

# Minnesotans on the Move to Lower Tax States 2016



By Peter J. Nelson

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# Minnesotans on the Move to Lower Tax States 2016

*By Peter J. Nelson, J.D., Vice President and Senior Policy Fellow*

## Executive Summary

Newly-released Internal Revenue Service data make it possible to track households moving into and out of each state. Households' adjusted gross incomes are reported, and beginning with calendar year 2011, the IRS has made available demographic information about the households that move into and out of a state. This IRS database is a powerful tool that allows us to analyze Minnesota's competitiveness with other states, measured by the most significant metric: the willingness of people to move into, and out of, our state.

Analysis of IRS data yields conclusions that bear directly on Minnesota's public policies, especially its tax policies:

**Between 2013 and 2014, Minnesota lost nearly \$1 billion in net household income to other states.** Minnesota's 2014 net loss of \$944 million represented a sharp increase over prior years. Just three years ago, the state's net loss of adjusted gross income was \$490 million.

**Between 1992 and 2014, Minnesota lost a cumulative net total of \$7.6 billion in household income to other states.** The average net annual loss over that period was \$346 million in 2014 dollars.

**With few exceptions, Minnesota loses taxpaying families to lower-tax states.** Of the ten states to which Minnesota loses the most income, eight are ranked among the top half of states with the lightest tax burdens, while seven of ten states from which Minnesota gains income are in the bottom half of the rankings. Notably, five of the top ten states to which Minnesota loses income impose no income tax.

**Most of the taxpayers who leave Minnesota for lower-tax states are in their prime earning years.** One might think that most high-earning families who leave Minnesota are retirees moving to Florida or Arizona, but this is not the case. Working-age people between 35 and 54 account for nearly 40 percent of Minnesota's net loss of tax filers for the 2013-2014 period. People between 55 and 64, most of whom are still in the workforce, account for another 23 percent. As for the loss in household income, the IRS data show that 34 percent (\$343 million) of the net loss in adjusted gross income is from people between 35 and 54. Another 30 percent (\$298 million) of the net loss comes from people aged 55 to 64.

**Minnesota loses high-earning families at a much higher rate than other states.** Minnesota's net migration rate is particularly bad for one category of residents: families earning more than \$200,000. Relative to other states, Minnesota is losing these taxpayers and their incomes—not to mention their other contributions to

our state—at an alarming rate. Minnesota’s net migration rate for these high earners between 2013 and 2014 was -1.45 percent, ranking behind 46 states and ahead of only New Jersey, Illinois, Vermont and the District of Columbia.

**The exodus of citizens from Minnesota accelerated after the legislature’s 2013 tax increases.** The IRS data show a substantial increase in Minnesota’s loss of taxpaying households immediately after the legislature and Governor Mark Dayton enacted a large income tax increase in 2013. The following year, Minnesota’s net loss of adjusted gross income leaped from \$697 million (2012-2013) to \$944 million (2013-2014). The nearly \$1 billion loss sustained in 2014 is well above anything previously recorded. It dropped Minnesota’s rank among the states, with respect to gain or loss of top income earners, from 37th to 47th.

Taken together, these IRS income migration data clearly signal the need for Minnesota to reduce taxes if the state is to have any hope of being competitive among the states, and in a global economy.

## I. Introduction

Everyone seems to agree that Minnesota's tax policies directly impact economic growth and opportunity in the state. There is, however, great debate over whether Minnesota's current tax policy promotes or harms economic growth. Those who favor a higher tax rate argue Minnesota needs more revenue to fund education and other infrastructure necessary to sustain economic growth. Advocates for lower taxes argue Minnesota needs low rates to make Minnesota an attractive place to live, work and grow a business.

Data from the Internal Revenue Service (IRS) point to one clear and worrisome fact: People vote with their feet and Minnesota is losing population and income to lower tax states. The IRS has been tracking the movement of adjusted gross income between states since 1992. For the 2013 to 2014 period, Minnesota on net lost nearly \$1 billion in adjusted gross income (AGI), which is substantially higher than any prior period. Between 1992 and 2014, an average of \$346 million in AGI—based on 2014 dollars—on net moved each year from Minnesota to other states. Over this 22-year period, this movement of income adds up to \$7.6 billion. The states that on net receive the most Minnesota income tend to be low tax states such as Arizona, Colorado, Florida, Georgia, Nevada, South Dakota, Texas and Washington.

Decisions to leave a state are usually motivated by the interplay of multiple factors. This can make it hard to pinpoint the influence of any one factor. However, the migration patterns shown in this report are very convincing. State tax policies do influence movement to and from Minnesota. The implications for current proposals to lower Minnesota tax rates is clear: Lower taxes will help Minnesota to attract and retain people and their incomes.

## II. The Data

Beginning in 1978, the IRS began reporting the number of tax returns and exemptions moving from state to state and county to county. Tax returns represent household movement, while exemptions add in dependents and represent total population movement for tax filing households. Starting with the 1992-93 period, the IRS reports the aggregate income of the taxpayers that moved.<sup>1</sup> Thus, from 1992 forward there is an accurate picture of where taxpayers and their income are moving within America down to the county level. According to the IRS, the “data may be the largest dataset that tracks movement of both households and people from county to county, including family incomes.” It is indeed the go-to data source for understanding the domestic migration of people and income in America.<sup>2</sup>

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1 Between 1992 and 1994, the IRS included certain nontaxable income in the income measure they reported. Since 1994-95, income includes only adjusted gross income.

