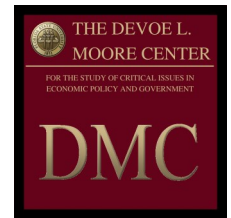


THE DMC INSIGHT

STATE TAX BURDENS AND INTERSTATE MIGRATION



July 2018

Tax Burdens and Migration: An Overview

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United States census data from 2016 show that Florida, Nevada, and Texas have among the highest net migration per 1000 residents in the country, while migration rates in states such as California, New York, and New Jersey are either below the national average, or negative.

States with low or negative net migration have many factors in common, such as high housing prices, colder temperatures, and above-average tax burdens. The Tax Foundation finds that taxes are one of several factors influencing where businesses choose to locate in a world with mobile labor and capital. States with more favorable tax systems can more effectively compete for new or expanding businesses and individuals planning on relocating. While many reasons influence where individuals choose to reside, tax theory says that on the margin, when other relevant issues are held constant, relative tax rates matter.

Job-seeking individuals, growing companies, and start-ups have incentives to minimize costs, like taxes, and maximize income. Some industries and labor will likely remain in particular locations, including Wall Street in New York City or Silicon Valley in California; however, for industries where multiple regions have the necessary environment, job seekers and crea-

tors will attempt to minimize their costs and move to states with lower tax burdens, affecting migration in the long run.

Empirical evidence supports these claims. Economists Enrico Moretti and Daniel Wilson, from the University of California at Berkeley and the Federal Reserve, respectively, discuss in their paper published in the *American Economic Review* (July 2017) how taxes affect the mobility of high-level scientists. They estimate for each additional 1 percent increase in personal income tax, the number of scientists leaving the state will increase 1.6 percent. The researchers also found slightly higher effects for state corporate income taxes, with a negative mobility response of 2.3 percent. Moretti and Wilson used these scientists as subjects for their specific study, but also conclude that other highly-skilled workers likely have similar sensitivity to state taxes.

Economists J. William Harden at the University of North Carolina and William Hoyt from the University of Kentucky (*National Tax Journal*, 2003) believe a consensus is emerging that state and local taxes negatively affect state employment levels, which in turn decreases a state's attractiveness.

During a time when federal, state, and

local taxes and liabilities have frequently been increasing, Florida, among a few other states, has remained fiscally responsible. Florida is ranked number one in the country for state fiscal health by the Mercatus Center at George Mason University, while also experiencing significant population and economic growth. Florida is one of the seven states with no income tax and strong growth, alongside other states such as Nevada, Texas, and Washington.



Nicholas Spaunburgh – *Economics and Statistics* – worked in the Data Analytics Group in the DeVoe L. Moore Center, graduating from Florida State University with a SAS certificate in May, 2018. This Policy Insight is based on his research conducted during the 2018-19 academic year and presented at the Association of Private Enterprise Education annual conference in Las Vegas, Nevada, on April 2, 2018.

Factors Influencing Interstate Migration

The US census shows Florida and Nevada are two of the fastest growing states in the nation via net migration. This is in comparison with states such as California that are experiencing a net migration lower than the national average, and states like New York and New Jersey that are battling negative net migration. Stan Smith, an economist at the University of Florida's Bureau of Economic and Business Research, believes most people move to Florida for job-related reasons.

In modern economies, where individuals have access to relatively inexpensive and fast transportation options, individuals and companies may choose to locate in the areas where they have a competitive advantage. While major factors such as labor pools, natural resources, and infra-

structure also play key roles in the migration decisions of companies, a simple tax system which minimizes the discouraging effect of taxes can improve relative economic attractiveness. According to surveys and analysis performed by the US Census Bureau, housing-related reasons, family, job opportunities, commute distances, crime rates, and climate all play significant roles in interstate migration decisions. Yet when other factors are held constant, economic theory and emerging academic literature tell us state tax differentials should also matter.

The Tax Foundation creates a State Business Tax Climate Index every year, using factors such as corporate, personal, property, sales, and unemployment tax rates. The Tax Foundation's index takes into account the complicated differences in

deductions, brackets, and other elements not explained by statutory rates.

Figure 1 shows the majority of states with high net migration ranked among the top twenty of the Tax Foundation's Business Tax Climate Index. Many states in the next half of the index experience negative net migration. States with lower tax burdens on average have higher net migration as shown in figure 2 and represented by the downward sloping curve plotted using a state year pair—migration and tax climate—for five years. (The 95% prediction limits are confidence intervals.) Some states in the top 10 of the index, most notably Wyoming, South Dakota, and Alaska, also see low or negative migration but this is likely due to sharp declines in oil prices and oil-related employment.

