



AMERICANS FOR TAX REFORM

GROVER G. NORQUIST

PRESIDENT

Cost of Government Day Special Focus: Interstate Migration

A number of empirical studies have documented the surge of taxpayers moving from high tax to low tax states over the past 15 years. Most of these studies have counted the number of people leaving a high-tax state for a low-tax state and the result is overwhelming. Some of these studies have actually empirically tested reasons people leave states, such as weather, employment, relocation, and taxes, and have found taxes to be the single largest factor in the movement.

This year's Cost of Government Day index brought the analysis one step further. Using data from the Internal Revenue Service (IRS), we calculate not only the number of taxpayers migrating, but also the income of the residents migrating.

Our findings confirm previous studies that taxpayers are leaving states with higher taxes, higher unfunded pension and healthcare liabilities and higher per pupil education spending.

Key Findings:

- In 2004 alone, the nine states with no income tax gained an additional 323,579 domestic residents from the 41 states with an income tax.
- The residents moving to states with no income tax took with them an additional \$10.6 billion of adjusted gross income.
- Furthermore, the states facing the largest fiscal problems from large unfunded liabilities in healthcare and pensions already face the largest out-migration of residents. Tax increases will only further this out-migration.
- From 1996 through 2004, the high tax states lost a cumulative 1.6 million residents. Well over 210,000 individuals left high tax states in 2004 alone.
- The total income losses in the states with the highest tax burdens amounted to a staggering \$55.51 billion from 1996-2004. These states have lost an average of \$6.17 billion each year during this time period.
- While the states with the highest tax burdens lost 1.6 million residents from 1996-2004, the low tax states saw an in-migration of 1.1 million over the same time period. In 2004 alone, 144,360 residents moved to low tax states.
- Due to the inflow of residents, the ten states with the lowest tax burdens have seen a cumulative real income gain of \$27.3 billion. Averaging \$3.03 billion each year, the annual income gain is roughly equivalent to the size of Delaware's state budget.

The migration of residents from high to low tax states is the largest issue facing state governments in over ten years. Without significant fiscal restraint as well as health care and pension reform, states with heavy tax and entitlement burdens will continue to see residents leave for lower tax states, thus further draining state treasuries.