2 See e.g., Lisa Sturtevant and Mourice Champagne, “Domestic Migration To and From The Washington DC Metropolitan Area: 1985-2010,” George Mason University Center for Regional Analysis, Working Paper No. 2012-01 (July 2012), available at [http://cra.gmu.edu/pdfs/Domestic\\_Migration\\_2012\\_01.pdf](http://cra.gmu.edu/pdfs/Domestic_Migration_2012_01.pdf); Atlanta Regional Commission, “Domestic Migration: Who’s Moving In and Where are They Coming From?,” *Regional Snapshot* (February 2012), available at [http://www.atlantaregional.com/File%20Library/Info%20Center/Newsletters/Regional%20Snapshots/Domestic%20Migration/RS\\_Feb2012\\_Migration.pdf](http://www.atlantaregional.com/File%20Library/Info%20Center/Newsletters/Regional%20Snapshots/Domestic%20Migration/RS_Feb2012_Migration.pdf); Christopher Briem, “Migration Trends in the Pittsburgh Region: Update Through 2010,” Program in Urban and Regional Analysis, University Center for Social and Urban Research, University of Pittsburgh (December 2011), available at <http://www.ucsur.pitt.edu/files/frp/MigrationReport2011.pdf>; Rich Exner, “Migration patterns show where Greater Clevelanders are moving,” *The Plain Dealer*, Aug. 13, 2011, available at [http://www.cleveland.com/datacentral/index.ssf/2011/08/migration\\_patterns\\_show\\_where.html](http://www.cleveland.com/datacentral/index.ssf/2011/08/migration_patterns_show_where.html); Ronald J. Gunderson and David Sorenson, “An Examination of Domestic Migration from California Counties,” *The Journal of Regional Analysis & Policy*, Vol. 40, No. 1 (2010): 34-52, available at [http://www.jrap-journal.org/pastvolumes/2010/v40/gunderson40\\_1.pdf](http://www.jrap-journal.org/pastvolumes/2010/v40/gunderson40_1.pdf); Wendell Cox and E.J. McMahon, “Empire State Exodus: The Mass Migration of New Yorkers to Other States,” Empire Center For New York State Policy (October 2009),



For the 2011-12 period, the IRS began using a new methodology to improve the quality of these data and to provide new information on who is moving.<sup>3</sup> Until 2009-10, the U.S. Census Bureau produced the data for the IRS. The IRS took responsibility for assembling and tabulating the data for 2011-12, and enhanced the methodology. Due to Census Bureau internal practices, previous data releases only included a partial year of data for returns filed from January to September. Under the new methodology, the IRS now reports a full year of data. This is an important improvement because the old method missed returns filed at the end of the year that tend to be the more complex returns from people with higher incomes. Though an improvement, the new methodology limits comparability with prior data.

The IRS also released a new series of migration data, the “Gross Migration File,” that provides annual information on who is moving from state to state based on age and income. This initial release of data covers the latest three years of migration from 2011 to 2014. It includes the gross flows to and from each state by income and age. Thus, it identifies in the aggregate of who is moving in and out of a particular state, not where they are moving to and from. For instance, the new data show the total number of people aged 45 to 54 with incomes between \$100,000 and \$200,000 who migrated into Minnesota, but does not identify the state they left.

There are three additional limitations to the data that need to be explained.<sup>4</sup> First, the data

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available at <http://www.empirecenter.org/pb/2009/10/empirestateexodus102709.cfm>; and Miami-Dade County, “Domestic Migration Patterns,” *Miami-Dade At-A-Glance* (December 2008), available at <http://www.miamidade.gov/business/library/reports/at-a-glance/migration-glance.pdf>.

3 Kevin Pierce, *SOI Migration Data: A New Approach*, Internal Revenue Service (Summer 2015), available at <https://www.irs.gov/pub/irs-soi/soi-a-inmig-id1509.pdf>.

4 For a full explanation of the dataset and its limitations, see Emily Gross, *U.S. Population Migration Data: Strengths and Limitations* (Statistics of Income Division, Internal Revenue Service), available at [http://www.irs.gov/file\\_source/pub/irs-soi/99gross\\_update.doc](http://www.irs.gov/file_source/pub/irs-soi/99gross_update.doc).

do not include the movement of non-taxpayers. Thus, IRS migration data do not match Census migration data that estimate migration for the entire population. Second, the county-level data only report movement when there are at least ten tax returns moving in or out of one county to another county. This makes it difficult to compare out-of-state movement for all but the largest counties. Even Minnesota counties as large as Dakota and Anoka will rarely have more than ten taxpayers move to a specific county in a different state. Third, 2013-14 data should be considered preliminary. After posting these data publicly, the IRS removed it after finding some anomalies. According to the IRS, updates are not likely to result in any substantial changes to the Minnesota data.<sup>5</sup>

### III. Domestic Migration Trends

A look at domestic migration within America reveals that Minnesota began losing more people to other states than it gains about fourteen years ago. As shown in Figure 1, the net domestic migration of people (taxpayers and their dependents) into Minnesota turned negative in 2002 and has remained negative ever since. Comparing the decade of the 1990s with the 2000s, IRS data show Minnesota experienced a net *gain* of 67,504 people in the 1990s and a net *loss* of 52,944 in the 2000s.

