percent devoted 9.9 percent. Institute on Taxation and Economic Policy, “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,” October 2018, Appendix A.

much greater shares — at least 30 percent, and, often, as much as 50 percent.<sup>65</sup> For the top 20 percent of households, state and local taxes absorb about 7 to 9 percent of income,<sup>66</sup> while housing costs absorbed about 17 percent.<sup>67</sup> Accordingly, relative housing costs are likely a far greater explanation for net out-migration from states like California and New York to states like Florida, Nevada, and Texas than their relative tax levels are.

### **Colder Climates Have Deterred In-Migration to Many Higher-Tax States**

There has been a powerful trend of migration from the traditional Rust Belt states to the Sun Belt states ever since the end of World War II. Numerous factors contributed to this, including:

- the build-out of the nationwide interstate highway system beginning in the 1950s, which allowed real estate developers to more easily access cheaper land, more people to live away from older population centers, and manufacturers to truck their products quickly to customers throughout the country;
- the enactment of the Taft-Hartley Act in 1947 authorizing states to outlaw union membership as a condition of employment, incentivizing anti-union corporations to flee to Southern “right-to-work” states or look to them for future expansions; and
- proliferation of residential air conditioning beginning in the late 1960s, which has made summer living in states with hot and humid summers much more tolerable.<sup>68</sup>

All these developments, and more,<sup>69</sup> created a nearly 80-year-old, powerful, and self-reinforcing trend of people moving from the Rust Belt to the Sun Belt for cheaper housing, of businesses moving to those states to avoid unions and tap the growing labor pool, and, in turn, of still more people moving there for job opportunities.

These fundamental economic and technological factors arguably have been far more potent than tax differentials in driving this migration. As just one illustration, Indiana and Pennsylvania consistently had the lowest top income tax rates among the states levying this tax for the last 30 years, yet Indiana experienced net out-migration in all but six of them and Pennsylvania experienced net out-migration in all of them. Meanwhile, North and South Carolina, which had graduated rate structures with top income tax rates more than twice as high for almost the entire period, had substantial net in-migration every single year.

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<sup>65</sup> “In 2020, the nationwide share of cost-burdened households paying more than 30 percent of their incomes for housing stood at 30 percent. Moreover, 14 percent of all households were severely burdened and spent more than half their incomes for shelter.” Joint Center for Housing Studies of Harvard University, “The State of the Nation’s Housing 2022,” p. 6.

<sup>66</sup> Who Pays? Appendix A.

<sup>67</sup> Bureau of Labor Statistics, “Consumer Expenditures in 2020,” Report 1096, December 2021, p. 20, <https://www.bls.gov/opub/reports/consumer-expenditures/2020/pdf/home.pdf>.

<sup>68</sup> Mark D. Partridge, “The Dueling Models: NEG vs Amenity Migration in Explaining U.S. Engines of Growth,” *Papers in Regional Science*, 2010, pp. 513-536.

<sup>69</sup> Other major economic, technological, and regulatory developments contributed to the growth of and migration to a few specific Sun Belt states, most notably the rapid growth of the oil industry in Louisiana, Oklahoma, and Texas, very limited land use regulation in Texas, and the aggressive development of Las Vegas as a nationwide gambling destination.

The Sun Belt's warm winter climate has also been an important factor, not just for retirees but for the general population:<sup>70</sup>

- A 2005 study found that cold winter weather is a major driver of out-migration from Northeastern states.<sup>71</sup>
- A 2007 article looked at the effect of weather on population growth and found that weather was a negative growth factor for areas encompassing all states north of North Carolina and east of the Rocky Mountains and a contributor to positive economic growth in nearly all areas in the Sun Belt, Rocky Mountain, and Pacific coast states (except for the Pacific Northwest coast near Portland and Seattle). The study concluded that “a large portion of weather-related movement appears to be driven by an increased valuation of nice weather as a consumption amenity, probably due to broad-based rising per capita income.”<sup>72</sup>
- A 2008 survey conducted by the Pew Research Center found, “When it comes to places to live, Americans like it hot. By nearly two-to-one, the public says it prefers a hotter place to live over one with a colder climate.”<sup>73</sup> It is worth reiterating that this was in 2008, when extreme weather events were less common than they are now — or will be in the future. But so far at least, U.S. migration trends have defied expectations, hence the significant in-migration to areas prone to disasters and other extreme weather, like the Gulf Coast and Southwest.<sup>74</sup>
- A 2018 article examined U.S. households’ “willingness to pay” for a more favorable climate by estimating forgone wages and higher housing costs incurred by living in states with warmer winters and cooler summers. It concluded that “climate amenities play an important role in household location decisions in the United States. . . . In general, households with a higher [willingness to pay] for warmer winters have located in [cities] with higher . . . winter

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<sup>70</sup> A recent major survey article on migration research states:

In recent literature, there has been a significant increase in the number of studies focusing on amenities and quality of life as important determinants of migration. U.S. households are increasingly valuing weather’s contribution to their quality of life, especially since the latter half of the twentieth century. [A r]ise in income levels over a certain threshold has allowed people to consider amenities in their location decisions, leading to increased valuation of nice weather as a consumption amenity and consequently, increased weather-related movements. Therefore, areas with higher winter temperature are positively correlated with population growth whereas areas with higher summer temperature and humidity are negatively correlated with population growth. Isha Rajbhandari and Mark Partridge, “State of the Art and Future Challenges of Interregional Migration Empirical Research in North America,” in Bianca Biagi *et al.*, editors, *New Frontiers in International Migration Research*, Springer, 2018, pp. 70-71. Citations omitted.

<sup>71</sup> Martin Shields, Stephan J. Goetz, and Quiyan Wang, “Out-Migration from the Northeast U.S.: The Relative Roles of Economic and Amenity Differentials,” in Gary Paul Green, Steven C. Dellar, and David W. Marcouiller, Eds., *Amenities and Rural Development*, 2005.

<sup>72</sup> Jordan Rappaport, “Moving to nice weather,” *Regional Science and Urban Economics*, 2007; <https://miworkerfreedom.org/archives/2011/Rappaport--Movingtoniceweather.pdf>. See Figure 2.

<sup>73</sup> Pew Research Center, “Most Like It Hot,” March 18, 2009, [www.pewsocialtrends.org/2009/03/18/most-like-it-hot/](http://www.pewsocialtrends.org/2009/03/18/most-like-it-hot/).

<sup>74</sup> Lucas Waldron and Abrahm Lustgarten, ProPublica, November 10, 2020, “Climate Change Will Make Parts of the U.S. Uninhabitable. Americans Are Still Moving There,” <https://www.propublica.org/article/climate-change-will-make-parts-of-the-u-s-uninhabitable-americans-are-still-moving-there>.

temperatures, such as [cities] in Florida or California . . . .” The study’s finding that “households in the Midwest and Northeast have lower [willingness to pay] to increase winter and reduce summer temperatures than households in the South and West” implies that climate is not so much of a migration “push” factor for residents of those states as it is a “pull” factor for people who have chosen to live either in Southern states (with their warm winters but very hot summers) or Pacific and (some) Rocky Mountain western states (with their generally cooler summers). The study also found that weather had twice as powerful an effect on the location decisions of people older than 55 as it did for younger adults.<sup>75</sup>

Only a relatively small share of the non-elderly population is in a position, financially or otherwise, to leave a secure job or move with their family solely because they prefer warmer, snow-free winters and the opportunity for year-round outdoor recreation. But, once someone has made the choice to seek better economic and other opportunities elsewhere, the studies just cited illustrate that climate is often a major determinant of where people choose to move. This research suggests that cold winter climates are a significant reason that states in the Northeast and upper Midwest have far less in-migration than Sun Belt states — which, as discussed above, is a major reason most of them experience net out-migration while most Sun Belt states experience net in-migration.

Climate also likely explains why several of the Rocky Mountain states, particularly Colorado, Idaho, Montana, and Wyoming, have experienced strong net in-migration in recent years. Several of the statistical studies just cited found that many people have a strong desire to avoid hot, humid summers, and there is a significant subset of people who are willing to experience colder winters to do so — particularly if they are mountain biking or skiing enthusiasts.

The IRS data reveal a very strong migration pattern from the Frost Belt (states in the upper Midwest and Northeast) to the Sun Belt — a pattern that is substantially independent of the taxes in effect in either the origin or destination state. Figure 8 shows that from 2011 to 2021 there has been net out-migration from the cold-weather states of Connecticut, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, and Pennsylvania to most of the Sun Belt states, regardless of whether the latter impose income taxes.

Out-migration from the northern states is, in many cases, counter to what one would expect if their higher tax rates were a motivating factor. For example, 41 percent more households moved from Pennsylvania to Florida on net (60,668) than from Ohio to Florida (42,893) from 2011 to 2021, despite Ohio’s top income tax rate averaging 71 percent higher than Pennsylvania’s throughout the period. Forty-seven percent more households moved from Indiana to Florida on net (22,509) than from Wisconsin to Florida (15,286) from 2011-2021, despite Wisconsin’s top income tax rate averaging 132 percent higher than Indiana’s throughout the period.<sup>76</sup>

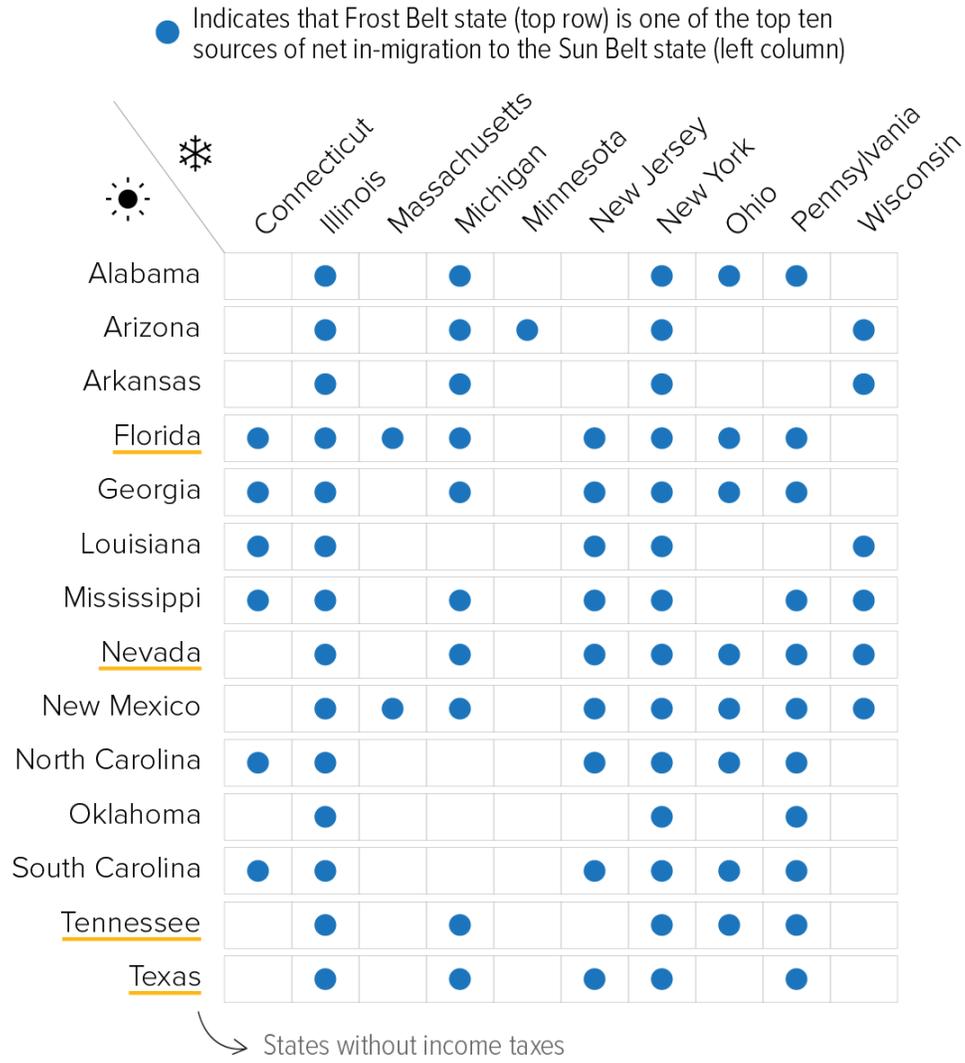
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<sup>75</sup> Paramita Sinha, Martha L. Caulkins, and Maureen L. Cropper “Household Location Decisions and the Value of Climate Amenities,” *Journal of Environmental Economics and Management*, November 2018. The “willingness to pay” methodology assumes that, all other things being equal, some people are willing to sacrifice some wages and pay more for housing to live in a state with a climate they find more desirable. It does not imply that wages or housing costs are inherently lower/higher in certain states.

