PIONEER OPPORTUNITY

Do The Wealthy Migrate Away From High-Tax States?

A Comparison of Adjusted Gross Income Changes in Massachusetts and Florida

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PIONEER INSTITUTE
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Introduction

Wealth migration is the entrance and exit of taxable income between states. Beginning with 2011–12 data, the Internal Revenue Service's Statistics of Income Division (SOI) has produced tabulations that show aggregate migration flows by amount of adjusted gross income (AGI) and age of the primary taxpayer.[1] While there has been rigorous debate among academics and various stakeholders over how and to what extent wealthy individuals respond to changes in personal income taxes, this database allows us to take an in-depth look at current trends in wealth migration and the potential consequences of progressive taxation.

Massachusetts Net AGI Out-Migration

Figure 1 presents IRS data showing Massachusetts' net migration of AGI from 1993 to 2018 for all tax returns regardless of income level. It shows that Massachusetts experienced a cumulative net outflow of over $20.7 billion in AGI over this period to other states and nations. Earned income tax-free Florida and New Hampshire were the biggest beneficiaries; together they accounted for 72.6 percent of Massachusetts' net out-migration of AGI over this period. Massachusetts had a net out-migration of AGI to Florida of $9.6 billion, representing 46.5 percent of Massachusetts' total net out-migration. This trend is largely driven by the disproportionate wealth of those who move from Massachusetts to Florida. The average AGI of such a migrant was $120,325 in 2018, compared with the average AGI of $64,992 among taxpayers who moved from Florida to Massachusetts that year. While migrants to New Hampshire tend to be less wealthy than those that flee to Florida, the Granite State's cumulative AGI gains from Massachusetts over the period still total $5.4 billion, or 26.1 percent of Massachusetts' total net out-migration. Other states and nations accounted for the remaining $5.7 billion, representing 27.4 percent of Massachusetts' total net AGI out-migration over this period.[2]

Massachusetts lost nearly $10 billion in wealth migration to Florida from 1993 to 2018.

Figure 1. Massachusetts cumulative net AGI inflow/outflow by source & destination, 1993–2018[3]