Figure 1

Net Migration Ordered by Tax Foundation's Business Tax Climate Index

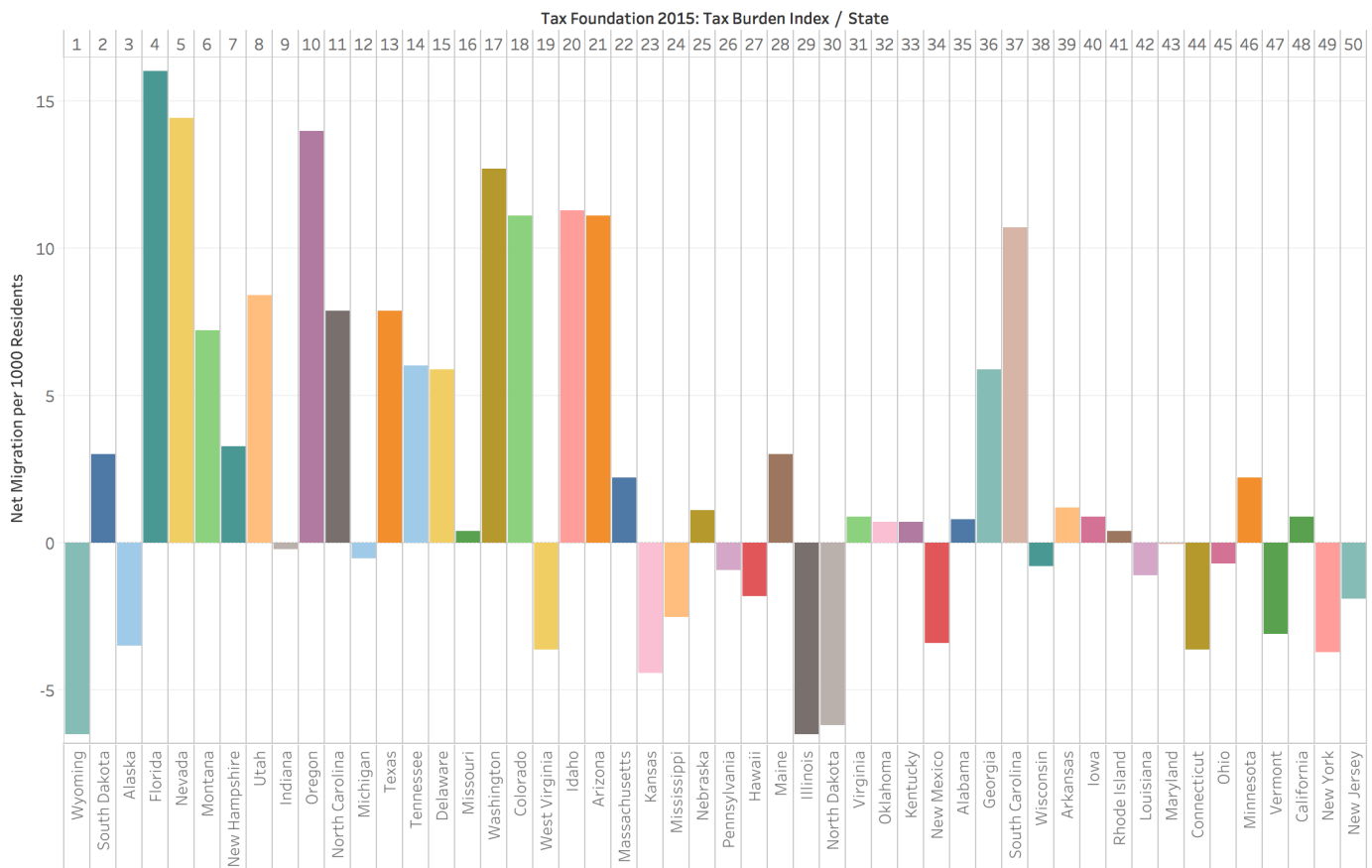
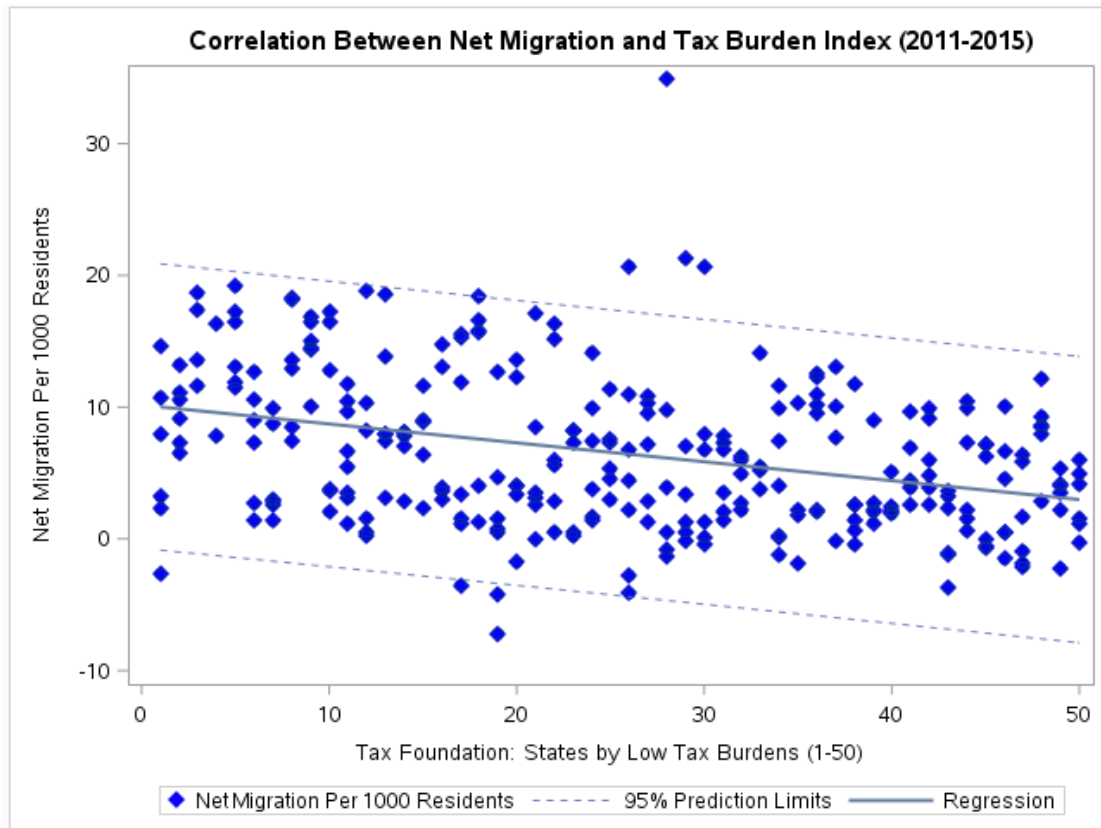