<sup>76</sup> These numbers are also out of proportion to the states’ populations, which is also counter to tax flight claims. Pennsylvania’s population started the period only 10 percent higher than Ohio’s, and Indiana’s population started only 14 percent higher than Wisconsin’s.

FIGURE 8

## People Are Leaving Frost Belt States for Sun Belt States Regardless of State Income Taxes



Source: Internal Revenue Service, Gross Migration File, 2011-2021

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Critics may point to the U.S. Census survey data that reports only about 3 percent of interstate movers cite “change of climate” as the principal reason for their move. But, as just discussed, for people other than retirees it is unlikely that a change of climate would have been the principal reason for a move. Rather, climate is likely to have been an important determinant of the state to which someone chose to relocate after they decided to leave their current state for work-related reasons.

In sum, there is substantial historical evidence that a disadvantageous climate helps explain why higher-tax states such as Connecticut, Illinois, Minnesota, and New York have long been experiencing net out-migration and states like Arizona, Florida, Nevada, and Texas have seen enormous in-migration. Whether or not those trends hold in the future as the world's climate changes remains to be seen. The warming climate has caused sea levels to rise and produced more frequent and severe hurricanes, droughts, and wildfires, with increasingly harmful effects on water supplies, disease spread, insurance costs, and more.

## How Have Large State Income Tax Cuts Affected Interstate Migration?

The minimal effects on migration from recent state tax cuts also undermine tax flight claims. Four of the five states that adopted the largest income tax cuts in the past two decades saw no more than marginal increases in in-migration and/or marginal declines in out-migration in the subsequent years. The fifth, North Carolina, has experienced strong in-migration coincident with its recent tax cuts, but it also experienced strong in-migration earlier when it was levying the highest income taxes in the Southeast.

- In 2012, on the advice of Arthur Laffer and Stephen Moore, Kansas Governor Sam Brownback famously pushed through a 29 percent cut in the top income tax rate (from 6.45 percent to 4.6 percent) and the repeal of all state personal income taxation of pass-through business income.<sup>77</sup> The supply-side experiment created severe fiscal problems for the state, failed to improve the state's economy, and was terminated in 2017. There is no evidence the cuts had a positive impact on either in- or out-migration while they were in effect. In the five years after the tax cut was enacted, the number of households leaving was, on average, 2.8 percent higher than in the base year, while the number of households moving in was 3.6 percent lower on average, according to the IRS migration data.
- Ohio has enacted multiple rounds of income tax cuts since 2005, and the cumulative cuts appear to be the deepest any state has implemented to date — a 47 percent cut in the top rate, from 7.5 percent to 3.99 percent. The state has also enacted substantial tax breaks for pass-through business income reported on personal income tax returns.<sup>78</sup> Yet, Ohio has experienced net out-migration every year since 2005. In the first five years after the initial (21 percent, phased-in) rate cut took effect, there was no reduction in the number of households leaving in an average year, and the number of households moving in each year averaged only 1.3 percent higher. Between 2011 and 2012 (when the IRS changed its measurement method in a way preventing comparison with earlier years), about 96,000 households left Ohio. In the years since, departures have averaged 94,000, only a 2 percent drop — at the cost of an annual income tax revenue loss now estimated at \$8 billion.<sup>79</sup>

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<sup>77</sup> Michael Mazerov, "Kansas Provides Compelling Evidence of Failure of 'Supply-Side' Tax Cuts," Center on Budget and Policy Priorities, January 28, 2018, <https://www.cbpp.org/research/state-budget-and-tax/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax>.

<sup>78</sup> Pass-through businesses are those organized as sole proprietorships, partnerships, Subchapter S corporations, and Limited Liability Companies. The profits of the businesses are not subject to corporate income taxation; instead, they are passed through to the personal income tax returns of the owner(s) and taxed as individual income.

<sup>79</sup> Guillermo Bervejillo, "The great Ohio tax shift, 2022," Policy Matters Ohio, February 2022, <https://www.policymattersohio.org/files/research/taxshift2022.pdf>.

- In 2003 New Mexico enacted possibly the deepest state tax income cut ever adopted in one fell swoop. It cut the top rate of the state income tax 40 percent (from 8.2 percent to 4.9 percent phased in over five years) and excluded 50 percent of capital gains income from taxation as well. These tax cuts had no outsize impact on movement into or out of the state. The IRS migration data show that more households left in four of the five years after the bill's enactment than in the year before enactment; 1.9 percent more on average annually for the five years. About 2.5 percent more households moved in each year on average in the same five years. That meager improvement in in-migration (an average of just 739 households annually) came at the cost of substantial annual revenue loss (initially estimated at \$360 million),<sup>80</sup> which the state is still incurring and which has increased over time. Moreover, New Mexico experienced net out-migration from 2011-12 through 2017-18.
- In 2003 Montana reduced the top income rate from 11 percent to 6.9 percent while scaling back the deductibility of federal income taxes on state returns. Taken together, these changes were estimated to have reduced the average 2008 tax liability of taxpayers reporting more than \$250,000 in adjusted gross income by 21 percent. Montana Department of Revenue economist Dan Dodds conducted a sophisticated statistical analysis of the effect of the tax cuts on migration into and out of the state for households in this income group.<sup>81</sup> The study found no evidence that the tax cuts reduced out-migration from the state. What evidence it found on the effects of high-income people's in-migration was modest at most and based on "the model with the most glaring weakness"; the study therefore did not attempt to quantify this effect.
- North Carolina converted its graduated income tax to a flat rate tax and cut the top rate by almost one-third (from 7.75 percent to 5.25 percent) between 2013 and 2017.<sup>82</sup> The number of households moving in each year was 3.4 percent higher in the five years after 2013, and the number moving out averaged 2.4 percent lower. But the state's net in-migration trend long predates these cuts. Up until 2013, North Carolina had the highest top income tax rate of any southeastern state — indeed, it reached 8.25 percent for several years — and yet the state has experienced strong in-migration every year since the IRS started reporting migration data in the early 1990s. Moreover, despite both the substantial income tax cuts and a change in the IRS's methodology that significantly expanded the number of tax returns encompassed in its migration database, net migration into North Carolina after 2012-2013 has yet to hit annual levels reached in 2005-2007 before the tax cuts were enacted.

Policymakers in states losing residents and experiencing weak economic growth might be tempted by the false promise that deep income tax cuts will significantly mitigate these problems, stemming the "brain drain" of their college graduates and attracting large numbers of entrepreneurs

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<sup>80</sup> Barry Massey, "New Mexico Governor Approves Cuts in Income, Capital Gains Taxes," *State Tax Notes*, February 20, 2003.

<sup>81</sup> Dan Dodds, "Interstate Migration and State Taxes: A Natural Experiment in Montana," unpublished paper presented to the annual meeting of the National Tax Association, November 2017, <http://ntanet.org/wp-content/uploads/proceedings/2017/NTA2017-309.pdf>.

<sup>82</sup> Further cuts were enacted in November 2021.

looking to start businesses and young workers looking to build their careers and families.<sup>83</sup> But, as the examples above demonstrate, states have tried this and failed. Kansas lawmakers in 2017 had the good sense to suspend their income tax cutting experiment,<sup>84</sup> but New Mexico's tax cuts remain in place and Ohio continues to double down, cutting its income tax in 2019, 2021, and 2023.

Elected officials in other relatively low-tax states like Arkansas, Mississippi, Nebraska, and West Virginia should harbor no illusions that the deep income tax cuts they have recently enacted will do much to help them retain or attract talent — certainly not in a cost-effective manner.<sup>85</sup> They would have been far better served by retaining the revenue and using it to enact targeted economic development strategies and improve their schools and make higher education more affordable, especially when inadequate investments in education have likely contributed to the relatively low educational attainment levels among their adult workforce.

## How Have Tax Increases on High-Income Households Affected Interstate Migration and Revenue?

Anti-tax advocates raise some of their biggest objections to proposed income tax increases on high-income professionals and business owners, claiming this will cause these “job creators” to flee to states without income taxes.<sup>86</sup> In fact, actual state experience and academic research demonstrates that interstate migration is modest even among people at the highest income levels, and even when tax rates on the affluent are increased relatively sharply.

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<sup>83</sup> In previewing his intention to seek deep cuts in the income tax in the 2023 legislature (as he had in 2022), West Virginia Governor Jim Justice said “[W]e need to . . . help get money into the pockets of our people and then entice many, many others to come to this great state.” Charles Young, “Appetite for Tax Reform Remains, Despite West Virginia Voters’ Rejection of Amendment 2,” *The State Journal*, November 21, 2022. In his 2023 State of the State address, Nebraska Governor Jim Pillen asserted that the deep cuts in the state personal tax he proposed were “key to stopping out-migration.” See <https://governor.nebraska.gov/press/governor-jim-pillen-2023-state-state-address>.

<sup>84</sup> Kansas lawmakers enacted a roughly 10 percent cut in the top personal income tax rate (about one-third of the Brownback tax cut) in April 2023, but Governor Laura Kelly vetoed it.