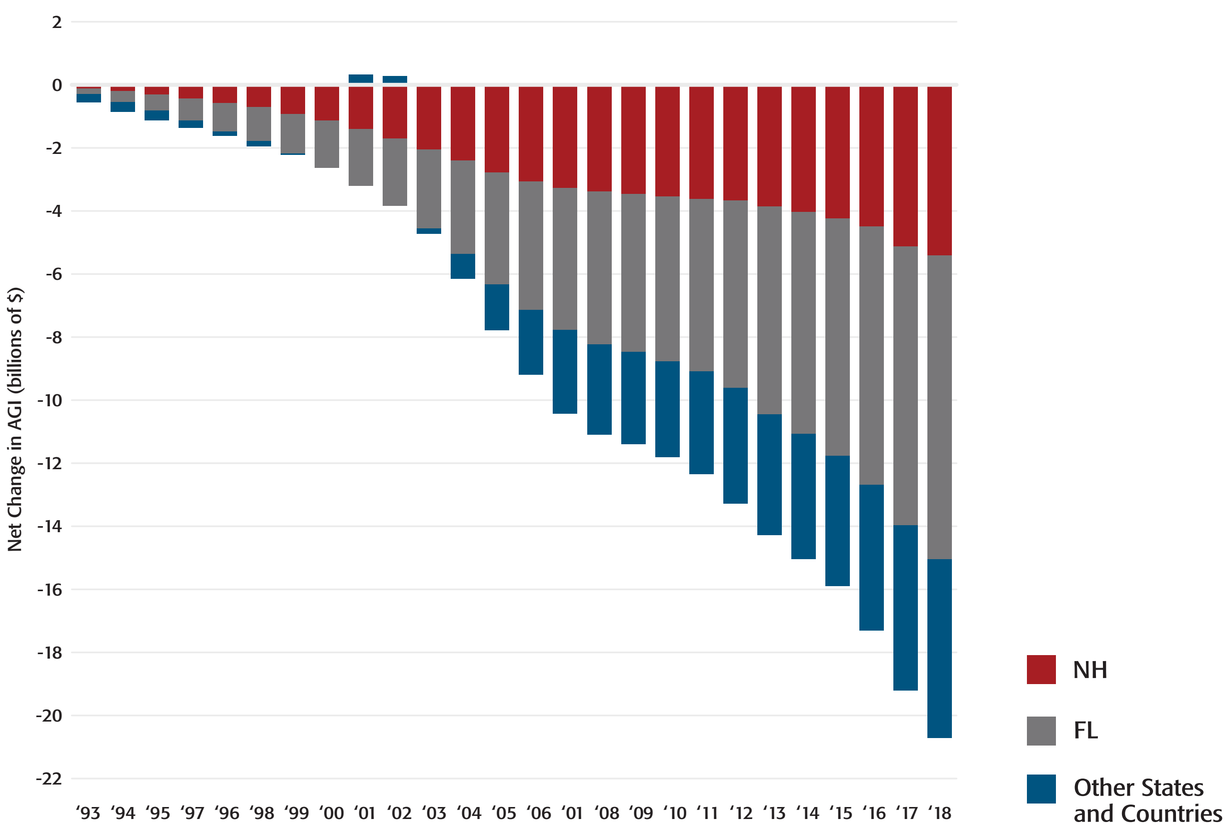


Figure 2. Massachusetts cumulative net AGI migration inflow by source/destination state, 1993–2018[4]