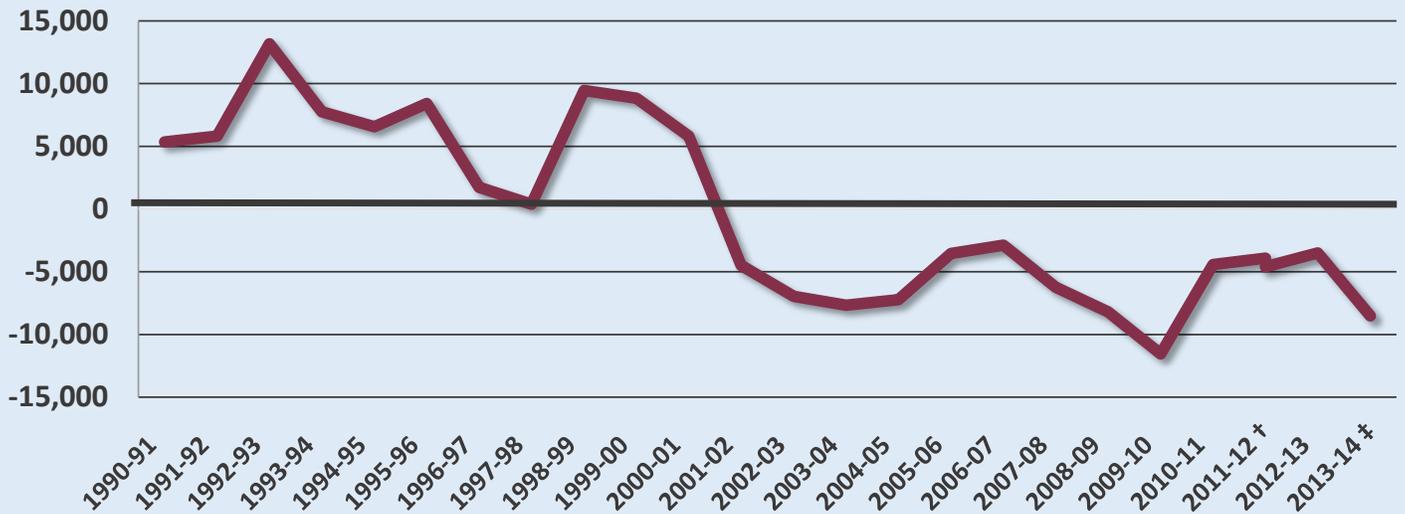
U.S. Census Bureau data based on the 1990 and 2000 Census show a similar reversal in the migration trend. These data show Minnesota experienced a net domestic migration *gain* of 86,847 people during the 1990-1999 period versus a net *loss* of 43,962 during the 2000-2009 period.<sup>6</sup>

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5 Email communication from Kevin Pierce, IRS, Statistics of Income Division, January 6, 2016.

6 The data from the U.S. Census align with the IRS data very closely, which is not a surprise considering they collaborate on the data. U.S. Census Bureau, Population Division, Table 4. Cumulative Estimates of the Components

**Figure 1: Annual Net Domestic Migration of Taxpayers and Dependents (Exemptions), Minnesota, 1990-2014**



† The break in the trend line represents the move from using a partial to a full year of tax return data.

‡ Preliminary

Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

Due to migration from foreign countries, Minnesota still posts a small net gain in migration from year to year. In the future, foreign movers may help to maintain Minnesota’s workforce and tax base. However, on average they are not replacing the work experience and educational attainment lost from the domestic movers they replace.<sup>7</sup> Around a quarter of foreign immigrants enter Minnesota as refugees, many of whom lack basic English language skills.<sup>8</sup> Without basic work

skills, many new foreign immigrants struggle to find employment and place immediate demands on state health and social welfare programs.

**Net population loss is mostly due to fewer people moving into Minnesota.** Policy discussions often center on a debate over whether people are fleeing Minnesota. Yet the migration story of the 2000s shows the larger issue for Minnesota is a weakness in attracting new residents. Figure 2 shows the inflow and outflow of people underlying the net change reported in Figure 1. Both the inflow and outflow consistently increased through the 1990s. However, in the 2000s the outflow of people leaving Minnesota plateaued while the inflow of people dropped. Thus, the decline in the net number of people moving to Minnesota is primarily due to fewer people moving *into* Minnesota.

Figure 2 also shows a strong uptick in people moving both to and from Minnesota beginning

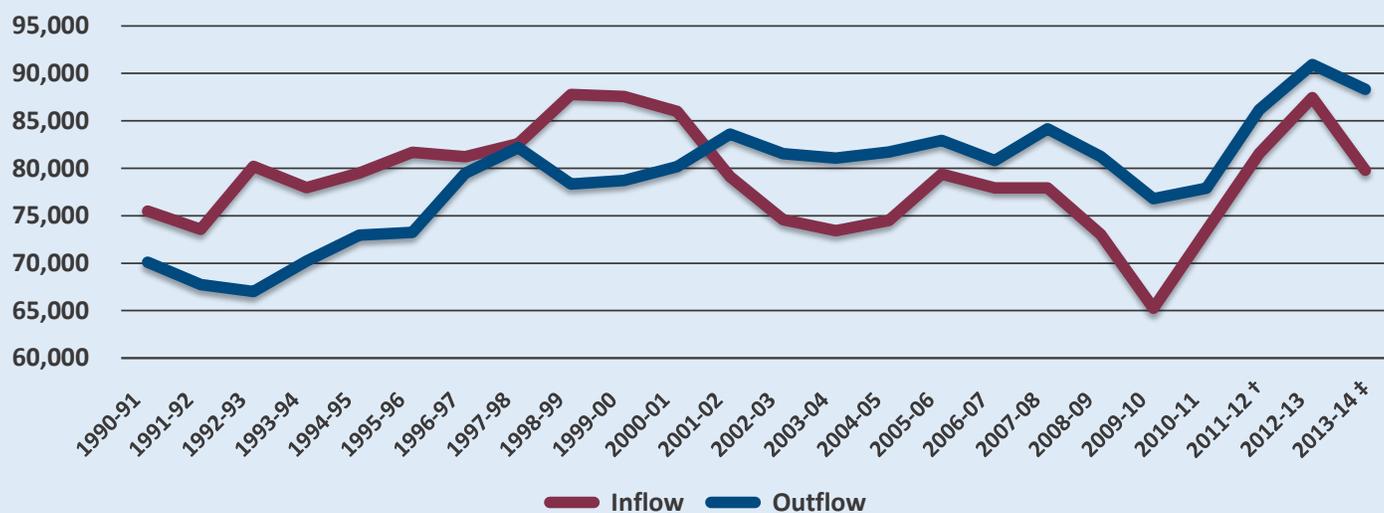
of Resident Population Change for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2009 (NST-EST2009-04) (Dec. 2009), available at [http://www.census.gov/popest/data/historical/2000s/vintage\\_2009/index.html](http://www.census.gov/popest/data/historical/2000s/vintage_2009/index.html); and U.S. Census Bureau, Population Division, State Population Estimates and Demographic Components of Population Change: Annual Time Series, April 1, 1990 to July 1, 1999 (ST-99-7), Dec. 29, 1999.