<sup>85</sup> The Tax Foundation had long been somewhat circumspect in its assessment of the impact of taxes on interstate migration. (Lyman Stone, “The Facts on Interstate Migration: Part 5, May 16, 2014: “In sum, we can’t conclusively say that lowering taxes will suddenly attract a tide of migrants.”). More recently, however, it has argued that cutting their income taxes is likely to increase in-migration in all of these states. Timothy Vermeer, “Arkansas’s Rate Reduction Acceleration,” August 18, 2022. (“Thus, lowering the individual income tax rate from 5.9 percent to 4.9 percent should promote in-migration on the margin and increase employment.”) Timothy Vermeer, “Sustainable Tax Reform a Win for Mississippians,” March 30, 2022. (“Additionally, the ongoing migration from high- to low-tax states, and particularly states with low income taxes, is likely to accelerate with the growing viability of telework. . . . Those who are highly sensitive to taxes will find it easier than ever to relocate to jurisdictions with lower tax burdens, regardless of where their employer may be located. . . . With the passage of HB 531, Mississippi is actively setting the conditions necessary to attract these workers.”) Jared Walczak, “Evaluating West Virginia Income Tax Repeal Plans,” March 30, 2021. (“[T]he Mountain State could be a Mid-Atlantic remote work paradise. A low income tax burden — or none at all — could vastly enhance the state’s existing appeal to those who can suddenly work anywhere.”) Statements such as these ignore the potential consequences of deep income tax cuts for these states’ ability to fund critical investments in education and infrastructure and fail to explain how these states will make up the lost revenue.

<sup>86</sup> “The out-migration of high earners is a serious threat to high-tax states because those individuals pay a large share of state income taxes, invest in new businesses and generate jobs, and are heavily engaged in philanthropy.” Chris Edwards, “Tax Reform and Interstate Migration,” Cato Institute, September 6, 2018, p. 1.

In the past two decades, eight states and the District of Columbia have enacted income tax increases on very high-income taxpayers.<sup>87</sup> These are often referred to as “millionaires’ taxes,” although they frequently kick in at somewhat lower income levels. These enactments are natural experiments that in theory could be very useful in evaluating tax flight claims. There are two significant barriers to doing so (which the above-mentioned academic research has found a way around).

First, many of these tax increases only affect taxpayers with incomes that are far higher than the highest income group aggregated in publicly available migration data. For example, there is no way for researchers using the public IRS migration database to evaluate the impact of a tax that only applies to income above \$1 million, because the income class that includes millionaires also includes the much larger number of taxpayers with incomes between \$200,000 and \$1 million.

Second, because there are so few taxpayers with incomes this high, and because the interstate migration rate for any income group in an average year is so low, attempts to isolate the effects of tax increases immediately run into sample size problems.

Fortunately, however, a few academic researchers have obtained special access to complete populations of very-high-income tax returns for both the entire United States and specific states (New Jersey and California), permitting meaningful evaluation of the impact of state income tax increases (and, in some cases, decreases) on migration among this group of taxpayers. None of these studies substantiate claims that tax increases on the rich cause large numbers of them to flee, and they demonstrate that the revenue loss attributable to those few who do is likely to be a tiny fraction of the net revenue gained.

### **Nationwide, Little Millionaire Willingness to Move for Taxes**

In 2016 sociologists Charles Varner and Cristobal Young and economists Ithai Lurie and Richard Prisinzano published the most comprehensive peer-reviewed study to date of U.S. millionaire migration.<sup>88</sup> The authors were granted access to every (anonymized) federal tax return with more than \$1 million in reported income filed in every state from 1999 through 2011. To isolate the effects of income taxes, the authors held constant other potential factors, such as climate and housing costs.

Here are the study’s key findings:

- “The annual millionaire migration rate is 2.4 percent, which is lower than the migration rate of the general population (2.9 percent).”

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<sup>87</sup> Wesley Tharpe, “Raising State Income Tax Rates at the Top a Sensible Way to Fund Key Investments,” Center on Budget and Policy Priorities, February 7, 2019. In November 2022, Massachusetts voters approved the latest such tax, a new tax bracket for taxpayers with taxable incomes above \$1 million with a 9 percent tax rate that took effect in January 2023.

<sup>88</sup> Cristobal Young *et al.*, “Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data,” *American Sociological Review*, Vol. 81(3) 421-446, 2016, [https://cristobalyoung.com/development/wp-content/uploads/2018/11/Millionaire\\_migration\\_Jun16ASRFeature.pdf](https://cristobalyoung.com/development/wp-content/uploads/2018/11/Millionaire_migration_Jun16ASRFeature.pdf). Young summarized the key findings of this study in language more accessible to a general audience in *The Myth of Millionaire Tax Flight*, Stanford University Press, 2017, pp. 23-32.

- Income taxes have only a tiny impact on millionaires' moves. If the average state raised its income tax rate on millionaires by 1 percentage point and all other states kept their rates constant, 12 fewer millionaires would move into the state and 11 more would move out. That is only 23 moves, compared to 9,000 existing millionaire households in the average state.
- Most millionaires who move do so to states with higher or essentially equivalent income taxes.<sup>89</sup> Only 2.2 percent of U.S. millionaires make an interstate move to a lower-tax state in an average year.
- Florida is the only state for which there is any evidence that the absence of an income tax even slightly attracts millionaires. No similar effect was seen in Texas, Nevada, or any of the other no-income-tax states.<sup>90</sup>
- Millionaire business owners are even less likely than other millionaires to move in response to interstate differences in income taxes. This is not surprising, as their incomes are likely closely tied to the networks of customers, employees, and suppliers they have built in their state of residence: "A central flaw in the mobile millionaire hypothesis is the assumption that top earners can make the same money anywhere they live. Human capital and especially social capital have place-specific returns, and moving to avoid taxes is unlikely to optimize what people can earn with their skills and abilities."<sup>91</sup>
- A second analysis in the study examined the propensity of millionaires to live on the lower-income-tax side of a state border, such as in the Portland, Oregon metro area that includes counties in no-income-tax Washington. It found that: "among the more compelling, easily commutable border regions, the difference in millionaire population at the state border is not significant. Nor is the difference significant within cross-state cities that represent small, commutable, economically integrated zones. Finally. . . we find no [millionaire] population response to changes in the tax difference at the border."<sup>92</sup>

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<sup>89</sup> "Some 32 percent of millionaire migrations in our data were moves to a state that charged a higher income tax rate than where they came from. . . . An additional 21 percent of moves were tax neutral — moves between states with essentially the same tax rate. . . . Finally, the remaining 47 percent of migrations were to a state with a lower tax rate on elites. . . ." Young, *The Myth of Millionaire Tax Flight*, pp. 23-24.

<sup>90</sup> Elsewhere, Young observes:

Setting aside migrations in and out of Florida, it is almost equally likely that a millionaire will move to a state with a higher tax rate as [one with] a lower tax rate: 35 percent of moves are to higher tax states, 38 percent to lower tax states. The 3-percentage point difference is negligible. . .

[I]f millionaires want to be around other high-status people and want to enjoy similar kinds of expensive amenities, such as golf courses and fine-dining establishments, tax havens might be most appealing when most millionaires go to the same place. In this sense, there is nothing surprising about Florida's unique status as a magnet for millionaire migration: It is better for millionaires if there is just one good tax haven on which they can all converge. . . . Does Florida migration demonstrate the benefits of maintaining a low tax rate for the rich, or does it show the benefits of being an East Coast tropical location?

*The Myth of Millionaire Tax Flight*, pp. 26-27. (The other 27 percent of millionaire migrations to states other than Florida were to a state with an essentially equivalent income tax level.)

<sup>91</sup> *Ibid.*, p. 98.

<sup>92</sup> "Millionaire Migration and the Taxation of the Elite," p. 440.

The study's authors said the "most striking finding of this research is how little elites seem willing to move to exploit tax advantages across state lines." As a result, they conclude, state governments "have considerable leeway for independent tax policy," and they "can make policy choices that contribute to the reduction of inequality" by maintaining progressive income tax rate structures without fear of stimulating significant millionaire tax flight.

### **2017 SALT Cap Affected Destination, But Not Quantity, of Interstate Moves**

In December 2017, Congress approved and President Trump signed into law the Tax Cuts and Jobs Act (TCJA). One of the law's most significant features was a new limit of \$10,000 on the deductibility of state and local taxes (SALT) for itemizing married couples. Prior to tax year 2018, a taxpayer in the top 39.6 percent federal tax bracket effectively had roughly one-third of these taxes "paid for" in the form of reduced federal income tax liability due to the SALT deduction. It also reduced the effective differential between various states' taxes. With the deduction capped and high-income taxpayers now facing the full effect of their state's income tax rates, Laffer, Moore, and like-minded economists predicted a major exodus from higher-tax states.<sup>93</sup>

Two of the authors of the study described in the previous section, Young and Lurie, set out to test this prediction. They obtained complete federal tax return information for tax years 2015-2019 for all taxpayers with incomes above \$1 million. They used this information to simulate the combined federal, state, and local income tax liability of these households, including the effect of state income tax deductibility before and after the enactment of the SALT cap. They looked at whether the change in millionaire households' effective state tax rate due to the SALT cap affected their probability of out-migration in either of the first two years after the cap took effect.

Young and Lurie found no statistically or economically significant effect of the SALT cap on out-migration for millionaires or three other taxpayer groups with incomes of at least \$100,000 in either 2018 or for 2018 and 2019 combined.<sup>94</sup> They concluded: "Millionaires in high-tax states do not move any more often than millionaires in low-tax states, and no significant change is observed after the tax reform."<sup>95</sup>

Young and Lurie also found that while the "TCJA did not change the probability of elite migration," it did affect the destination state of millionaires who decided to move for non-tax reasons during this period, "making lower-tax destinations more attractive."<sup>96</sup> This means that it reduced the probability of in-migration to a higher-tax state on the part of a millionaire who had decided to move. Applying the national average effect to California, Young and Lurie estimated that the SALT cap in TCJA produced a loss of roughly 380 millionaires from a base population of 81,000 (i.e., 0.5 percent of the [millionaire] population).<sup>97</sup> They observed:

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<sup>93</sup> Arthur B. Laffer and Stephen Moore, "So Long, California. Sayonara, New York," *Wall Street Journal*, April 24, 2018.

<sup>94</sup> Cristobal Young and Ithai Lurie, "Taxing the Rich: How Incentives and Embeddedness Shape Millionaire Tax Flight," Washington Center for Equitable Growth Working Paper, July 2022, p. 17 and Appendix I.

<sup>95</sup> *Ibid.*, p. 17.

<sup>96</sup> *Ibid.*, p. 18. This was consistent with the finding of the 2016 study that no-income-tax Florida was somewhat more attractive than the average state for millionaires who did move.

<sup>97</sup> *Ibid.*, p. 19.