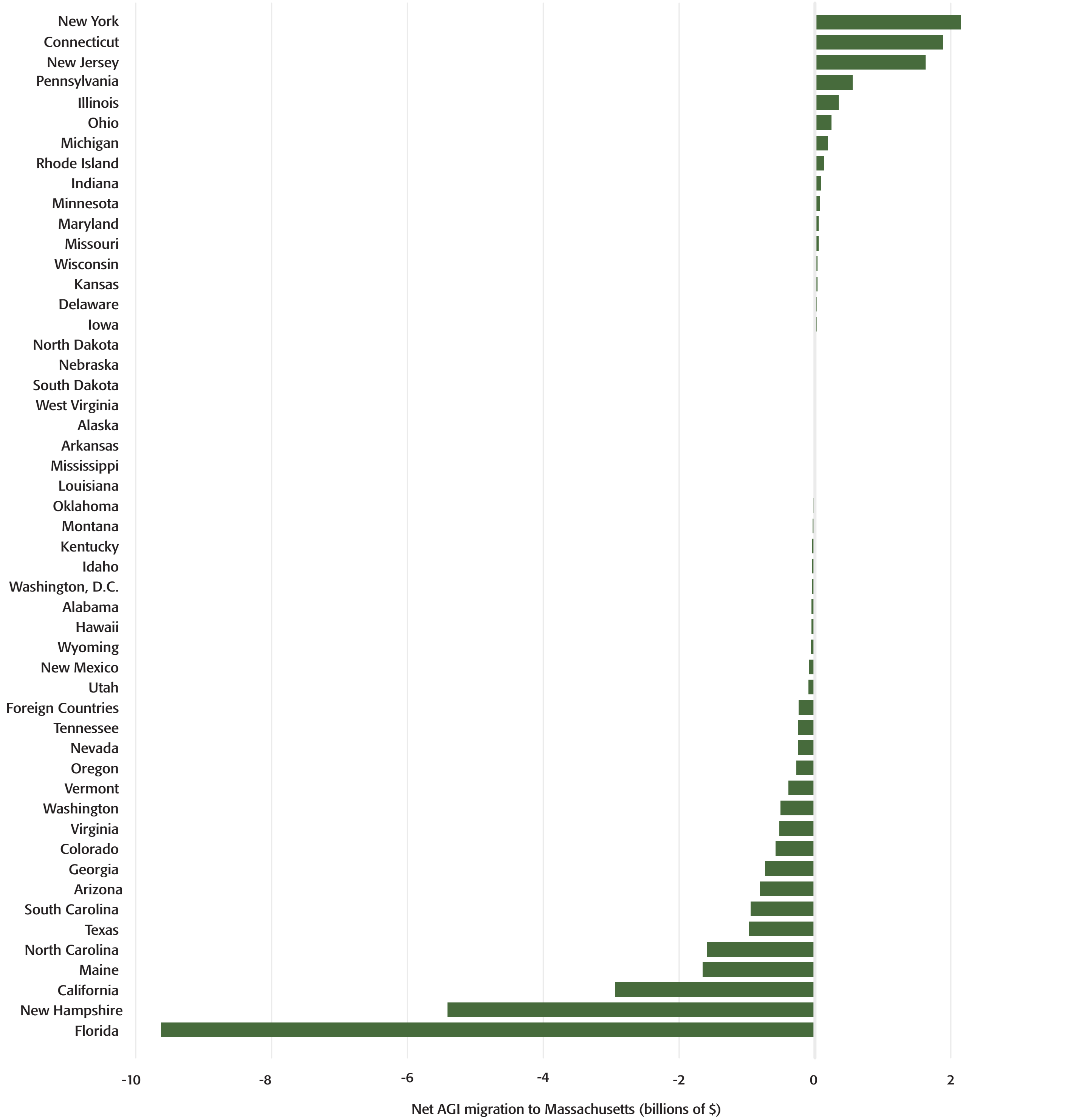


Figure 2 shows which states had the most significant net positive or net negative AGI migration from 1993 to 2018 for taxpayers of all incomes. Notably, if net AGI out-migration to Florida, California, North Carolina, and northern New England were all $0, AGI migration to Massachusetts would be positive overall.[5] Most of Massachusetts' positive net AGI in-migration comes from other northeastern states like New York, Connecticut, and New Jersey, with smaller positive numbers from much of the Midwest. Massachusetts had the most significant net out-migration to Florida and New Hampshire, a consistent pattern across the 26 years of data.

Wealthy people who leave Massachusetts tend to go to states with no personal income taxes, like Florida and New Hampshire.

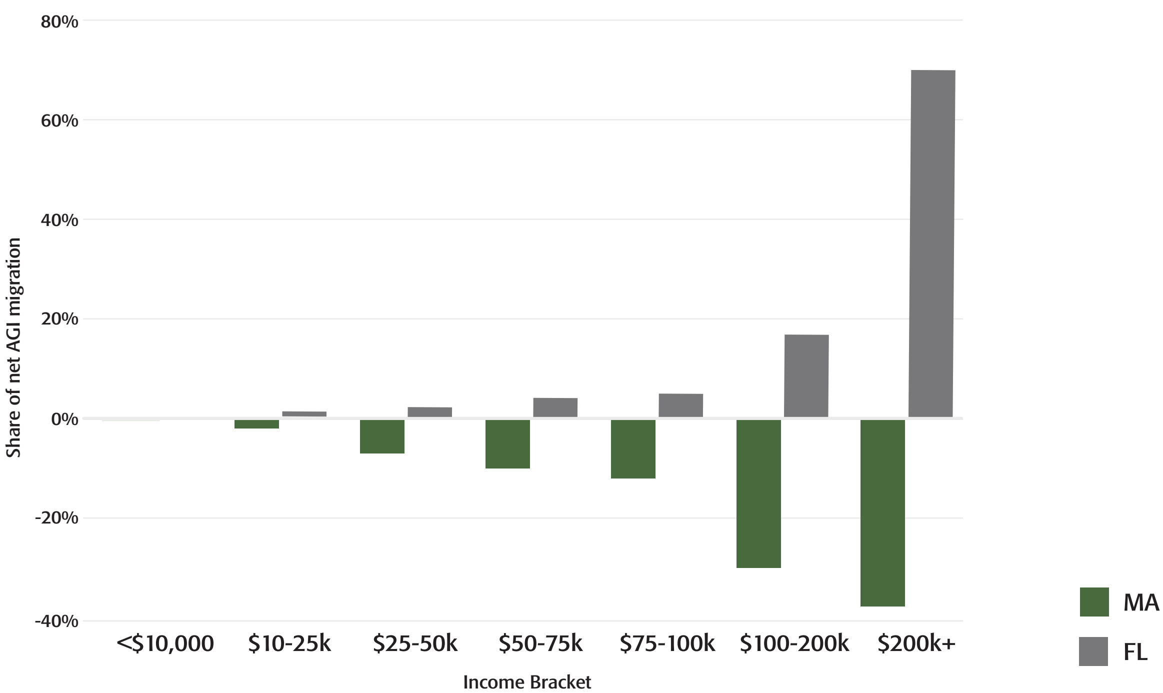
The Florida Welcome Mat: Sun and Savings