7 While foreign-born adult Minnesotans hold a higher percentage of graduate and professional degrees than native-born residents (15 percent versus 11 percent), this advantage is countered by a much larger disparity in adults who lack a high school degree. 26 percent of foreign-born adults lack a high school degree, compared to 6 percent for native-born adults. U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates.

8 Katherine Fennelly and Anne Huart, *The Economic*

*Impact of Immigrants in Minnesota*, Report to the Minnesota Business Immigrant Coalition (2009), available at [http://www.immigrationworksusa.org/uploaded/file/Net\\_Economic\\_Impact\\_of\\_Immigrants\\_in\\_MN\\_report.pdf](http://www.immigrationworksusa.org/uploaded/file/Net_Economic_Impact_of_Immigrants_in_MN_report.pdf).

**Figure 2: Annual Inflow and Outflow of Taxpayers and Dependents (Exemptions), Minnesota, 1990 to 2014**



† IRS changed from using a partial to a full year of tax return data for 2011-12 and increased the reported exemptions.

‡ Preliminary

Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

with the 2011-12 period. This increase does not necessarily represent an actual change in population movement. Rather, most of the increase can be explained by the transition from using partial- to full-year data beginning with the 2011-12 period. Adding an additional three months of tax returns naturally results in an increase in the numbers of people reported to move in and out of a state. Importantly, under the new methodology, Minnesota is still on net losing tax filers to other states.

#### IV. Income Migration Trends

Minnesota began experiencing substantial annual losses in adjusted gross income (AGI) in 1997—five years before net domestic migration turned negative.<sup>9</sup> As shown in Table 2, adjusted for

<sup>9</sup> The IRS reported income movement between 1992 and 1995 using a different measure of income that included nontaxable income and so the data are not directly comparable. Nonetheless, they represent a three-year period without a substantial net loss, which is carried forward into the 1995-96 period when income represents only taxable adjusted gross income.

inflation, losses jumped from \$62 million for the 1995-96 period to \$391 million for 1996-97 and ever since then have remained well above \$200 million.

**Minnesota lost nearly \$1 billion in income to other states between 2013 and 2014.** Minnesota experienced the largest net loss ever between 2013 and 2014. As shown in Table 2, losses to domestic migration for this period totaled \$944 million.<sup>10</sup> This nearly \$1 billion loss represents a dramatic rise from just three years ago, when the state lost \$490 million.

This record loss is driven by both higher income tax filers fleeing Minnesota and fewer people moving to Minnesota. The average household income leaving Minnesota was \$13,860 higher than the average income arriving, the second largest income gap ever. Also, the flow of people moving in and out of Minnesota both dropped for 2013-14, but as Figure 2 shows, the flow moving in dropped by much more.

<sup>10</sup> The state lost another \$24 million to foreign migration for a total loss of \$968 million.

Table 1. Domestic Migration In and Out of Minnesota, 1990-2014

Year	Returns In (Households)	Exemptions In (Population)	Exemptions per Return In	Returns Out (Households)	Exemptions Out (Population)	Exemptions per Return Out	Net Returns (Households)	Net Exemptions (Population)
1990-91	39,330	75,479	1.92	37,877	70,118	1.85	1,453	5,360
1991-92	38,775	73,555	1.90	37,338	67,733	1.81	1,437	5,822
1992-93	41,540	80,193	1.93	36,684	67,014	1.83	4,856	13,179
1993-94	40,539	77,976	1.92	38,264	70,227	1.84	2,275	7,749
1994-95	41,545	79,520	1.91	40,107	72,962	1.82	1,439	6,558
1995-96	42,122	81,679	1.94	40,109	73,260	1.83	2,013	8,419
1996-97	42,020	81,226	1.93	43,412	79,491	1.83	-1,392	1,735
1997-98	43,269	82,583	1.91	45,009	82,195	1.83	-1,740	388
1998-99	46,253	87,781	1.90	43,365	78,331	1.81	2,888	9,450
1999-00	46,886	87,558	1.87	43,770	78,714	1.80	3,116	8,844
2000-01	46,588	85,992	1.85	45,220	80,175	1.77	1,368	5,817
2001-02	43,487	79,135	1.82	46,586	83,624	1.80	-3,099	-4,489
2002-03	41,160	74,580	1.81	45,244	81,538	1.80	-4,084	-6,958
2003-04	40,578	73,413	1.81	45,201	81,083	1.79	-4,623	-7,670
2004-05	41,288	74,502	1.80	45,627	81,732	1.79	-4,339	-7,230
2005-06	44,021	79,387	1.80	46,497	82,940	1.78	-2,476	-3,553
2006-07	43,514	77,932	1.79	45,679	80,804	1.77	-2,165	-2,872
2007-08	44,158	77,921	1.76	48,586	84,154	1.73	-4,428	-6,233
2008-09	41,642	73,058	1.75	47,134	81,261	1.72	-5,492	-8,203
2009-10	37,306	65,248	1.75	44,215	76,801	1.74	-6,909	-11,553
2010-11	41,038	73,463	1.79	45,173	77,893	1.72	-4,135	-4,430
2011-12	45,359	81,566	1.80	48,009	86,162	1.79	-2,650	-4,596
2012-13	47,886	87,440	1.83	50,166	90,940	1.81	-2,280	-3,500
2013-14 †	43,997	79,797	1.81	48,772	88,318	1.81	-4,775	-8,521

† Preliminary

Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

**Net income loss totals \$7.6 billion from 1992 to 2014.** Adding together the gains and losses over the entire period covered by the IRS data, Minnesota lost a net of \$7.6 billion (2014 dollars) in income to other states between 1992 and 2014. This amounts to an average loss of \$346 million per year.