Figure 2



Academic Studies on the Determinants of Interstate Migration

High state taxes are associated with lower per capita incomes and incentivize migration to states with lower tax rates.

Initial academic research on migration focused on why migration decisions were made and theorized migration was determined by a variety of wage and quality of life factors. Migration decisions are made using personal cost-benefit analysis that considers relative wages, cost of living, geographic desirability, and public goods such as school quality in a region. If individuals decide that the costs and benefits of a different location outweigh the costs and benefits of their current location, they relocate. These personal decisions go beyond easily measurable economic reasons, and include factors such as family, neighborhood quality, and other quality of life factors. If individuals have a variety of regions available, they will often choose one that provides their preferred mix of public goods, wages, costs, and taxes.

State tax policy can influence state economic growth and employment. States with more economic growth and lower unemployment rates are more likely to attract migrants looking for higher wages and economic opportunity. In a meta-analysis of 84 econometric studies,

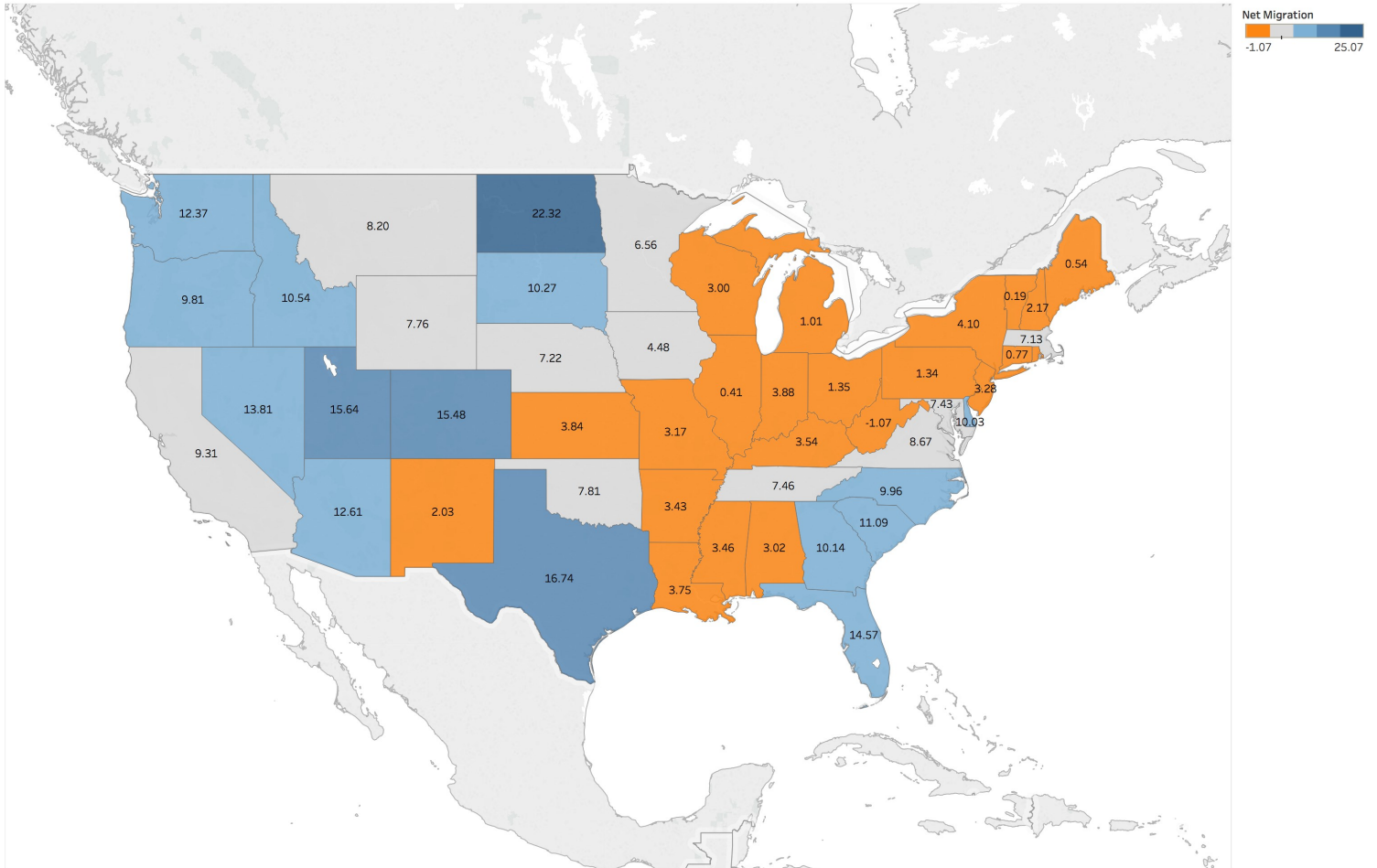
Timothy J. Bartik at the W.E. Upjohn Institute found taxes have a significant and sizeable effect on business activity. Moretti and Wilson (see page 1) found that, for a group of scientists, their tax elasticities were 1.6 for personal income taxes and 2.3 for state corporate income taxes against mobility. Through advanced border matching techniques, Randall Holcombe and Donald Lacombe (*Public Finance Review*, May 2004) found from 1960 to 1990 states which raised income taxes more than adjacent states had a 3.4 percent reduction in income per capita. Research shows that increases in state and local taxes negatively affect business growth, start-up activity and per capita income.

Using the Tax Foundation's State Tax Burden Index and migration data from the US Census, the DMC used regression analysis with SAS, a statistical analysis system, to examine the relationship between migration and tax burdens among states. Higher tax burdens had a statistically significant negative relationship with net migration.

An Overview of Migration Trends

Figure 3

Net Migration per 1000 Residents, American Communities Survey 2011-2015



Individuals fleeing the Northeast are traveling to Florida, Texas, and Nevada to follow the promises of abundant sunshine, low tax burdens, no state income taxes, and a booming job market.

US census data show in figure 3 that Florida, Nevada, and Texas have among the highest levels of net in-migration per 1000 residents in the country (represented by the darker blue shading). States like Michigan, Illinois, Maine, and others primarily in the Midwest and Northeast are seeing persistent year-over-year net migration per capita below the US average. California is experiencing migration below the national average most years while New York is experiencing dramatically lower migration, an issue which will likely affect the state's fiscal health. In general, Americans are heading toward the Southeast and Northwest and away from the Midwest and Northeast.

Swings in energy prices appear to be driving large changes in net

migration from year-to-year in states such as North and South Dakota. Those leaving Illinois commonly cite the state's budget stalemate and high taxes, among other reasons. About six residents per thousand left the state in 2015 with the general negative trend expected to continue.