Florida has recently been one of the most attractive destinations for migrating U.S. taxpayers, with only four states (Nevada, North Carolina, Tennessee, and Utah) gaining taxable income on net due to wealth migrants from Florida in 2018. The Sunshine State added $182.8 billion in cumulative net AGI from 1993 to 2018 across all income levels, according to IRS SOI data.[6]

The IRS' 2012 addition of income categories to its income migration data reporting allows researchers to calculate the percentage of AGI income migration attributable to high-income taxpayers by state. The highest income category reported in IRS migration data is annual AGI of more than $200,000. According to IRS data, Florida had a total of 122,341 migration inflow returns of taxpayers with annual AGIs of $200,000 or more from 2012 to 2018. The average AGI of these inflow returns was $777,348, and the value of this income bracket's returns totaled $95.1 billion.[7]

Over the same period, Florida had 53,248 outflow returns of taxpayers with AGIs of $200,000 or more, with an average AGI of $610,385, 21 percent lower than the average AGI of high-income taxpayers moving into the state. Florida's net AGI attributable to migration from 2012 to 2018 was $88.9 billion, of which 70.4 percent was attributable to taxpayers with AGI of $200,000 or more (see Figure 3). This massive net AGI migration in just seven years came despite the fact that they constituted only 4.5 percent of total inflow returns over that period. Meanwhile, less than 40 percent of Massachusetts' AGI losses from migration are attributable to filers with over $200,000 in taxable income—it seems that the wealthy are arriving in Florida faster than they are leaving Massachusetts.

Figure 3. Share of net AGI in-migration by income bracket in Massachusetts and Florida, 2012–2018[8]



The Ripple Effect on Population Growth

Over time, migration has significantly affected not only the growth of total state AGI, but also state population. Since 2000, the number of births in Massachusetts has steadily declined, while deaths have remained stable or even grown.[9] The result is that the Commonwealth is increasingly reliant on migration to continue to expand its tax base and pay for the health care and retirement benefits of a rapidly aging population.

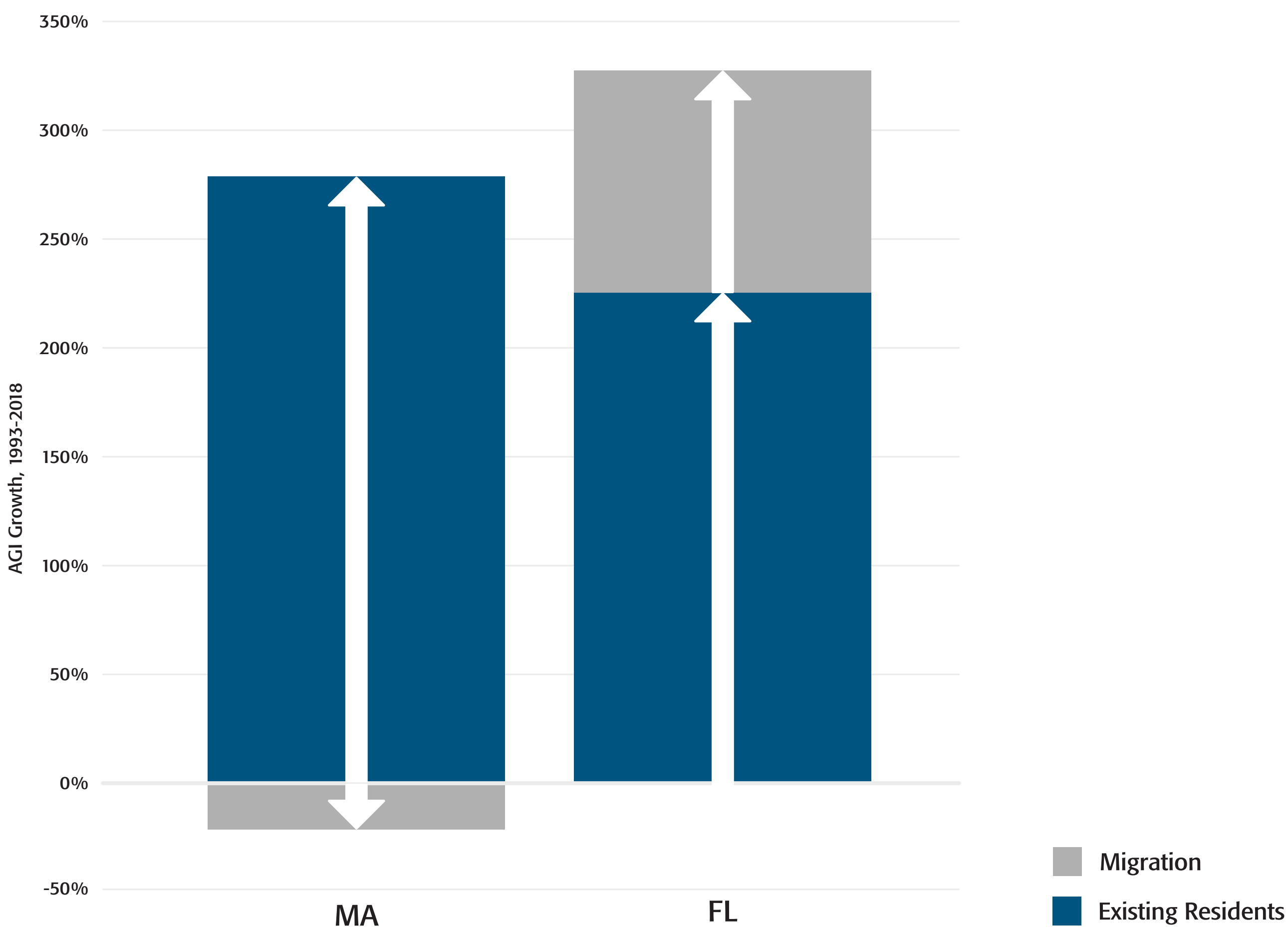
While the state's population is still growing, migration within the United States has seen Massachusetts shedding residents every year since 2011. At one point in the mid-2000s, 50,000 more Massachusetts residents moved to other states every year than those who moved from other states to Massachusetts. For now, immigration has offset this trend, and Massachusetts had one of the highest immigration totals as a share of its population in 2018, second only to Florida.[10]