To counteract this migration, states could cut taxes on the rich, attempting to lure back missing millionaires, but doing so would lead to even larger revenue losses. Indeed, the revenue-maximizing tax rate on millionaires is higher, rather than lower, than current rates anywhere in the U.S. Thus, while the TCJA indeed benefited low-tax states at the expense of higher-tax ones, progressive taxation still generates large revenues for public policy programs and states have considerable fiscal capacity to set their own policies.<sup>98</sup>

### **New Jersey's 2004 Millionaire's Tax: Negligible Overall Migration Impact**

In 2004 New Jersey enacted a new 8.97 percent tax bracket for taxpayers with taxable incomes above \$500,000, 2.6 percentage points (40 percent) higher than the previous top rate. Because the increase was relatively large, because it was focused on high-income people allegedly most likely to move in response, and because so much of New Jersey's population lives within a short distance of Connecticut, New York, and Pennsylvania, this tax increase provided a good test of the migration response to state income tax increases.

Researchers Cristobal Young and Charles Varner were given access to (anonymized) tax returns filed by all New Jersey interstate movers in the four years before and the four years after the tax increase. In a 2011 study, they compared the rate of net out-migration for taxpayers with incomes above \$500,000 to those with incomes of \$200,000-\$500,000, who were not subject to the tax increase.<sup>99</sup>

They found that while the rate of net out-migration did increase slightly for those taxpayers falling within the new bracket (5.1 per 1,000), it also increased nearly as much (4.6 per 1,000) for the other high-income group. Overall, they estimated that the tax increase resulted in a net loss of 1 out of every 2,000 millionaires present in the state.

Young and Varner found somewhat larger out-migration effects for millionaires who earn all their income from passive investments (that is, those not tied to local jobs or businesses), millionaires over age 65, and the top 0.1 percent of income earners, but some of these effects were not statistically significant. They concluded: "the effect of the new tax bracket is negligible overall. Even among the top 0.1 percent of income earners, the new tax did not appreciably increase out-migration."

Finally, even after assuming that none of the wealthy lawyers, investment bankers, and corporate CEOs induced to migrate out of New Jersey would be replaced in their positions by highly paid successors, Young and Varner estimated an annual loss of income tax revenue attributable to this additional out-migration of \$17 million. That amount is less than 2 percent of the roughly \$1 billion (static) annual revenue gain from the rate increase.<sup>100</sup>

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<sup>98</sup> *Ibid.*, p. 30.

<sup>99</sup> Cristobal Young and Charles Varner, "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," *National Tax Journal*, June 2011.

<sup>100</sup> New Jersey Department of the Treasury economists Roger Cohen, Andrew Lai, and Charles Steindel ("CLS") subsequently attempted to replicate Young and Varner's results. See "A Replication of 'Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment,'" *Public Finance Review*, March 2015. They were critical of some of Young and Varner's methodological choices, to which Young and Varner responded effectively. (See

## California's Tax Increase Referendums Raising Far More Revenue Than What's Lost to Out-Migration

In November 2012, California voters approved Proposition 30, which created new tax brackets for very-high-income taxpayers with progressively higher marginal tax rates, earmarking the revenue for education. Prop 30 increased the previous top income tax rate by 1 percentage point (to 10.3 percent) for married couples with \$500,000-\$600,000 in taxable income, by 2 percentage points (to 11.3 percent) for couples with \$600,000-\$1,000,000 in income, and by a full 3 percentage points (to 13.3 percent) for couples with incomes above \$1 million.<sup>101</sup> The increases were retroactive to the beginning of 2012. They were scheduled to expire at the end of tax year 2018 but were extended through the end of 2030 by voter approval of Proposition 55 in November 2016.

Economist Joshua Rauh obtained access to all California state income tax returns from 2000-2015 and compared the out-migration rates of high-income people that would have been affected by the tax increases had they been in effect before 2012 with their out-migration rates in 2012, 2013, and 2014. Rauh found essentially no increase in net out-migration among the households that experienced either a 1 or 2 percentage point increase in their top tax rates, and no meaningful increase among taxpayers with less than \$2 million in taxable income who had experienced the 3 percentage point increase.

Rauh did find “a clear increase from a 1.5 [percent] departure rate after the 2011 tax year to a 2.125 [percent] departure rate after the 2012 tax year for taxpayers with more than \$5 million in taxable income. Similar patterns are seen in the \$2-\$5 million range of broadly comparable magnitude.”<sup>102</sup> But Rauh, a harsh critic of these tax increases,<sup>103</sup> also acknowledged, “[T]he out-migration effect we find is a one-time movement; out migration in our context reverts to pre-Proposition 30 levels after 2012-13. . . .”<sup>104</sup> As far as the out-migration numbers, Rauh’s conclusions

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Cristobal Young and Charles Varner, “Is Millionaire Tax Migration Small or Very Small? A Response to Cohen, Lai, and Steindel,” *Public Finance Review*, March 2015.) While CLS found higher out-migration following the tax increase than Young and Varner did, most of the estimates were still within the 95 percent confidence interval of the latter’s estimates — essentially confirming their findings. CLS also chose to ignore the increase in millionaire in-migration to New Jersey that followed the tax increase. In any case, even accepting CLS’s methodology and findings, the loss of revenue resulting from induced out-migration (only) was just \$75 million of the annual static annual \$1 billion estimated increase.

<sup>101</sup> An additional 1 percent rate applies to taxpayers with incomes above \$1 million, as enacted via Proposition 63 in 2004, to fund enhanced mental health services — hence the 2 percentage point difference from the second highest to the highest income tax rate. High-income single taxpayers at somewhat lower income levels were also subject to 1, 2, and 3 percentage point increases.

<sup>102</sup> Joshua Rauh and Ryan Shyu, “Behavioral Responses to State Income Taxation of High Earners: Evidence from California,” unpublished working paper, May 2022 version, p. 30; [https://www.nber.org/system/files/working\\_papers/w26349/w26349.pdf](https://www.nber.org/system/files/working_papers/w26349/w26349.pdf).

<sup>103</sup> See the video of Rauh discussing his study at <https://www.policyed.org/policy-stories/tax-flight-behavioral-responses-state-income-taxation/video>.

<sup>104</sup> Rauh and Shyu, p. 38.

were that only 535 of nearly 67,000 (or less than 1 percent of) top-bracket taxpayers left in response to the increase.<sup>105</sup>

Notwithstanding Prop 30, the California economy continued to provide ample economic opportunity; by tax year 2021 there were 142,247 resident taxpayers whose incomes placed them in the top tax bracket and 405,543 who were subject to one or more of the Prop 30 tax rates. Those figures were, respectively 133 percent and 130 percent higher than the tax year 2013 counts.<sup>106</sup>

Rauh estimates that the one-time out-migration of the very rich resulted in a 4.2 percent loss of the revenue that otherwise would have been realized:<sup>107</sup> a roughly \$200 million hit to a forecasted \$5 billion in revenue gained.<sup>108</sup> Moreover, the study found that a large majority of the highest-income

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<sup>105</sup> *Ibid.*, p. 3, Note 4. Rauh's reference in the note to a top income tax rate of 12.3 percent rather than 13.3 percent ignores the additional 1 percent rate that applies to taxpayers with incomes above \$1 million that had been enacted via Proposition 63 in 2004 to fund enhanced mental health services.

<sup>106</sup> California Franchise Tax Board, "Personal Income Tax Statistics, 2013-2021 Tax Years, Resident and Non-Resident Returns, Proposition 30/55 Statistics," Exhibit A-11, April 4, 2023, available at <https://data.ftb.ca.gov/download/seiz-t6tj/application%2Fpdf>.

<sup>107</sup> Rauh and Shyu, p. 51. In a subsequent paper, Rauh argues that revenue losses from people who leave the state are "arguably permanent." Joshua Rauh, "Taxes, Revenues, and Net Migration in California," December 22, 2022, p. 3, available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4037764](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4037764). There are several reasons to question this. First, Rauh and Shyu themselves found that a high proportion of people who leave continue to report California-source income from, for example, consulting work or part-time employment in the state or ownership of California rental property or a California-based business. Second, some lost revenue is undoubtedly from one-time tax on one-time capital gains on the departing taxpayer's sale of a home, business, or property. Finally, a departing taxpayer's source of income often flows to another California resident who will continue to pay tax on it, such as the doctor who will obtain their departing counterpart's clients, the restaurant that will have more customers when the departing taxpayer shuts theirs, or the person who buys the car dealership from a person leaving. And, in the corporate context, as Young and Lurie, *op. cit.*, point out:

When migration occurs, structural positions tend to get filled, not lost. If the CFO at Citibank moves from New York to Florida, this does not mean there will be one fewer top earner in New York. Rather, the departure will create an opportunity as someone is promoted into the open CFO position, in turn creating a new vacancy below, into which someone else is promoted, and so on.

For a more extensive discussion of the serious flaws in claims of "income migration" associated with physical migration, see Michael Mazerov, "State 'Income Migration' Claims Are Deeply Flawed," Center on Budget and Policy Priorities, October 20, 2014, <https://www.cbpp.org/research/state-income-migration-claims-are-deeply-flawed>.

<sup>108</sup> The conclusion of the Rauh-Shyu study that arguably has received the most press attention is that high-income people subjected to the Prop 30 tax increases who remained in California engaged in so much additional tax avoidance behavior in response that, by 2014, nearly 80 percent of the potential annual revenue gain had been lost. (Rauh and Shyu, p. 50.) This conclusion is inconsistent with the state's own estimates, however. Because all the Prop 30-generated revenue is earmarked for education, the state is required to estimate each year how much the three new high-income tax rates are generating. The FTB forecasted that the income tax increases in Prop 30 (it also included a temporary sales tax increase) would generate \$5.0 billion in tax year 2012. (Email communication with Alan Prohofsky, Chief Economist, FTB, August 24, 2022.) Far from falling short due to tax avoidance behavior, the tax raised \$5.9 billion in 2012, and more in future years (excluding a one-time drop to \$4.7 billion in 2013). (See California Franchise Tax Board, Exhibit A-11, April 4, 2023.) By 2021, the Prop 30 liability of California residents had risen to \$14.4 billion, an increase of 228 percent over the tax year 2013 amount, far in excess of the roughly 16 percent Consumer Price Index increase over that period. (That increase is largely a reflection of the opportunities that California's technology- and entertainment-based economy has provided large numbers of people to become millionaires and for existing millionaires to earn even more income. Particularly large increases in these numbers in the past two years likely reflect the impact on stock prices of soaring corporate profits and seem likely to fall back in the future.) In short, notwithstanding whatever additional tax

out-migrants continued to file non-resident California income tax returns in 2013 and 2014, indicating that — to the extent that they were owners of California pass-through businesses — the businesses themselves remained in California.

Finally, Rauh does not consider the likelihood of an at least partially offsetting positive “dynamic effect” of increased education spending on the state’s economy and revenues. (Prop 30 revenue is earmarked for education.) Economic theory suggests that such an effect would result from the higher propensity of teachers, bus drivers, cafeteria workers, and other K-12 school and community colleges employees to spend their incomes locally than the high-income people from whom the additional taxes were obtained.<sup>109</sup> Such local spending of education employees generates jobs and income in the local businesses they patronize while, high-income people are more likely to respond to higher taxes by reducing their savings or spending on out-of-state vacations, college tuitions, and other services.