While \$7.6 billion is huge number, it likely understates the actual loss because most of the period only includes partial-year data. For the 2011-12 period, the IRS created data files under both the new and the old methodology

to assess their comparability.<sup>11</sup> As the IRS suspected, they found people with higher incomes disproportionately filed their taxes later in the year. For Minnesota, using the new full-year methodology for 2011-12 increased the state's net loss of income from \$337 million to \$490 million—a 45 percent increase.<sup>12</sup> It's reasonable to presume prior periods also understate the loss.

11 Pierce, *supra* note 3 at 2.

12 Email communication with Kevin Pierce, Internal Revenue Service, February 26, 2016.

Table 2. Movement of adjusted gross income in and out of Minnesota, 1992-2014 (thousands of \$2014)

Year	AGI In	Average AGI In	AGI Out	Average AGI Out	Net AGI
1992-93	\$2,116,302	\$50,946	\$1,852,257	\$50,492	\$264,045
1993-94	\$1,952,975	\$48,175	\$1,966,100	\$51,383	-\$13,126
1994-95	\$2,079,817	\$50,062	\$2,040,194	\$50,869	\$39,624
1995-96	\$2,199,306	\$52,213	\$2,261,636	\$56,387	-\$62,330
1996-97	\$2,267,926	\$53,973	\$2,658,466	\$61,238	-\$390,539
1997-98	\$2,379,431	\$54,992	\$2,857,868	\$63,495	-\$478,438
1998-99	\$2,747,186	\$59,395	\$2,989,987	\$68,949	-\$242,801
1999-00	\$2,723,415	\$58,086	\$3,200,979	\$73,132	-\$477,563
2000-01	\$2,889,517	\$62,023	\$3,160,365	\$69,889	-\$270,848
2001-02	\$2,549,459	\$58,626	\$2,886,097	\$61,952	-\$336,639
2002-03	\$2,293,994	\$55,734	\$2,695,623	\$59,580	-\$401,629
2003-04	\$2,240,975	\$55,226	\$2,658,070	\$58,806	-\$417,095
2004-05	\$2,235,680	\$54,148	\$2,665,057	\$58,410	-\$429,377
2005-06	\$2,448,649	\$55,625	\$2,881,456	\$61,971	-\$432,808
2006-07	\$2,462,958	\$56,602	\$2,851,136	\$62,417	-\$388,179
2007-08	\$2,509,116	\$56,821	\$2,925,577	\$60,214	-\$416,462
2008-09	\$2,263,341	\$54,352	\$2,513,393	\$53,324	-\$250,052
2009-10	\$1,800,180	\$48,254	\$2,202,190	\$49,806	-\$402,010
2010-11	\$2,045,512	\$49,844	\$2,412,621	\$53,408	-\$367,110
2011-12	\$2,390,637	\$52,705	\$2,880,275	\$59,994	-\$489,638
2012-13	\$2,857,187	\$59,666	\$3,554,280	\$70,850	-\$697,093
2013-14 †	\$2,472,027	\$56,186	\$3,416,301	\$70,046	-\$944,274
1992-14	\$51,925,590	\$54,878	\$59,529,930	\$60,570	-\$7,604,340

† Preliminary

Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

## V. Regional Migration Patterns

As Tables 1 and 2 clearly show, thousands of Minnesota households and hundreds of millions in income, on net, are now leaving Minnesota each year. So where are all these people and their money going?

**Minnesota gains income from the Midwest and Northeast.** The map shown in Figure 3 delivers a powerful visual for the movement of income to and from Minnesota between 2004 and 2014.<sup>13</sup>