Insidiously, Massachusetts splitting the difference on attracting immigrants and attracting American nationals still results in a net AGI loss every year. The average AGI of an immigrant moving to Massachusetts was $36,809 in 2018, compared to an average AGI of $87,628 among taxpayers who left Massachusetts for other states. Moreover, out-migrants from Massachusetts have been wealthier on average than in-migrants, regardless of their point of origin, in 25 of the 26 years between 1993 and 2018.[11]

In terms of AGI, immigrants don't make up for tax flight among native-born Massachusetts residents.

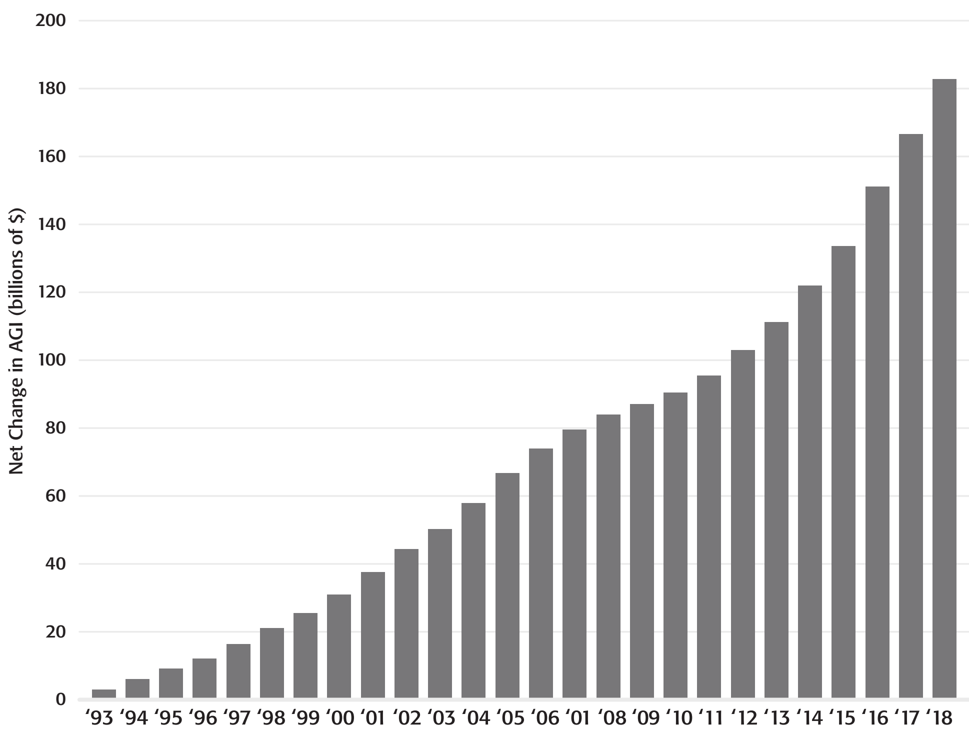
Meanwhile, Florida has it both ways. Between 2010 and 2019, it added nearly 1.3 million residents solely from migration within the United States, in addition to the 1.1 million immigrants that settled there over the period.[12] Of the $587.4 billion of AGI that Florida added between 1993 and 2018, migration accounts for $182.8 billion, nearly one-third of the total.[13] The remaining two-thirds of the AGI increase in Florida, and the only reason why Massachusetts' income tax base is still increasing, is because existing residents have seen strong income growth for the past few decades (see Figure 4). Still, if the net effect of migration on AGI growth in Massachusetts was equal to that of Florida, total AGI growth would have been faster in the Bay State overall since 1993.[14] In other words, Massachusetts' existing residents tend to exhibit faster income growth than Florida residents, perhaps because Florida has a much higher portion of its population outside of working age.[15]