### **Impact of the 2017 SALT Cap on California High-Income Migration**

Prior to tax year 2018, a California taxpayer in the top 13.3 percent state income tax bracket and the top 39.6 percent federal tax bracket effectively had roughly one-third of their state income tax “paid for” in the form of reduced federal income tax liability due to the federal SALT deduction. Once the \$10,000 cap on SALT deductions was imposed, given that most high-income Californians likely pay at least that amount in annual property taxes alone, they became fully subject to the Prop 30 tax rates (that is, the Prop 30 taxes were no longer deductible). For many of them, the tax increase from the SALT cap was likely equal to, if not more than, their Prop 30 increase.

Rauh obtained additional years of California income tax returns to analyze the impact of TCJA on the migration of high-income taxpayers.<sup>110</sup> He split the high-income groups into those with above-median and below-median changes in their combined tax liabilities. He found that, for taxpayers in the top 13.3 percent tax bracket with incomes under \$2 million, the post-TCJA net out-migration rate for the above-median group was actually slightly lower than it had been in 2017 for all taxpayers in that income group.

For taxpayers with incomes between \$2 million and \$5 million, the net out-migration rate for those experiencing above-median increases in combined liability was 1.22 percent, a 0.28 percentage point increase over the net out-migration rate for this income group in 2017 of 0.94 percent. Finally, for taxpayers with incomes above \$5 million, the net out-migration rate for those experiencing above-median increases in combined liability was 1.39 percent, a 0.36 percentage point increase over the 1.03 percent 2017 net out-migration rate for this income group.<sup>111</sup>

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avoidance behavior the enactment of Prop 30 has encouraged, its revenue yield has far exceeded the state’s own expectations.

<sup>109</sup> See Peter Orszag and Joseph Stiglitz, “Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?” Center on Budget and Policy Priorities, November 6, 2001, <https://www.cbpp.org/sites/default/files/archive/10-30-01sfp.htm>.

<sup>110</sup> Because Rauh did not have access to federal tax returns, he simulated the percent changes in these taxpayers’ combined federal and state tax liabilities using the income information on the state returns.

<sup>111</sup> Rauh, “Taxes, Revenues, and Net Migration in California,” Table 2, p. 13.

Rauh is correct that these data provide “evidence that the increases in departures from California . . . around TCJA are tax-motivated.” Their significance, however, should be put into context. First, as with Prop 30, the migration increases were short-lived. Gross and net out-migration rates for the highest-income group (above \$5 million) fell in 2019, and for the \$2 million-\$5 million and under-\$2 million groups they appear to have risen no more in 2019 than what is seen in normal year-to-year fluctuations.<sup>112</sup>

Second, also as with Prop 30, the increase in the number of actual departing households appears to have been quite small. Rauh states that “[o]utward flows of taxpayers who earn more than \$5 million reached 2.1 percent in 2017 [i.e., post-TCJA] compared to an average of 1.5 percent between 2013 and 2016.”<sup>113</sup> This translates to a one-time increase of roughly 60 to 120 households in that income group leaving the state.<sup>114</sup>

Given that there were approximately 20,000 California tax returns filed in 2018 reporting more than \$5 million in taxable income,<sup>115</sup> an extra 60-120 departures attributable to TCJA would not seem to provide compelling evidence of a significant effect of tax increases on out-migration. It also does not take into consideration the number of people with more than \$5 million in income who moved *into* California between 2017 and 2018.<sup>116</sup>

### **Minnesota’s 2013 High-Income Tax Bracket: No In- or Out-Migration Effects**

Finally, publicly available data from Minnesota can show how a high-income tax increase affected migration there. In 2013 the state added a high-income tax bracket with a rate of 9.85 percent, 2.0 percentage points higher than the previous top rate. The new bracket kicks in at \$152,540 of taxable income for single filers and \$254,240 for married couples. The IRS data disaggregated by income

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<sup>112</sup> *Ibid.*, figures 1 and 2. It is not possible to provide specific values for the amount by which gross and net out-migration rates changed between 2018 and 2019 because Rauh does not include complete data underlying the graphs in his report.

<sup>113</sup> *Ibid.*, p. 10.

<sup>114</sup> Rauh’s study does not report, or include the data that would allow a reader to calculate, how many \$5 million-plus taxpaying households this key finding of an increased out-migration rate for this group from 1.5 percent to 2.1 percent translates to. The study does contain some information that permits a rough range of estimates, however. Appendix Table A1 shows that 1,256 households with incomes above \$5 million left California from 2011-2019, an average of 140 each year. (Note that the 1.5 percent baseline outmigration rate is the average for 2013-16, not 2011-19.) An increase in the out-migration rate from 1.5 percent to 2.1 percent that Rauh attributes to TCJA is a 40 percent increase. Forty percent of 140 is 56 taxpayers — or roughly 60. Appendix Figure 2 shows that there were about 20,000 households with incomes above \$5 million in 2017. If the SALT cap boosted their out-migration rate by 0.6 percentage points (from 1.5 percent to 2.1 percent), that would imply an increase of 120 taxpayers over the pre-TCJA baseline outmigration rate.

Recall from the discussion above that Young and Lurie’s estimate of 380 California departures due to the SALT cap was for the full group of 81,000 millionaire households in their database, not just those with incomes above \$5 million.

<sup>115</sup> *Ibid.*, Appendix Figure A2, seems to show about 20,000 tax year 2018 returns for the greater than \$5 million income group. It also appears to indicate that, notwithstanding 2017 outmigration, the number actually rose slightly between 2017 and 2018. The same is true to an even greater extent for the \$2 million-\$5 million and under \$2 million sub-group.

<sup>116</sup> Annual *net* out-migration of households in the above \$5 million income group was two-thirds smaller than gross out-migration, averaging only 42 over the 2011-18 period. That figure comes from Appendix Table A2 of an earlier version of the same paper, dated February 17, 2022. Rauh did not include that table in the current draft. He does not include complete data tables underlying his graphs, so it is not possible to do an analogous calculation of the purported impact of TCJA on the *net* migration of households.

level are available beginning with moves that occurred between 2011 and 2012, and the highest income group in the IRS data (\$200,000 of AGI and above) corresponds reasonably closely to the income group subject to the higher tax rates.

The out-migration rates for Minnesota taxpayers with AGI above \$200,000 averaged 2.0 percent for 2011-12 moves, 2.2 percent for 2012-13 moves, and 2.2 percent for moves that occurred in the subsequent eight years. The in-migration rate for all those periods was 1.6 percent. In short, while the IRS migration data show that Minnesota experiences net out-migration among the top income group, its enactment of a high-end bracket neither caused more high-income taxpayers to leave the state nor discouraged them from moving to the state.

In sum, there has been substantial, sophisticated academic research into whether interstate differences in the level of state income taxes — and significant increases in those differences resulting from both state and federal tax policy changes — have an impact on interstate migration of very high-income taxpayers. Most of this research finds some measurable (net) out-migration effects, but none of the size one might expect given some of the claims about tax flight.

The most important implication of the research is that any politically feasible state income tax increases are unlikely to stimulate enough migration to offset more than a small amount of the estimated revenue yield. Increasing state income taxes on very high-income people is an economically viable policy choice that can help mitigate the vast income and wealth inequality in the United States and generate significant revenues to fund critical investments in education, public health, medical care, public safety, and infrastructure that are essential to achieving economic and racial equity.

## **Achieving Net In-Migration Doesn't Guarantee State Prosperity**

It is worth questioning whether state policymakers should consider net in-migration an end in and of itself.<sup>117</sup> State economic success should be measured not by looking at how many people a state attracts, but whether this in-migration is providing state residents — current and newcomers alike — with a higher standard of living. One straightforward way to measure this would be to take the growth of both a state's economy and its population due to migration and gauge economic success by looking at growth in economic output per person rather than in total. Such an analysis would substantially undermine claims that states without income taxes outperform states that levy income taxes at higher rates.<sup>118</sup>

Looking at income growth per person — or per household — makes clear that achieving net in-migration does not guarantee state prosperity, and that experiencing net out-migration does not doom a state to poor economic performance. Over the past ten years (see Figure 9), four of the nine

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<sup>117</sup> Even a conservative economist who writes about tax flight agrees that “[n]et migration is not a good goal in its own right. Policymakers shouldn't be focusing on trying to run up the migration score, but rather on providing the best public services at the lowest price to constituents. The result of this is likely to be healthy and sustainable migration flows: but not necessarily perpetual high net inflows.” Lyman Stone, “Are Blue States Bleeding?” Medium, October 1, 2015, <https://medium.com/migration-issues/are-blue-states-bleeding-a33ade9e35f8>.

<sup>118</sup> Carl Davis, “Another Reason to Tax the Rich? States with High Top Tax Rates Doing as Well, if Not Better, than States Without Income Taxes,” Institute on Taxation and Economic Policy, September 23, 2020, <https://itep.org/another-reason-to-tax-the-rich-states-with-high-top-tax-rates-doing-as-well-if-not-better-than-states-without-income-taxes/>.

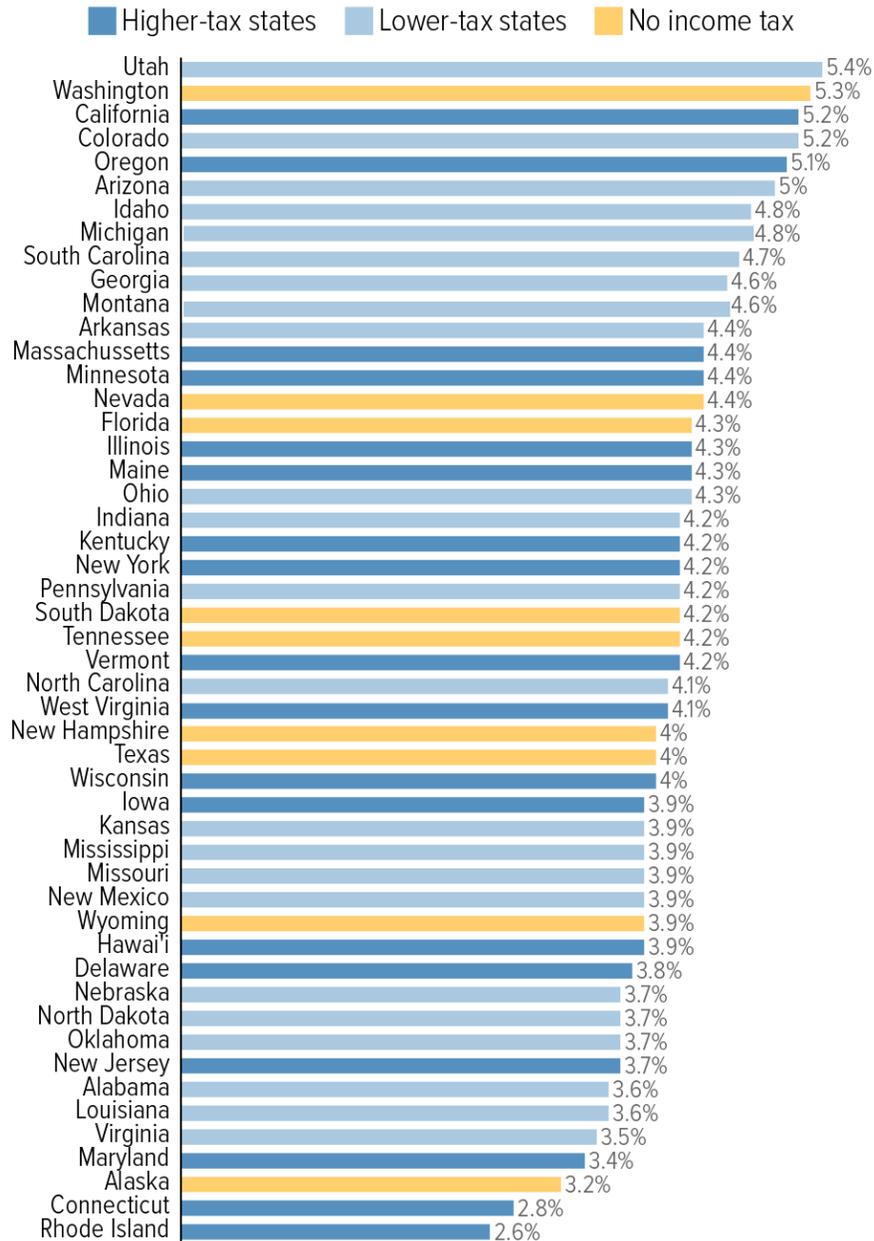
states without income taxes ranked in the bottom half of states in per-capita personal income growth — including Texas. Only Washington ranked in the top ten.