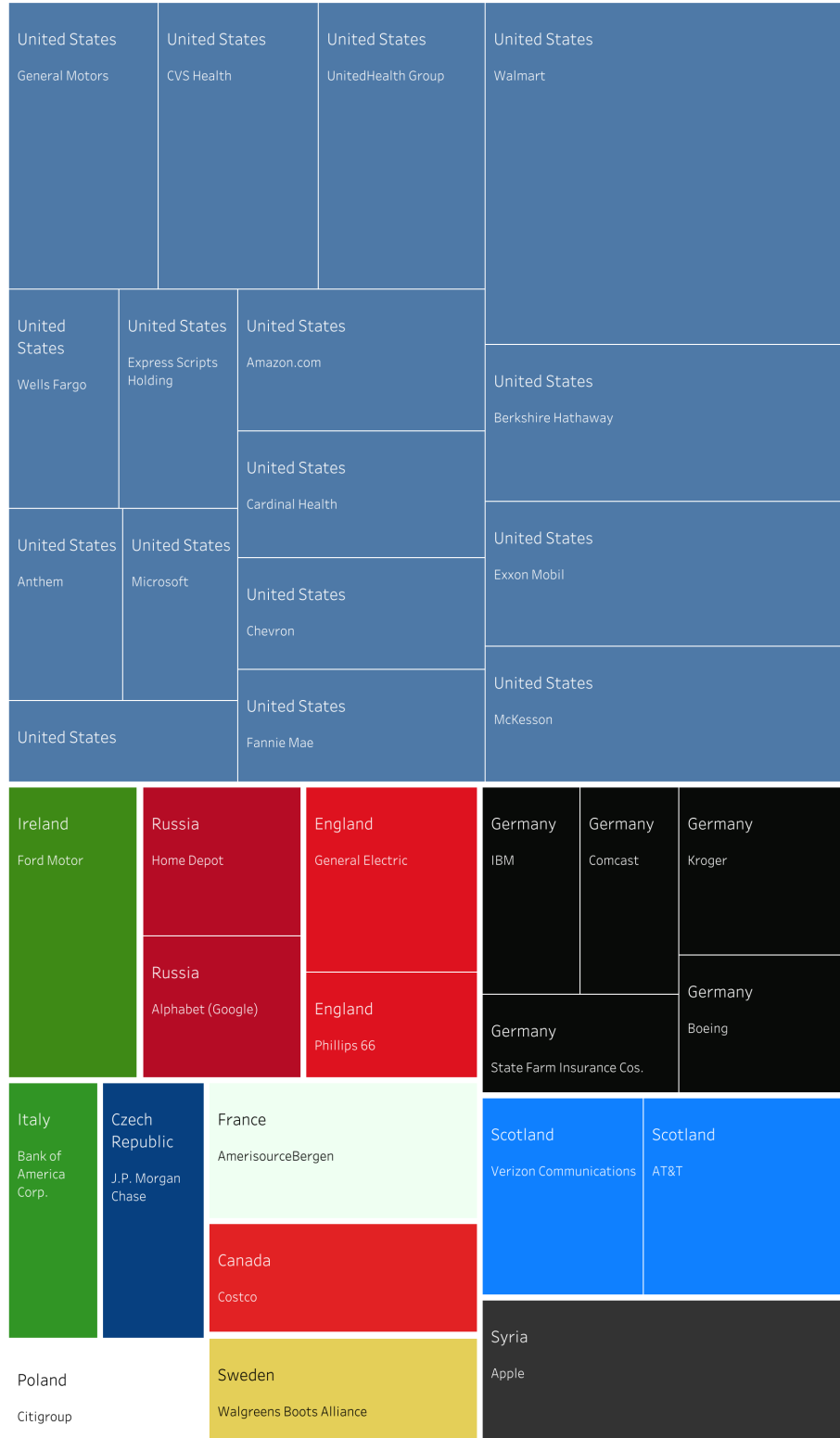
E.J. McMahon, research director for the Empire Center for Public Policy, attributes the net outflow from New York to the high costs of living in the lower Hudson Valley and New York City areas, and the lack of jobs and economic opportunity upstate.

Economists frequently use cross-country comparisons to examine why some countries are rich and others remain poor. They frequently cite open markets, enforceable property rights, and the rule of law as determinants of wealth creation. State-to-state migration data suggest the same is true for US states.

The Role of International Immigrants

Figure 4

Largest US Corporations by Revenue and Founder's Country of Origin



Most economists agree that international immigration plays an important role in the US economy particularly in industries experiencing labor supply shortages. High-skilled immigrants fill jobs in scientific and technical fields. Less scientifically skilled immigrants fill jobs in agriculture, construction, and other industries.

