

# THE IMPACT OF TAXES ON MIGRATION IN RHODE ISLAND

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April 2011



As New England states continue to struggle with serious budget shortfalls, policymakers face pressure to increase taxes to replenish the coffers. Opponents raise the specter of families fleeing for lower-tax states. But new research finds that the impact of taxes on cross-state migration is very weak. Other factors—primarily employment and family concerns—provide the main reasons that families move. There are many reasons households do not flee from a state when taxes are increased, including the fact that they value the public services financed by taxes, the cost of relocating to a different state (both financially and psychologically) is quite high, and the potential gains from moving are often small.

*The Impact of Taxes on Migration in New England* finds:

- More than half of American adults have never lived in any state other than where they were born, and just 3 percent of Americans move across state lines in a given year.
- The rate of people leaving New England is much lower than the national average.
- The vast majority of households that move indicate employment, family, and housing as the main reason for their move.
- The available research on the impact of taxes on cross-state migration suggests that taxes do not play a very important role.
- Results of a new analysis of migration suggest there is no simple impact of taxes on migration. Economic conditions, property crime rates, and higher education enrollment all impact migration in anticipated ways. Overall the results suggest that taxes do not cause out-migration, but do influence the choice of destination for some migrating households.

- When a state uses increased tax revenues in ways that create jobs, any population loss from a drop in migrants due to the tax increase is far more than compensated for by the people moving to the state for the new jobs.

## MIGRATION LEVELS, TRENDS & TYPES

Between 2008 and 2009, 13 percent of US households changed residence. Most of these moves are over very short geographic distances. Two-thirds of all moves in the most recent year are within the same county. Another 17 percent of all moves are to a different county, but within the same state. Only 13 percent of all moves result in the person relocating to another state. In recent years between two and three percent of Americans moved across state lines, with the IRS suggesting slightly higher migration than the Census Bureau.

Not only are the yearly rates of cross-state migration fairly low, but a surprisingly large number of American adults (57 percent) has never lived anywhere except the state where they were born (PEW, 2008).<sup>1</sup> Two-thirds of American adults spend most of their working lives in the state where they lived as a child, and nearly half spend their careers in their childhood metropolitan region (Bartik, 2009).

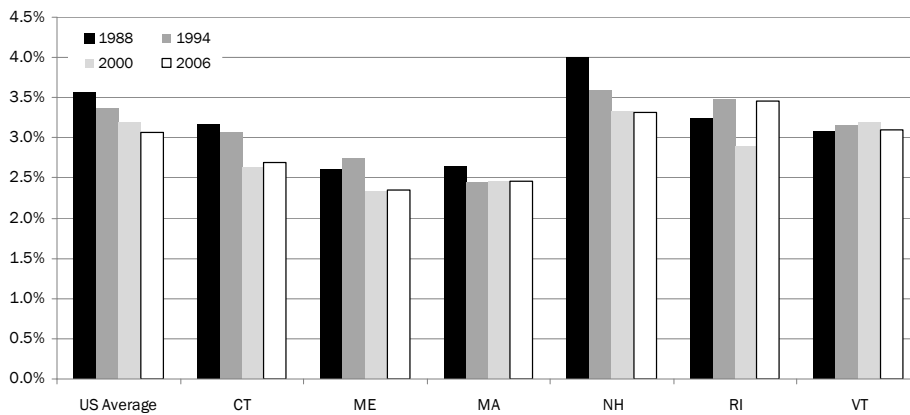
The rate at which residents leave Rhode Island for other states is slightly higher than the national average (Figure 1), and the in-migration rate from other states

to Rhode Island is also lower; thus the state as a whole tends to experience net population loss from migration.



<sup>1</sup> All references may be found in the full report, at [www.peri.umass.edu](http://www.peri.umass.edu).

FIGURE 1. OUT-MIGRATION RATE BY NEW ENGLAND STATE



Note: Migration rates are based on data from federal tax returns.

## REASONS CITED FOR MOVING & STAYING

Among individuals and households that decide to relocate to a different county or state, the primary reasons are for jobs, housing, and family-related matters.