In contrast, several states cited as typifying the supposed tax flight problem saw relatively strong per-capita income growth over this period. California ranked third; Massachusetts and Minnesota outperformed Florida; and Illinois and New York outperformed Tennessee and Texas.

FIGURE 9

## Many Higher-Tax States Have Enjoyed Higher Per Capita Income Growth Than Many States Without Income Taxes

Average annual growth in per capita personal income, 2010-2020



Note: Annual growth rates shown are for the period between the second quarter of 2010 and the second quarter of 2020.

Source: CBPP analysis of Bureau of Economic Analysis data

Measuring the growth in the standard of living of the average family yields similar results. Between 2009 and 2020, five of the nine states without income taxes ranked in the bottom half of states in the growth of median household income.<sup>119</sup> (See Figure 10.) Florida ranked 42nd and Nevada 37th. California and New York outperformed six of the no-income-tax states, including Texas, Nevada, and Florida. Hawai'i, Massachusetts, Illinois, Maryland, Rhode Island, and Minnesota all saw median household incomes rise more than seven of the nine states without income taxes.

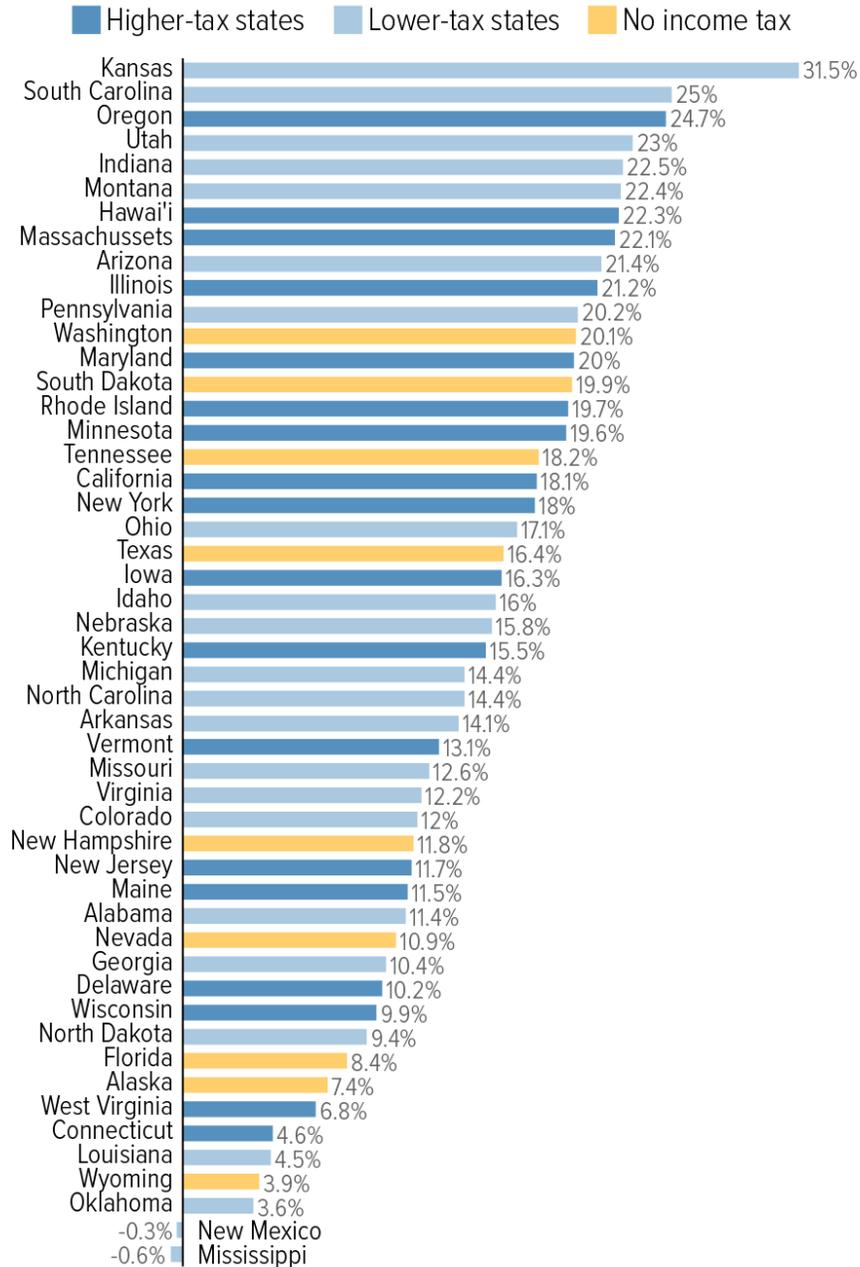
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<sup>119</sup> To reduce sampling error, this calculation compares the growth in median household income between the three-year averages for 2009-11 and 2018-20. Current Population Survey data available at <https://www2.census.gov/programs-surveys/cps/tables/time-series/historical-income-households/h08b.xlsx>.

FIGURE 10

## Many Higher-Tax States Have Higher Household Income Growth Than Many States Without Income Taxes

Growth in inflation-adjusted median household income, 2009-2020



Note: Growth rates shown are between three-year averages for 2009-2011 and 2018-2020. Not all differences between states are statistically significant.

Source: U.S Census Bureau, Current Population Survey

In sum, it is misleading to paint states experiencing net in-migration as inherently economically successful and those experiencing net out-migration as failing. Several net in-migration states appear to be creating predominantly low-paid jobs that are not quickly improving household incomes, while many states experiencing net out-migration nonetheless seem able to nurture, retain, and attract — both from other states and from abroad — enough high-skilled, high-income workers to keep household incomes growing at relatively healthy rates.

## Conclusions and Policy Implications

The lessons for policymakers are clear:

First, tax cuts are unlikely to stem or reverse the steady out-migration that some states have been witnessing for decades. Few of their departing residents are actually “voting with their feet” for lower taxes. They are instead searching for better jobs, cheaper housing, and (in the case of out-migration from predominantly rural states) the amenities and stimulation of urban living. Retirees are often cashing in their housing wealth for smaller living quarters in warmer climes. These trends do indeed present economic challenges, and short-term solutions are not easy to find. But deep income tax cuts are not a cost-effective strategy. They risk reducing rather than enhancing a state’s attractiveness as a place to live by leading to deterioration in the quality of critical public services.

Second, states can increase taxes on the wealthy without any serious risk of significantly impacting migration. Adding a new top bracket for millionaires — as Maryland, Massachusetts, New Jersey, New York, and Oregon have done — is a viable way to raise revenue that out-migration will not significantly undermine.

Working-age residents moving away from a state is far more likely to be a symptom of a faltering state economy than its cause. States experiencing net out-migration need to focus their efforts on cost-effective, targeted economic development and job creation strategies that can provide opportunities across the entire range of skill levels. They need to maintain and enhance their investments in housing, public safety, roads, bridges, public transit, parks, and education to ensure that they are places where businesses can find the skilled employees they need and where employees those businesses are recruiting know their children can attend high-quality schools in safe, pleasant neighborhoods.

States need to create more robust pipelines to employment for people graduating from state universities through expanded apprenticeship and internship programs and to increase financial aid for these students so they don’t feel compelled to leave the state for better job opportunities elsewhere. Many states need to increase teacher salaries or subsidize their housing costs to attract and retain them.

States need to capitalize on their natural and cultural amenities to attract more tourism and residents seeking an outdoors-oriented lifestyle. Finally, states need to encourage substantial construction of new housing, and rehabilitation of existing housing, that is affordable for low- and moderate-income people through such measures as the elimination of single-family zoning — as states like California and Minnesota have recently done. States also need to make existing housing

stock more affordable to people with low incomes, such as by funding rental subsidies and raising wages to levels that reflect the cost of living.<sup>120</sup>

In the final analysis, these are the approaches most likely to ensure that states can retain and attract highly skilled residents, make it so that all their residents can get the resources they need to build their skills and thrive, and help create a vibrant economy that offers the promise of a high standard of living. To do this, states need adequate revenues, raised in a fair manner with the affluent paying an equitable amount as a share of their income. State income tax cuts aimed at solving a non-existent “tax flight” crisis are self-defeating.

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<sup>120</sup> See Peggy Bailey, “Addressing the Affordable Housing Crisis Requires Expanding Rental Assistance and Adding Housing Units,” Center on Budget and Policy Priorities, October 27, 2022, <https://www.cbpp.org/research/housing/addressing-the-affordable-housing-crisis-requires-expanding-rental-assistance-and>.

## Appendix A: The Pandemic, Remote Work, and Tax Flight Claims

The growth in work-from-home arrangements that has occurred since the onset of the pandemic in early 2020 has provided another opportunity for anti-tax organizations to push tax flight claims. One such argument claimed that, while “taxes aren’t the only factor taxpayers consider when moving,” the availability of remote work meant “states with high taxes had a line at the exit.”<sup>121</sup>

The two years of post-pandemic interstate migration data that are now available (through 2021),<sup>122</sup> do show an uptick in gross and net out-migration from several of the higher-tax states that have long experienced net out-migration. The tax flight characterization above is exaggerated and outdated, however, and it is unlikely that much of the increased out-migration can be attributed to greater opportunities to work remotely in a low-tax state.

**First, only 4 percent of people working at home made an interstate move between 2020 and 2021, according to the Census Bureau.**<sup>123</sup> Even that small share overstates the potential scale of tax-motivated migration, because it includes people who made a local move across a nearby state border and were working at least a couple of days each week in their original offices in a “hybrid” arrangement.<sup>124</sup> Such workers would still be subject to income tax in the state where the office was located even if they moved to a lower-tax state.