International immigrants act as a plug to fill gaps in the domestic labor supply and help keep population and tax revenues stable for funding public services. As fertility rates (births per woman) hit a near 50-year low for Americans born in the US and below the population replacement rate of 2.1, international immigration becomes more important.

Immigrants also provide an entrepreneurial spirit to state economies and create jobs. Kevin Geiner, a senior fellow at Florida International University's Metropolitan Center, told the *Miami Herald* that one reason Miami ranks high among independent professionals is the region draws skilled immigrants who start their own businesses. Those who migrate to the United States also have cross-cultural experiences that might enhance their creative abilities and the likelihood of devising innovative solutions to different problems.

According to research from the Kauffman Foundation, immigrants make up 27.5 percent of the US's entrepreneurs, while only representing 13 percent of the population. Forty-three percent of Fortune 500 companies were founded by either an immigrant or the child of an immigrant.

Figure 4 shows graphically the influence of international immigration for the top 35 US companies by revenue and the country of origin for their founder. The size of the block represents the relative size of the company's revenues. Notably, Jeff Bezos, the founder of Amazon.com, is the adopted son of a Cuban immigrant.

According to the American Immigration Council, Florida received the fourth most international immigrants of any state in 2016, 4.2 million. Two and a half million of those immigrants make up approximately 25 percent of Florida's workforce.

From 1990 to 2016, the share of foreign-born citizens in Florida increased from 12.9 percent to 20.6 percent. Over 50 percent of Miami-Dade residents are foreign-born, the most of any county in the United States.

What States Do Florida's Migrants Come From?

Florida recently surpassed New York in population, making Florida the third largest state in the nation. Data from the Bureau of Economic Analysis and the US Census from 2015 show that Florida has the 7th largest GDP growth rate at 3.1 percent and, not surprisingly, the largest net migration per 1000 residents in the country.

A sizable portion of Florida's immigrants come from nearby states, such as Georgia and South Carolina. Figure 5 illustrates the source of migration into Florida by state based on migrants per thousand population. The deeper shade of blue represents a greater likelihood the state "sends" migrants to Florida.

Aside from nearby states, Virginia, Delaware, New Jersey, New York, Connecticut, and other New England states have higher propensities to see their population move to Florida.

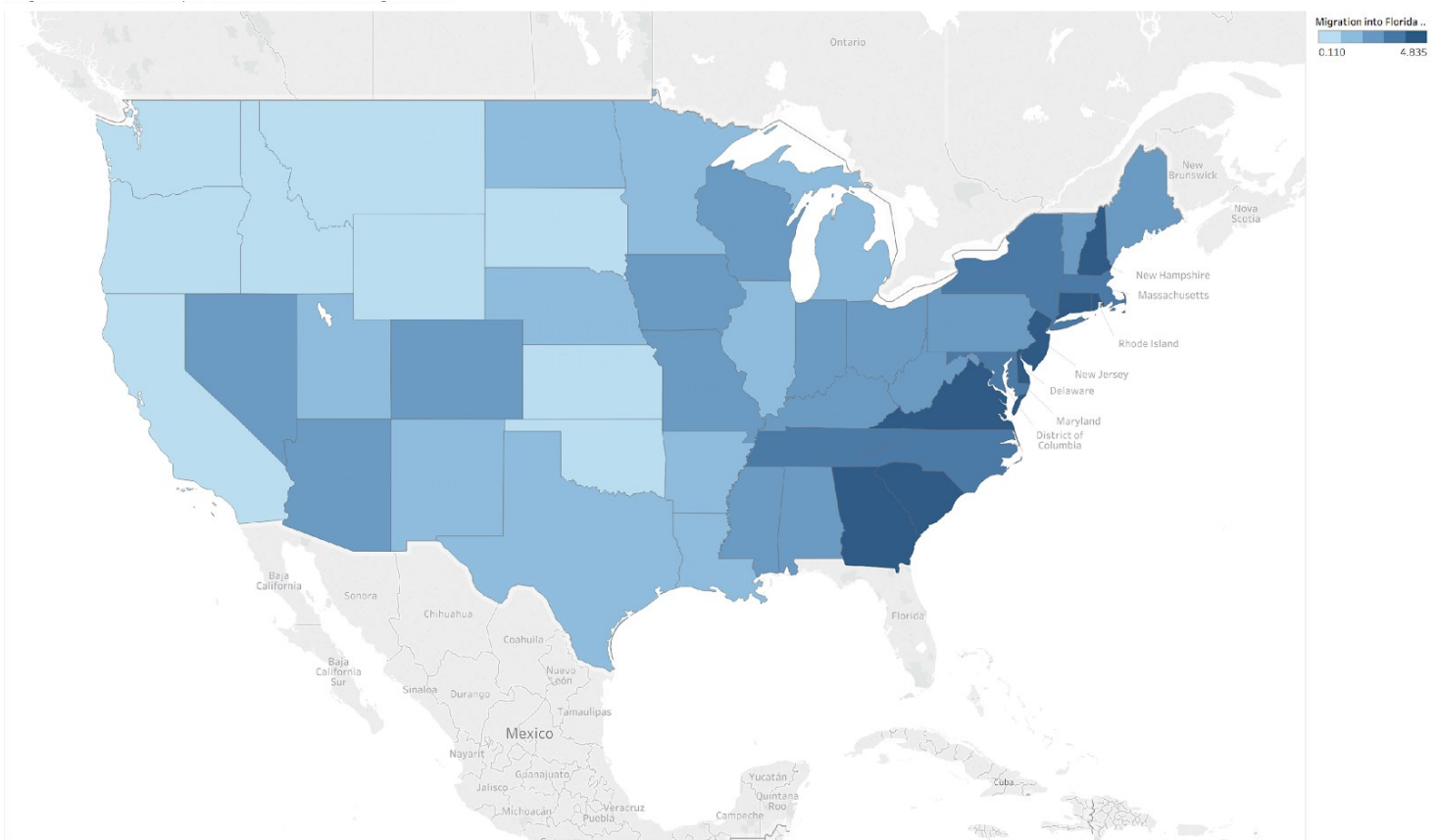
Lower costs of living, abundant sunshine and water activities, and the lack of state income and estate taxes are factors that influence the migration decisions for those seeking employment and retirement in Florida. Low unemployment rates generally indicate firms need more workers and may be willing to raise wages and benefits to attract them. Florida ranks among the most popular destination states for those looking for work, with an unemployment rate below the average at 3.6 percent as of October 2017.