Figure 4. Total AGI growth in Massachusetts and Florida by source, 1993–2018[16]



When we isolate the effect of Florida's millions of migrants on AGI growth, the results are staggering. While migration rates briefly slowed during the Great Recession, the subsequent recovery saw migrants from other states contributing over $15 billion per year to the state's income tax base (see Figure 5). The contributions of immigrants in terms of AGI are relatively quite low, often no more than $200 million per year, which is largely because their average incomes are much lower than those of domestic migrants.

Figure 5. Florida cumulative net annual AGI inflow/outflow by source, 1993 to 2018[17]



Conclusion

Massachusetts had a net outflow of $20.7 billion in adjusted gross income (AGI) between 1993 and 2018. The biggest beneficiaries of the wealth that fled the Commonwealth were Florida, which captured 47.5 percent of it, and New Hampshire, which captured 26.1 percent.

Out-migration from Massachusetts has lost the state over $20 billion in taxable income since 1993.

Between 2012 and 2018, Florida saw a net AGI inflow of $88.9 billion. Over 70 percent of the net inflow was from taxpayers with annual AGI of $200,000 or more, even though they accounted for just 4.5 percent of total net inflow tax returns during that period.

Over 30 percent of the total growth in AGI among all Florida taxpayers from 1993 to 2018 was attributable to the state's net increase in migration. Compare that to Massachusetts, and its net outflow of $20.7 billion in AGI over the same period.

Affluent taxpayers are responsible for an outsized proportion of state tax revenue. The data also show a strong correlation between state taxes and migration. States like Florida and New Hampshire that have no state income tax have seen a net inflow of AGI from higher-tax states like Massachusetts. We live in a society that is more mobile than ever before, and that is especially true for those on the higher rungs of the socio-economic ladder.

Endnotes

1 Throughout this paper, we refer to data the IRS characterizes as belonging to a range of years as belonging to the latest year in the range (i.e., 2011–2012 data is called 2012 data, etc.). This entails that our figures are reflective of when the IRS received the tax returns, although these returns may represent income earned in prior years.

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6 Michael Walker, "FL IRS State to State Migration," Data Made Useful, 2020, https://public.tableau.com/profile/michael.walker#!/vizhome/FL_IRS_StatetoState_Migration/YearlyAGIFlow

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8 Data Made Useful, "Gross Taxpayer Migration - All States," IRS Tax Data Discovery, 2020, https://irsdatadiscovery.com/gross-taxpayer-migration-all-states

9 Susan Strate, Meghan Flanagan, & Ken Lefebvre, "Summary of U.S. Census Bureau's 2018 State-Level Population Estimate for Massachusetts," UMass Donahue Institute, December 19, 2018, https://donahue.umass.edu/documents/UMDI_State_Pop_2018.pdf

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