Indeed, several states (including New York and Massachusetts) temporarily required workers to continue paying their income taxes even if they worked full time from a different state if they were still working for their pre-pandemic employer based in the state.<sup>125</sup> In other words, tax savings couldn’t have been the motivation for a significant number of interstate moves, because the move couldn’t achieve that result.

The 4 percent also includes people who might have moved into a nearby suburb across state lines but in another relatively high-tax state (such as the roughly 70,000 households that moved from New York to New Jersey or Connecticut on net between 2019 and 2021) — again suggesting that tax savings weren’t the motivation.

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<sup>121</sup> Andrew Wilford, “The Remote Work Revolution Has Been a Low-Tax Migration,” Real Clear Markets, May 2, 2023, [https://www.realclearmarkets.com/articles/2023/05/02/the\\_remote\\_work\\_revolution\\_has\\_been\\_a\\_low-tax\\_migration\\_896865.html](https://www.realclearmarkets.com/articles/2023/05/02/the_remote_work_revolution_has_been_a_low-tax_migration_896865.html).

<sup>122</sup> The most recent IRS and American Community Survey interstate migration data that are available are for moves between 2020 and 2021. In addition, the Census Bureau has estimated the number of interstate moves occurring between 2021 and 2022, but these estimates frequently diverge significantly from survey data collected later.

<sup>123</sup> Michael Burrows, Charlynn Burd, and Brian McKenzie, “Home-Based Workers and the COVID-19 Pandemic,” U.S. Census Bureau, April 2023, p. 5, <https://www.census.gov/content/dam/Census/library/publications/2023/acs/acs-52.pdf>.

<sup>124</sup> The Census Bureau classifies people as working from home if they work a majority of their workweek at home.

<sup>125</sup> New York State Department of Taxation and Finance, “Frequently Asked Questions about Filing Requirements, Residency, and Telecommuting for New York State Personal Income Tax,” June 30, 2021, <https://www.tax.ny.gov/pit/file/nonresident-faqs.htm#telecommuting>; Massachusetts Department of Revenue, “Massachusetts Source Income of Non-Residents Telecommuting Due to the COVID-19 Pandemic,” (Emergency Regulation), 830 Mass. Code Regs. section 62.5A.3; <https://www.mass.gov/regulations/830-CMR-625a3-massachusetts-source-income-of-non-residents-telecommuting-due-to-the-covid-19-pandemic>.

**Second, full-time remote work has dropped sharply since the first year of the pandemic.**

While almost 70 percent of jobs that could be performed remotely full time (slightly more than one-third of all jobs)<sup>126</sup> were performed on that basis in May 2020,<sup>127</sup> the share of full-time employees working full time at home has dropped to just 12 percent as of February 2023.<sup>128</sup> Numerous news reports indicate that a growing number of major employers are insisting that workers who have been fully remote return to the office at least a few days a week.<sup>129</sup>

And while someone working at Google headquarters in Silicon Valley might choose to trade a longer, two-days-per-week commute for less expensive housing outside the immediate Bay Area, it seems highly unlikely that many would choose to commute in from Reno or Las Vegas in order to reduce their California income tax payments.<sup>130</sup> Data released in April 2023 showed that the number of resident taxpayers subject to California's top income tax rate increased by 55 percent between 2019 and 2021.<sup>131</sup> This suggests that, while such growth was likely due to more in-state residents making enough income to put them in the top bracket, whatever out-migration that group engaged in during the first two years of the pandemic was not terribly problematic.

In sum, it seems likely that only a small minority of U.S. workers will be completely untethered from a physical work location and therefore potentially in a position to maximize their after-tax income by working from a low-tax state for a high-paying employer in a higher-tax state. While the pandemic undoubtedly has resulted in a permanent increase in the share of people working at home full time, there is no reason at this point to think that this share will increase much in the future.

To the contrary, a recent study concludes that the share has peaked for now and will stabilize at around 15 percent of the workforce.<sup>132</sup> Economist José Maria Barrero, a leading expert on remote

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<sup>126</sup> According to a widely cited study, 37 percent of U.S. jobs are capable of being performed at home on a full-time permanent basis. Jonathan I. Dingel and Brent Neiman, "How Many Jobs Can Be Done at Home?" working paper, April 2020, [https://www.nber.org/system/files/working\\_papers/w26948/w26948.pdf](https://www.nber.org/system/files/working_papers/w26948/w26948.pdf).

<sup>127</sup> Ben Wigert and Sangeeta Agrawal, "Returning to the Office: The Current, Preferred and Future State of Remote Work," Gallup, August 31, 2022, <https://www.gallup.com/workplace/397751/returning-office-current-preferred-future-state-remote-work.aspx>.

<sup>128</sup> José Maria Barrero *et al.*, "SWAA [Survey of Work Arrangements and Attitudes] Updates," May 2023, [https://wfhresearch.com/wp-content/uploads/2023/05/WFHResearch\\_updates\\_May2023.pdf](https://wfhresearch.com/wp-content/uploads/2023/05/WFHResearch_updates_May2023.pdf). (Many self-employed people work full time at home as well and are not counted in the 12 percent figure.)

<sup>129</sup> Emily Canal *et al.*, "Here's a list of major companies requiring employees to return to the office," *Business Insider*, updated July 19, 2023, <https://www.businessinsider.com/companies-making-workers-employees-return-to-office-rto-wfh-hybrid-2023-1>.

<sup>130</sup> "A survey of over 660 high-tech workers in the San Francisco Bay Area ran from November 2021 to March 2022, asking about relocation interest and intended destinations. 53% of respondents expressed interest in moving or had already moved, with post-pandemic preferences shifting towards suburbs and stand-alone homes. However, most moves merely represented a dispersal into Bay Area suburbs with a median relocation distance of 33.68km." Simon Tan, Kevin Fang, and T. William Lester, "Post-Pandemic Relocation Preferences of Remote Tech Workers." *Findings*, March 2023.

<sup>131</sup> California Franchise Tax Board, Exhibit A-11, April 4, 2023, *op. cit.*

<sup>132</sup> Alexander Bick, Adam Blandin, and Karel Mertens, "Work from Home Before and After the COVID-19 Outbreak," revised October 15, 2022.

It also seems noteworthy that a recent, in-depth paper analyzing the implications of the growth of remote work for the ability of states to continue to levy progressive income taxes offers no evidence or predictions about the future

work, recently stated: “These breakdowns [of the shares of people working in an office, hybrid, or fully remote] have been pretty stable for much of the past year, other than some modest shifts away from fully remote work. I would not expect big moves given this recent history.”<sup>133</sup>

## Pandemic Migration Was Mostly About Housing

The need for roomier housing was the primary driver of increased interstate migration during the first two years of the pandemic.

It has been widely reported that the pandemic led to a significant increase in out-migration from city centers to suburbs and exurbs and, to a lesser degree, smaller cities and rural areas. Part of this increased migration was undoubtedly due to fears of becoming ill in crowded urban environments like stores and public transportation. However, the need for more living space was a much more important driver. With many households on constant video conferences for work and school, many individuals and families saw additional home office space and/or a private bedroom for each school-age child as a critical need if they could afford it.<sup>134</sup> Getting more space almost inevitably meant moving further out of urban areas, where per-square-foot costs would be lower.

This phenomenon was confirmed by a frequently cited study from Arjun Ramani and Nicholas Bloom, which highlighted a widespread “donut” pattern of out-migration from large urban cores to surrounding suburban and exurban areas. This pattern was visible in large cities in lower-tax states like Dallas, Houston, and Miami, just as it was in Boston, Chicago, New York, and San Francisco.<sup>135</sup> More recent research suggests that cities in Southern states — which tend to have lower state and local taxes than those in other regions — are now actually experiencing even higher ongoing out-migration from urban cores than cities in other parts of the country.<sup>136</sup>

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prevalence of fully remote work. See David R. Agrawal and Kirk J. Stark, “Will the Remote Work Revolution Undermine Progressive State Income Taxes?” working paper, 2022, <https://www.cesifo.org/en/publications/2022/working-paper/will-remote-work-revolution-undermine-progressive-state-income>.

<sup>133</sup> Quoted in Jane Thier, “A Whopping 60% of Workers Are Back in the Office 5 Days a Week — But that Doesn’t Mean What You Think It Does,” *Fortune*, June 16, 2023, emphasis added.

<sup>134</sup> One recent study found that “the effect of remote work on house price growth is roughly 40 percent larger for houses with at least three bedrooms compared to houses with only one bedroom. This is consistent with the argument that remote work increases the demand for space.” John A. Mondragon and Johannes Wieland, “Housing Demand and Remote Work,” National Bureau of Economic Research Working Paper 30041, May 2022, p. 22, <https://www.nber.org/papers/w30041>.

Individuals living with unrelated persons evidently also felt strong needs for more living space. A recent study found that, in many cities, migration to outlying areas was sufficiently offset by the formation of new households that rents did not decline. (See Adam Ozimek and Eric Carlson, “Remote Work and Household Formation,” April 2023, <https://eig.org/remote-work-household-formation/>.) Some families with young children may have moved back in with their children’s grandparents to save housing costs and obtain child care and school supervision while the parents were on Zoom calls for work, but it appears that the apartments this freed up were filled by roommates needing to split up.

<sup>135</sup> Arjun Ramani and Nicholas Bloom, “The Donut Effect of COVID-19 on Cities,” National Bureau of Economic Research Working Paper 28876, revised December 2022, [https://www.nber.org/system/files/working\\_papers/w28876/w28876.pdf](https://www.nber.org/system/files/working_papers/w28876/w28876.pdf).

<sup>136</sup> Adam Ozimek, “The Evolving Effect of Remote Work on Geography,” Economic Innovation Group, May 25, 2023, <https://eig.org/remote-work-geography/>.

In the case of cities in multistate metropolitan areas, many of these city-to-suburbs/exurbs moves turned out to be interstate moves. The Pioneer Institute has been hammering on increased moves from Massachusetts to no-income-tax New Hampshire in the past two years as evidence of accelerating tax flight,<sup>137</sup> but the Ramani-Bloom study shows increased moves to Boston exurbs located in Massachusetts, as well.<sup>138</sup> Similarly, the Empire Center for Public Policy has highlighted out-migration from New York City,<sup>139</sup> but the Ramani-Bloom study showed considerable outmigration to eastern Long Island as well as to Connecticut and New Jersey — both of them relatively high-tax states.<sup>140</sup> Indeed, out-migration from New York to Connecticut and New Jersey (58 percent and 32 percent, respectively) increased faster between 2018-19 and 2020-21 than it did from New York to all other states (25 percent). This reflects migration in search of larger dwellings, not lower taxes.