Florida is also among the best states in the country to retire, with favorable taxes for retirees, homestead exemptions, warm weather, and the highest percentage of residents over the age of 65 in the country. Research by Tami Gurley-Calvez and Brian Hill (*American Economic Review*, May 2011) estimated that a one percentage point increase in state income tax decreases the probability of retirement in a given year by about 8.7 percent.

Their research concludes that higher state income and sales tax rates reduce disposable income, making retirement more difficult. This suggests in states such as Florida, a state with no income tax, that residents are potentially able to retire sooner.

Figure 5

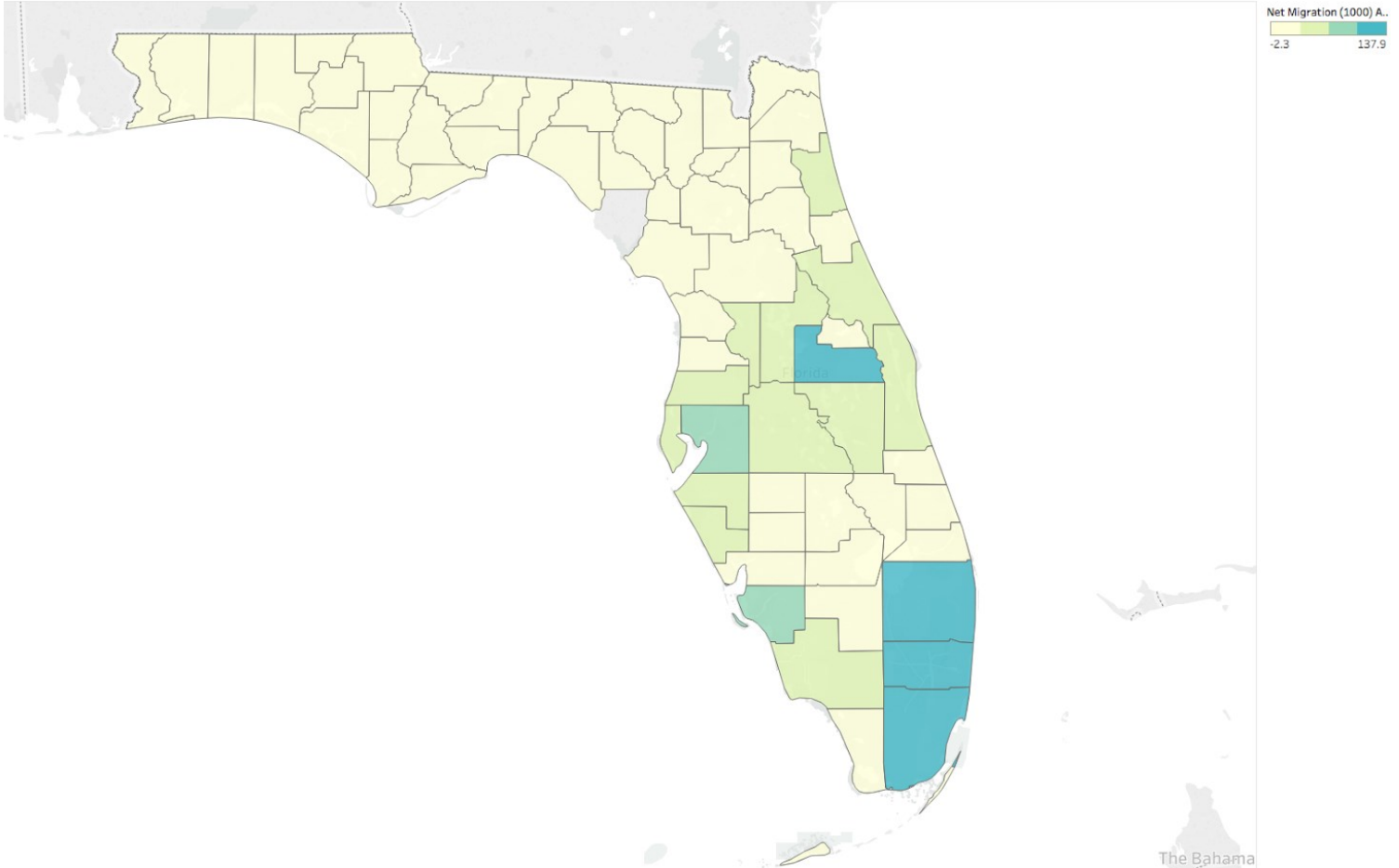
States of Migration Origin Into Florida per 1000 Residents, April 1, 2010 to July 1, 2016



Where Are Florida Immigrants Moving?

Figure 6

Net Migration per 1000 Within Florida, April 1, 2010 to July 1, 2016



As one of the nation's fastest growing states, Florida has some of the more diverse and quickest growing urban regions within the United States. Metropolitan areas such as Orlando and South Florida have taken in and accommodated much of the migration coming into the state. Figure 6 maps Florida's counties based on population migration from 2010 to 2016 with the darker shades of green and blue indicating greater positive net migration.

The Orlando metropolitan area includes Volusia, Flagler, Sumter, Orange, Osceola, Seminole, and Lake counties. All these counties are growing except Seminole County. Orlando's geographic location near I-4 and the Florida Turnpike has given it accessibility within Florida and access to large tracts of inexpensive, undeveloped land. Greater Orlando also includes popular retirement destinations. The Villages in Sumter County, for example, has ranked among the fastest growing census-designated places for multiple years. The greater Orlando region also will benefit from expected increases in enrollment at the University of Central Florida, growth in the tech corri-