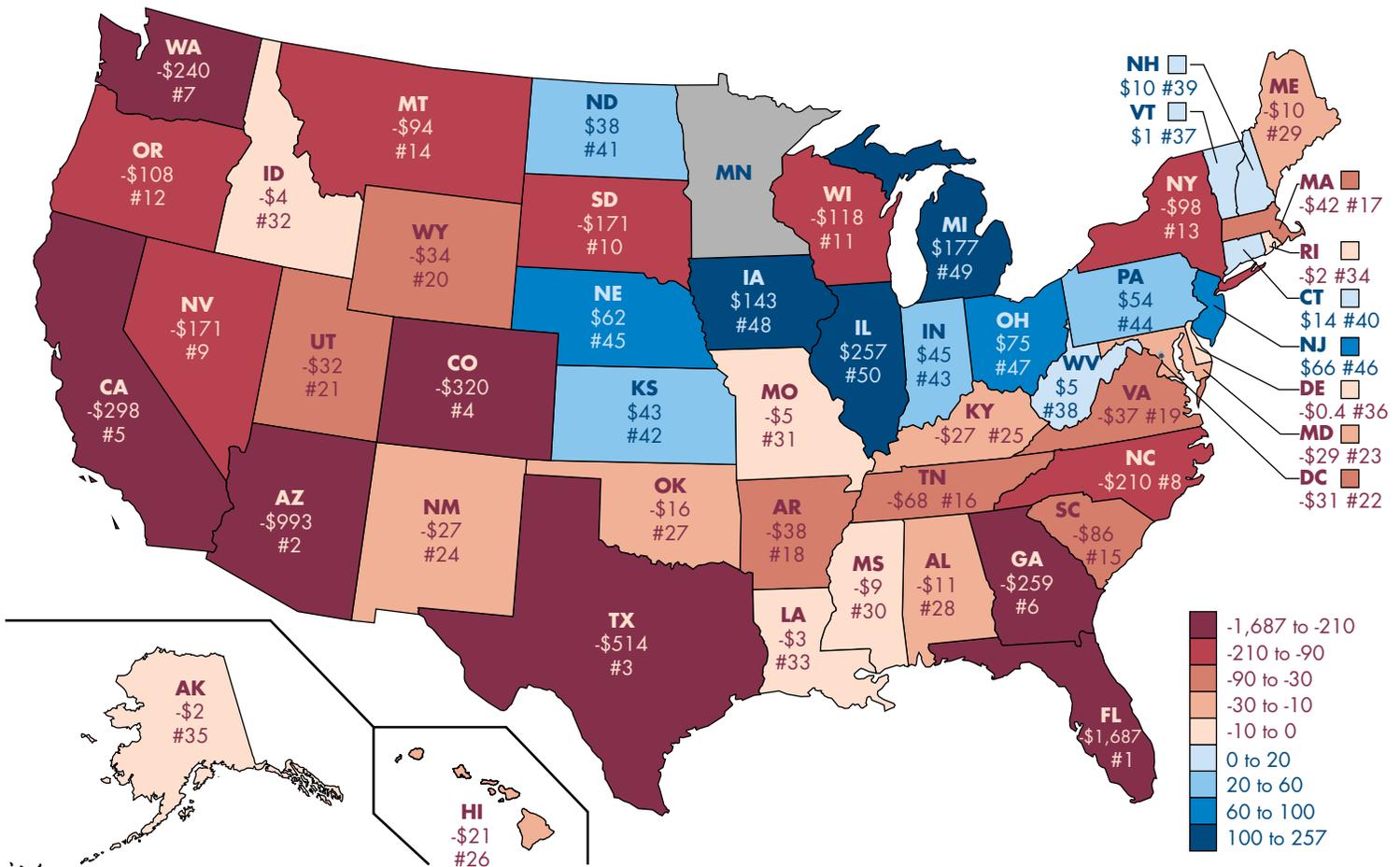
<sup>13</sup> This time period was chosen to show the most recent

Minnesota is losing income to the red states on the map and gaining income from the blue states. With only a few exceptions, Minnesota is gaining income from Midwestern and Northeastern states while losing income to Western and Southern states. Though Wisconsin is red on the map, a closer look at the county to county movement reveals Wisconsin would be blue if it weren't for Minnesotans moving to five border counties in

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movement of income over a long enough time frame to mitigate irregularities in migration patterns that can occur in any given year. For instance, New York's \$98 million loss during the period shown in the map is almost entirely due to a one-year \$96 million loss for the 2013-14.

Figure 3. Net movement of adjusted gross income to and from Minnesota by state, 2004-2014 (millions of \$2014)



Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

Wisconsin. Many moving across the border still work in the Twin Cities, which means a portion—and probably a very large portion—of this movement represents an expansion of the Twin Cities metro area.

**Minnesota loses far more income to the West and South than it gains from elsewhere.** Table 3 shows the top ten states receiving income from Minnesota and the top ten states contributing income to Minnesota. From here on these states will be called *receiving states* and *contributing states*, respectively. Nine of the top ten receiving states are in the West and South. Minnesota lost

\$4.9 billion in income to these states between 2004 and 2014. By comparison, all of the top ten contributing states are from the Midwest and Northeast. Minnesota gained just \$959 million from these states over the same period. Comparing the top states for loss and gain, the magnitude of the loss to Florida is over six times greater than the gain from Illinois.

Table 3. Top ten states receiving net income from Minnesota and top ten states contributing net income to Minnesota, 2004-2014 (thousands of \$2014)

From State	Returns In	Exemptions In	AGI In (\$1,000s)	Average AGI In	Returns Out	Exemptions Out	AGI Out (\$1,000s)	Average AGI Out	Net Returns In	Net Exemptions In	Net AGI In (\$1,000s)
Florida	19,008	32,961	\$1,267,388	\$66,677	27,536	48,696	\$2,954,284	\$107,288	-8,528	-15,735	-\$1,686,896
Arizona	14,560	25,857	\$853,143	\$58,595	21,691	37,967	\$1,845,913	\$85,100	-7,131	-12,110	-\$992,769
Texas	20,906	43,027	\$1,176,559	\$56,279	28,998	59,261	\$1,690,802	\$58,308	-8,092	-16,234	-\$514,243
Colorado	12,339	21,901	\$701,534	\$56,855	17,299	28,365	\$1,021,085	\$59,026	-4,960	-6,464	-\$319,551
California	29,051	53,332	\$1,848,415	\$63,627	34,741	57,388	\$2,146,752	\$61,793	-5,690	-4,056	-\$298,337
Georgia	7,245	14,388	\$416,928	\$57,547	9,150	18,121	\$676,058	\$73,886	-1,905	-3,733	-\$259,130
Washington	9,073	16,877	\$480,697	\$52,981	12,631	21,926	\$720,290	\$57,026	-3,558	-5,049	-\$239,593
North Carolina	6,852	13,333	\$375,388	\$54,785	8,726	16,851	\$585,279	\$67,073	-1,874	-3,518	-\$209,891
Nevada	4,533	8,121	\$220,746	\$48,698	5,921	9,718	\$391,594	\$66,137	-1,388	-1,597	-\$170,848
South Dakota	15,921	27,041	\$634,568	\$39,857	17,829	31,165	\$799,645	\$44,851	-1,908	-4,124	-\$165,077
North Dakota	34,714	57,645	\$1,484,169	\$42,754	37,060	59,195	\$1,446,371	\$39,028	-2,346	-1,550	\$37,798
Kansas	4,994	9,742	\$285,647	\$57,198	4,695	9,247	\$242,422	\$51,634	299	495	\$43,225
Indiana	6,925	13,689	\$385,998	\$55,740	6,028	11,651	\$341,035	\$56,575	897	2,038	\$44,964
Pennsylvania	6,085	11,397	\$478,461	\$78,630	6,022	11,037	\$424,780	\$70,538	63	360	\$53,681
Nebraska	6,734	12,832	\$352,487	\$52,344	5,960	11,430	\$290,530	\$48,747	774	1,402	\$61,957
New Jersey	4,524	8,518	\$373,729	\$82,610	3,686	6,575	\$308,157	\$83,602	838	1,943	\$65,572
Ohio	8,142	15,426	\$575,099	\$70,634	6,931	13,170	\$499,831	\$72,115	1,211	2,256	\$75,268
Iowa	24,650	43,048	\$1,171,438	\$47,523	21,940	40,743	\$1,028,367	\$46,872	2,710	2,305	\$143,071
Michigan	12,163	22,159	\$715,337	\$58,813	8,603	15,819	\$538,475	\$62,591	3,560	6,340	\$176,863
Illinois	26,354	49,392	\$1,660,307	\$63,000	24,036	41,759	\$1,403,361	\$58,386	2,318	7,633	\$256,946

Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

## VI. Who is Moving?

While it is important to know where people and income are moving, knowing who is moving also provides important insights into migration patterns. The new IRS Gross Migration File for the first time identifies tax filers who are moving to and from a state by age and income.

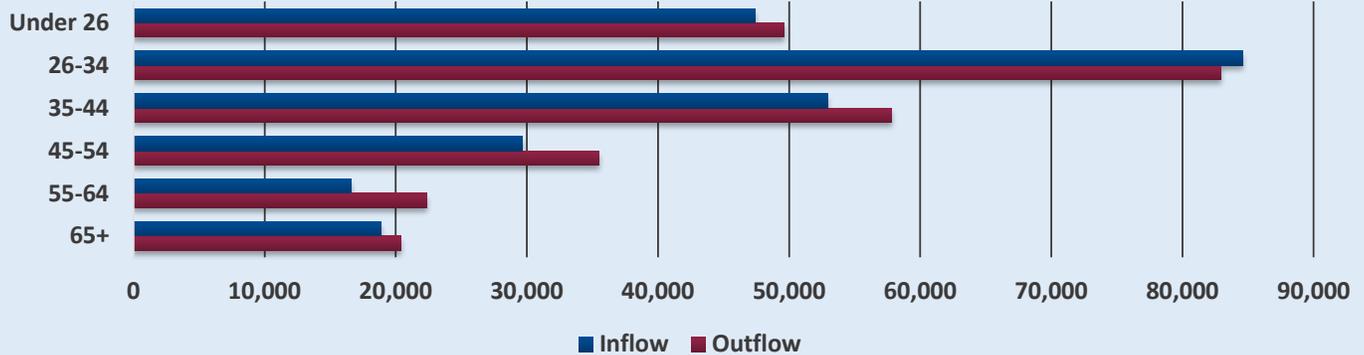
**The most active movers are young and low-income.** Figure 4 shows that younger and lower-income people represent the most active population moving to and from Minnesota. Between 2011 and 2014, people in households in which the primary taxpayer is younger than age 35 represent 49 percent of all people leaving the state and 53 percent of all returns coming to Minnesota. Looking at movement by income level, people in

households with incomes under \$50,000 represent 56 percent of people moving out of Minnesota and 60 percent of returns moving into the state.

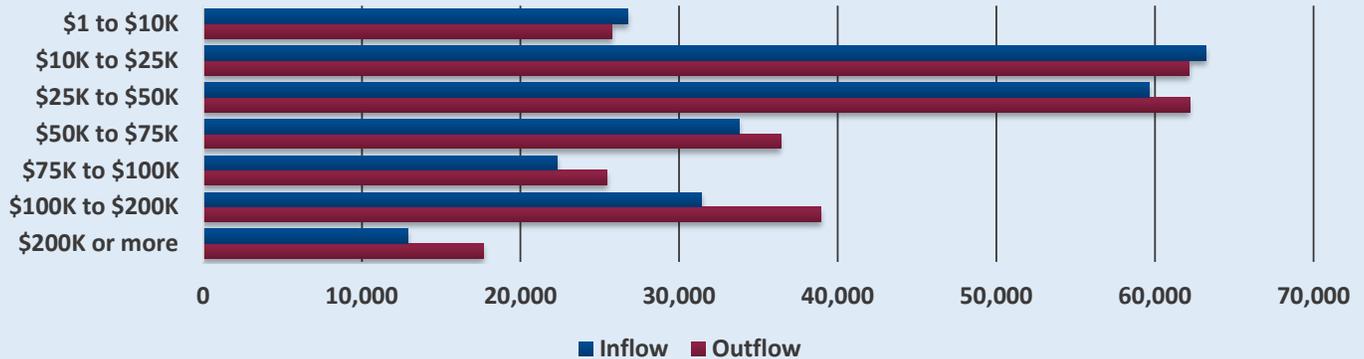
One of the largest subsets appears to be people moving for college, graduate school or a first job—people younger than 26 and with incomes below \$50,000. This is consistent with the conclusions of a recent report by the Minnesota state demographer, based on Census data. They found young adults were most responsible for Minnesota’s mobility and “[a]bout one-fifth of Minnesota’s new arrivals and one-fourth of our new leavers are students of higher education.”<sup>14</sup>

<sup>14</sup> Minnesota State Demographic Center, Minnesota On The Move: Migration Patterns & Implications (January 2015), available at <https://mn.gov/admin/images/mn-on-the-move-migration-report-msdc-jan2015.pdf>.