The Ramani-Bloom study found that 58 percent of pandemic-related moves out of urban cores were to nearby suburbs and exurbs, but that still left 42 percent of moves to more distant locations. Even in those cases, however, most expert analysis attributes the moves to housing cost advantages in potential destinations:

- “For long-distance moves, job-related reasons were still the most common motivation for moving, but they fell from 48 percent of long-distance moves in 2019 to 42 percent in 2022. This share was largely replaced by moving for housing-related reasons, which rose from 7 to 12 percent of long-distance moves. . . .”<sup>141</sup>
- “[T]he change in county-level population growth in 2021 compared to 2019 is related to the expensiveness of the housing market. What we see is that the most expensive places in 2021 saw the greatest population loss. Outside of the most expensive housing markets, population loss is more weakly related to housing prices.”<sup>142</sup>
- “Several factors positioned Texas to benefit from pandemic-induced changes in domestic migration patterns. First and foremost, housing costs tend to be lower in Texas than in other large states, particularly California and New York. . . . While earnings also tend to be higher in

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<sup>137</sup> Pioneer Institute, “Study: Net Out-Migration of Wealth from Massachusetts Nearly Quintupled from 2012-2021,” May 15, 2023, <https://pioneerinstitute.org/news/study-net-out-migration-of-wealth-from-massachusetts-nearly-quintupled-from-2012-2021/>.

<sup>138</sup> Ramani and Bloom, Appendix A6.

<sup>139</sup> E.J. McMahon, “NY Taxpayer Outflow Hit a New Net High of 261,785 in 2020-21,” Empire Center for Public Policy, April 27, 2023, <https://www.empirecenter.org/publications/ny-taxpayer-outflow-hit-a-new-net-high-of-261785-in-2020-21/>.

<sup>140</sup> Ramani and Bloom, Figure 3.

<sup>141</sup> Riordan Frost, “Did More People Move During the Pandemic?” Joint Center for Housing Studies of Harvard University, April 2023, p. 6, [https://www.jchs.harvard.edu/sites/default/files/research/files/harvard\\_jchs\\_pandemic\\_mobility\\_frost\\_2023.pdf](https://www.jchs.harvard.edu/sites/default/files/research/files/harvard_jchs_pandemic_mobility_frost_2023.pdf).

<sup>142</sup> Adam Ozimek and Connor O’Brien, “As Major Cities Struggle to Rebound, Remote Work Continues to Shift Population Growth,” April 5, 2023, <https://eig.org/2022-county-population-trends/>.

states with higher housing costs, they often do not fully compensate for differences in cost of living, particularly for low-wage workers.”<sup>143</sup>

Of course, the almost overnight increase in demand for more spacious housing outside of large city centers very quickly began raising housing prices and erased much of the housing price advantage of the suburbs, exurbs, and the more distant “Zoom towns” to which many people decamped during the first year of the pandemic — so much so that places like Boise, Idaho, Bozeman, Montana, and Cape Coral, Florida, experienced some of the most rapid increases in home prices and rents in the country.<sup>144</sup>

And while the rate of housing cost increases in such locations has slowed considerably,<sup>145</sup> the housing affordability advantage that many of these smaller cities had over places like San Francisco and New York has significantly narrowed. This suggests that the increased out-migration from higher-tax states between 2019 and 2021 that is cited as supposed evidence of tax flight could soon moderate as well. There are already signs that that is happening, the *Washington Post* found:

Many of the nation’s most populous cities shrank when covid struck, causing speculation about whether the change would be permanent. But those cities are for the most part rebounding, according to data released by the Census Bureau on [May 28, 2023].

Most of the 37 cities with more than 500,000 people saw demographic slowdowns in the first year of the pandemic, with the most severe declines in San Francisco, which lost 6.79 percent of its population, and New York, which lost 3.22 percent. But between July 2021 and July 2022, all but six had improved their trajectory, either by resuming growth, increasing growth or slowing their decline, the bureau’s latest Vintage 2022 population estimates show.

The 10 most populous cities — those with more than 1 million residents at the start of the pandemic — did the best, with nine out of 10 showing demographic improvement. (Only Philadelphia did not.)

The turnarounds spanned the country, with the largest in San Francisco, Seattle, Nashville, Boston, New York, San Jose, Dallas, and Milwaukee, according to an analysis of the data by William Frey, a senior demographer at the Brookings Institution.<sup>146</sup>

Many experts predict that people will soon view living in higher-cost, higher-tax cities as desirable as it was before the pandemic:

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<sup>143</sup> Pia M. Orrenius and Madeline Zavodny, “How Texas Migration Patterns Changed during the Pandemic, Spring 2023,” <https://scholar.smu.edu/cgi/viewcontent.cgi?article=1020&context=texasmexico-research>.

<sup>144</sup> Richard Florida, “How the ‘Rise of the Rest’ Became the ‘Rise of the Rents’,” Bloomberg.com, September 8, 2022, <https://www.bloomberg.com/news/features/2022-09-08/why-did-housing-costs-explode-during-the-pandemic>.

<sup>145</sup> Swapna Venugopal Ramaswamy, “‘Brutal’ Housing Prices Hit America’s Zoom Towns,” *USA Today*, August 31, 2022, <https://www.usatoday.com/story/money/personalfinance/real-estate/2022/08/31/housing-market-prices-zoom-towns-declining/7904265001/?gnt-cfr=1>.

<sup>146</sup> Tara Bahrapour, “Large U.S. Cities Regain Population Lost During Pandemic, Census Data Shows,” *Washington Post*, updated May 18, 2023, <https://www.washingtonpost.com/dc-md-va/2023/05/18/cities-population-rebound-pandemic/>.

- “[T]rends in domestic migration between areas will likely revert to previous trends as the pandemic fades. Given the growing importance of knowledge-based service sectors in larger urban areas, it will be difficult for small urban areas to continue to have larger net gains in migration.”<sup>147</sup>
- “[W]ill we see a long-term exodus not just from urban centers but completely away from large metropolitan areas? Remote work certainly offers that possibility. Still, I’m skeptical about whether it’s going to be a big deal. Why? Because even fully remote work, which doesn’t involve any regular visits to the office, doesn’t eliminate the need for occasional face-to-face interaction. . . . [S]urveys indicate that despite the fact that we’re all Zooming these days, business travel is rebounding fast and may soon reach prepandemic levels. What this suggests, at least to me, is that even fully remote workers will generally want to live in places that have relatively easy access to major business centers — exurbs rather than small towns in Middle America.”<sup>148</sup>

This report shows that peoples’ decisions about where to live and whether and where to move are overwhelmingly driven by such fundamental factors as job opportunities; ties to family, friends, and schools; housing costs; and desired lifestyle amenities like climate, oceans, and mountains. Even if employment ties to an existing location have weakened for the relatively small number of people who can truly “work from anywhere,” all these other factors driving migration decisions remain in force for a large majority of people.

Claims that there has been a major and permanent change in the ability and likelihood of people getting the best of both worlds by living in low-tax states while continuing to work in higher-tax states for employers paying higher salaries ignore the influence of these more significant drivers. And they are not consistent with what has occurred during the three years of the pandemic.

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<sup>147</sup> Jason P. Brown and Colton Tousey, “How the Pandemic Influenced Trends in Domestic Migration across U.S. Urban Areas,” Federal Reserve Bank of Kansas City, *Quarterly Economic Review*, Fourth Quarter 2021, p. 51, <https://www.kansascityfed.org/documents/8524/EconomicReviewV106N4BrownTousey.pdf>.

<sup>148</sup> Paul Krugman, “Wonking Out: Zooming and the Future of Cities,” *New York Times*, June 2, 2023, <https://www.nytimes.com/2023/06/02/opinion/cities-remote-work-economy.html>.

## Appendix B: Use of Internal Revenue Service Interstate Migration Data in This Report

This report relies heavily on an interstate migration dataset the IRS has developed. These data identify an interstate move based on year-to-year changes in the filing addresses of tax returns filed using the same Social Security number. Since households consisting of a married couple (with or without children) usually file one joint return, and since unmarried persons also file one return, a tax return is a reasonably proxy for a household.

In using the IRS data to evaluate claims about the impact of state and local taxes on conscious decisions to make an interstate move, we focus on the number of households/returns moving between states rather than the number of people, since we assume that the decision is a joint one for a couple and that their children have no role in it (at least not one that would be based on taxes). Using a measure of interstate migration that counts people could also result in misleading comparisons of interstate migration rates among states if family sizes tend to differ among states for cultural and demographic reasons, which they do.

The IRS changed the methodology for generating its migration data beginning with moves that occurred between 2011 and 2012 in a way that makes the earlier data not directly comparable. Accordingly, the discussion throughout this report uses ten years of IRS migration data, from moves that occurred between 2011 and 2012 through moves that occurred between 2020 and 2021.

It should be acknowledged that important questions have recently been raised about the reliability of the IRS data.<sup>149</sup> In particular, in many states there appears to be a divergence from earlier trends in the 2015-16 and 2016-17 data, followed by a noticeable reversal in subsequent years. No evident changes occurred in the economy in those years that would explain this. Nonetheless, this study uses the IRS data because it is the only source of interstate migration data that can provide income and age information for movers into and out of specific states as well as numerical counts of movers into and out of specific pairs of states without serious limitations present in other data sources due to small sample sizes. The IRS is aware of the concerns raised but stands by the reliability of its data.

To account for the concerns raised (and because migration fluctuates from year to year), this report averages the data for all ten years for which they are available. Since the data are largely being used to compare migration levels and rates between states rather than being concerned with the accuracy of the absolute levels themselves, the comparisons should be valid if most or all states are affected in the same direction and to roughly the same extent by any flaws in IRS procedures in developing the database. Averaging across all available years also has the advantage of watering down the unique effects of the pandemic on moves between 2019 and 2021, effects that may or may not be long-lasting.

The IRS interstate migration data also contain certain inherent limitations relative to other sources, most importantly, that they omit people whose incomes were too low to obligate them to file a federal tax return. Given that this report is primarily aimed at evaluating claims that state and

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<sup>149</sup> Jack DeWaard *et al.*, “User Beware: Concerning Findings from the Post 2011–2012 U.S. Internal Revenue Service Migration Data,” *Population Research and Policy Review*, June 2021.

local taxes are driving migration trends, omitting people less likely to owe state income tax — though, of course, they do pay other state taxes such as sales tax — does not significantly affect our analysis.

These data may exaggerate true moves of high-income people to certain low-tax states, particularly Florida. Florida (and, to a lesser extent, other lower-tax, Southern states like Texas and Mississippi) has a large “snowbird” population, people who live there only in the winter. There are also a significant number of very high-income people who own second homes on the Nevada side of Lake Tahoe and in Jackson Hole, Wyoming, two states that also do not levy income taxes. Some of these people may seek to characterize themselves as legal residents of these states to avoid taxation of all or some of their incomes by the higher-tax states in which they live the rest of the year (states like Connecticut, Illinois, New Jersey, New York, and, in the case of Lake Tahoe, California) and thus would likely file their federal income tax returns from an address in the lower-tax state, even if it was not their legal residence. Accordingly, the IRS migration data, which rely only on a change in filing address to identify an interstate move, may overstate moves to lower-tax states.