dor surrounding Kennedy Space Center, and the presence of several Fortune 500 military contractors.

Miami continues to be a diverse urban region, often referred to as the nation's gateway to South America. A significant portion of foreign-born residents are from South America and the Caribbean. The metro area also has sizeable Jewish and Muslim communities. Kevin Greiner from Florida International University's Metropolitan Center, notes that Miami-Dade County attracts high income and professional immigrants who start their own businesses. Small and independent businesses have always been an essential component of the metropolitan area's economy, creating a foundation for economic growth and entrepreneurship.

As the eighth largest metropolitan area in the US, the Miami-Fort Lauderdale-West Palm Beach metropolitan area leads the state in benefits from domestic and international migration.

The DeVoe L. Moore Center

The DeVoe L. Moore Center at Florida State University is an interdisciplinary unit in the College of Social Sciences and Public Policy that is dedicated to increasing knowledge and understanding about the role of the private sector and government in a market economy. The center emphasizes the study of how government rules, regulations, and programs affect the economy and individuals. Bringing the insights of economics, planning, political science, and public administration to the study of state and local regulations is a major focus of the center's efforts.

Scholarly research of the center's faculty and students generates knowledge that is integrated into innovative undergraduate and graduate teaching and shared with the wider academic community. The center also conducts outreach activities to inform elected officials and the general public about our research findings.

The center was founded in 1998 as the result of a gift from DeVoe L. Moore, an entrepreneur and benefactor committed to free enterprise.

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