TABLE 1. REASONS FOR MOVING (30 TO 64 YEAR OLDS), 2008 TO 2009

Main Reasons for All Between-County Moves <sup>2</sup>	
Job-related	36%
Family-related	22%
Housing-related	28%
Quality of life	8%
Other	7%

Source: US Census Bureau.

## TAXES & MIGRATION IN RHODE ISLAND

To date there have been no studies focusing specifically on tax-induced migration from New England. One recent study examines the impacts of various economic factors on migration using data on annual state-to-state migration flows from the Internal Revenue Service<sup>3</sup>. That study finds that unemployment, income,

<sup>2</sup> Reasons are explicitly defined in the full report, note to Table 2.

<sup>3</sup> Sasser, Alicia, 2009. "Voting with Their Feet? Local Economic Conditions and Migration Patterns in New England," New England Public Policy Center, Working Paper 09-01.

and housing costs, along with measures of distance between states, can explain the bulk of cross-state variation in migration. We extend this analysis to include fiscal factors that might influence migration.

### General trends in migration, employment, & taxes

The basic relationships between migration and economic and fiscal factors are depicted in Figure 2, which contrasts

the trends in migration with employment growth and income taxes in Rhode Island. The figure shows how net migration varies with relative employment growth and with relative income tax rates between 1988 and 2006. As in each state in New England, net migration rises and falls along with relative employment growth.<sup>4</sup>

Changes in relative income tax rates (the average marginal tax rate in the state minus the national average), seem unrelated to changes in net migration. In five of the six New England states – all but Vermont – the relationship between net migration and relative income taxes is actually positive: more people enter and/or fewer people leave the state as relative taxes rise, the opposite of what you would expect if people were fleeing taxes.<sup>5</sup>

This simple graphical analysis confirms the importance of economic conditions in explaining the variation of migration in Rhode Island over time. The trends revealed in Figure 2 suggest the impact of taxes on migration is not likely to be very important.

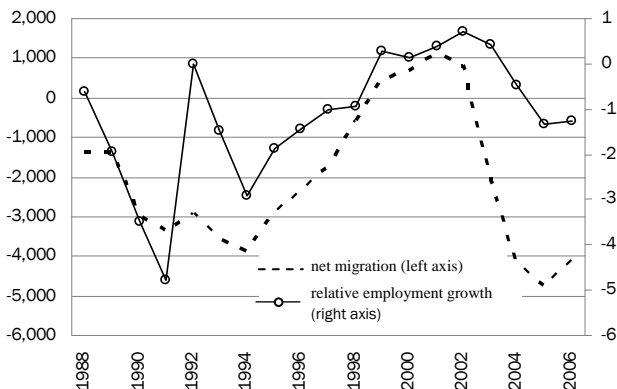


<sup>4</sup> Net migration is the number of households moving into the state minus the number of households moving out of the state in a given year. Relative employment growth is the state's employment growth rate in a year minus the national average.

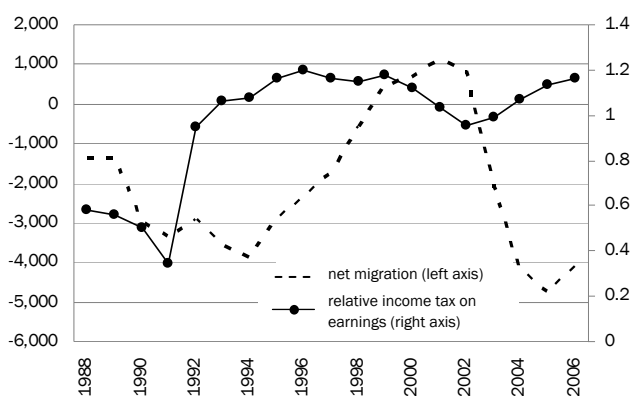
<sup>5</sup> Tables for all New England states are shown in the full report.

FIGURE 2. NET MIGRATION COMPARED TO RELATIVE EMPLOYMENT GROWTH AND RELATIVE INCOME TAXES

Panel A. Rhode Island: Net Migration and Employment Growth



Panel B. Rhode Island: Net Migration and Income Tax



### Statistical analysis of migration and taxes

Using annual IRS migration data for 1988 to 2006, we study the impacts of economic as well as fiscal factors on migration, including measures for income taxes, sales taxes, total state and local government revenues, crime, and educational services.

We present the results both as “net” differences in migration, as well as “asymmetrically,” which allows the factors that attract people to Rhode Island to differ from the factors that inspire people to leave Rhode Island. Results from the “asymmetric” regressions affirm the importance of economic factors in explaining migration trends and also the mixed impacts of fiscal factors. Favorable economic conditions in destination states increase out-migration, while favorable economic conditions in the origin state decrease out-migration.

The tax variables provide mixed evidence at best. The coefficients for sales taxes are generally not statistically

significant. In the case of income taxes and total revenue, higher taxes in the destination state seem to deter out-migration, but they also deter out-migration from the origin state.

### Understanding the size of the migration effects

Table 2 shows the size of changes in some of the most significant variables and the numbers of people that can be expected to move in response.

TABLE 2. SCALE OF THE IMPACT OF VARIABLES AFFECTING MIGRATION DECISIONS TO AND FROM RHODE ISLAND

	Size of change	Impact on out-migration	Impact on in-migration
Unemployment rate	increases by 0.9 percentage points	1,598 more people leave	4,089 fewer people arrive
Average marginal income tax rate on wage earnings	increases by 2.3 percentage points	752 fewer people leave	1,410 fewer people arrive
Own-source revenue as share of GDP	increases by 1.7 percentage points	*	1,645 fewer people arrive
Housing affordability index	increases by 5.2 percentage points	987 fewer people leave	1,222 more people arrive

\* not statistically significant

The impact of equivalently large changes in economic and fiscal conditions in the New England states leads to changes in migration that are in the same direction, but roughly half as large as in the rest of the country. In short, New Englanders tend to stay put more than people in the rest of the country.

The income tax changes described above assume that no other factors change. In practice, tax increases will nearly always increase revenue. And increased revenue will be spent in ways that will often make a place more attractive to current and potential residents (e.g., better schools or parks and additional police officers). Allowing these different factors to change simultaneously suggests, for example, that if the state of Rhode Island were to raise the average marginal tax rate by 1 percentage point, over 300 fewer people would leave the state, but over 600 fewer people would choose Rhode Island when they move from other states. Since a 1 percentage point increase in the average marginal tax rate would generate approximately \$170 million in revenues, over 300 people could be expected to choose someplace other than Rhode Island when relocating.

The final impact on migration, though, will depend on how the state uses the additional revenue. If Rhode Island used the \$170 million to hire (directly or indirectly) 2,900 workers, reducing unemployment, migration would be impacted dramatically. Even if half of the new jobs were filled with unemployed Rhode Island residents, out-migration from the state would fall by almost 700, and over 1,700 new in-migrants would choose Rhode Island — far more than compensating for the smaller number of migrants who chose other states.

To download the full study, *The Impact of Taxes on Migration in New England*, please go to [the PERI website](#).



## CONCLUSION

Evidence from surveys of migrating households, the existing economic literature, and new analysis in this paper all suggest that taxes do not play any notable role in causing people to leave Rhode Island. The most important factors in influencing household migration are economic and family-related reasons. If anything, higher state income taxes decrease the numbers of people leaving a state. Taxes do appear to influence the choice of which state to live in once a person has decided to move, but the impact is modest. If Rhode Island uses the revenues from higher taxes to create jobs, reduce unemployment, and reduce property crime, the small negative impacts from taxes can be easily overcome.

### About the author

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Jeffrey Thompson is Assistant Research Professor at the Political Economy Research Institute, where he focuses primarily on domestic economic policy, with particular emphasis on the New England region and public finance at the state and local government levels. He completed his Ph.D. in economics at Syracuse University, and his research has been published in the *National Tax Journal*, *Research in Labor Economics*, and the *Industrial and Labor Relations Review*.

Dr. Thompson's recent publications can be found [on the PERI website](#).

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