**Figure 4: Flow of Taxpayers and Dependents In and Out of Minnesota by Age of Primary Taxpayer, 2011 to 2014**



**Figure 5: Flow of Taxpayers and Dependents In and Out of Minnesota by Income of Primary Taxpayer, 2011 to 2014**



Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

The demographer also noted that the Census data suggest the number of students returning later in life “are far less than those exiting Minnesota during their college years,” which is consistent with the IRS data. Though the 26 to 34 age bracket did experience positive net migration in two of the three years reported, as shown in Figure 6, the net change fails to cover the losses from people departing for college.

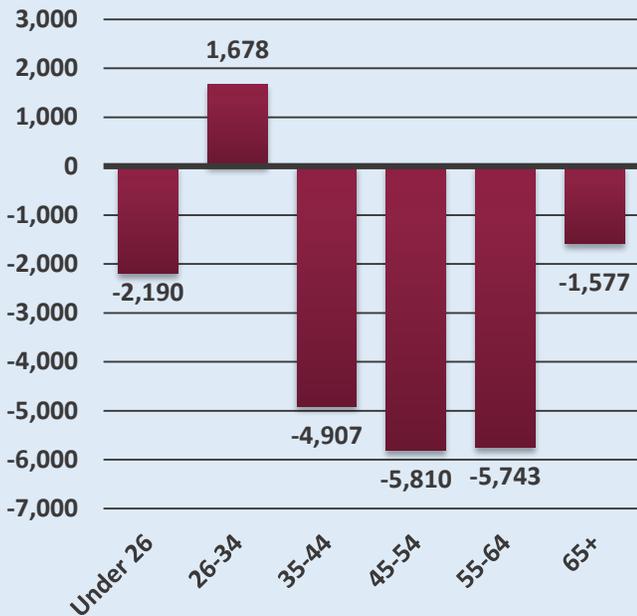
**Net losses of higher income people in their prime working years account for the largest net change in Minnesota’s population.** Despite being more active movers, households headed by young and lower-income Minnesotans represent a smaller portion of the net change in both population and income movement. Rather, the largest net change

comes from a net loss of people in households headed by taxpayers in their prime earning years and making higher incomes.

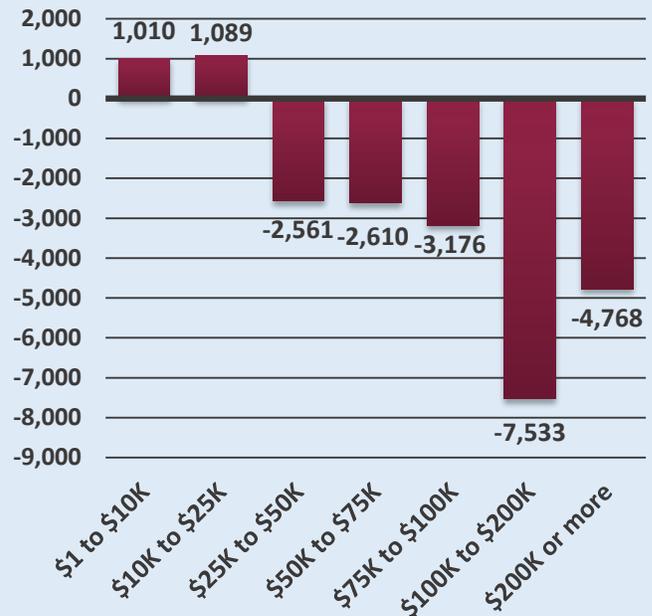
Between 2011 and 2014, as shown in Figure 6, households headed by 45 to 54 year olds represent the largest net loss of people. Minnesota lost 5,810 people from this age category and lost another 4,907 people from households headed by 35 to 44 year olds. These two age categories account for nearly 58 percent of the net loss for the 2011-14 period. Households headed by 55 to 64 year olds—many of whom are still in the workforce—account for another 31 percent (5,743) of the net loss of people.

Looking at Minnesota’s population change by

**Figure 6: Net Flow of Taxpayers and Dependents to Minnesota by Age of Primary Taxpayer, 2011 to 2014**



**Figure 7: Net Flow of Taxpayers and Dependents to Minnesota by Income of Primary Taxpayer, 2011 to 2014**



Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

income, Figure 7 shows the largest net change for the 2011 to 2014 period results from losses of people in higher income households. People in households earning \$100,000 to \$200,000 represent 41 percent (7,533) of the net loss and people in households earning more than \$200,000 represent another 26 percent (4,768) of the net loss.

Minnesota on net gained people living in lower-income households, adding another 2,099 people living in households earning less than \$25,000 between 2011 and 2014.

Overall, these migration patterns represent a troubling loss of Minnesota’s most productive citizens. Perhaps even more troubling, population losses from these households include children who might otherwise grow up to be the next generation of business owners and employees so critical to Minnesota’s future economic growth.

**Net loss in AGI is mostly attributable to top earners, but losses are still significant for other income levels.** Not surprisingly, Figure

8 shows income losses from high-income tax filers account for most of the net loss in AGI Minnesota experienced for 2013-14. 68 percent (\$682 million) of this loss in AGI is from tax filers with incomes larger than \$200,000 and another 17 percent (\$167 million) of the loss comes from people earning between \$100,000 and \$200,000. The remaining income categories account for 15 percent of the loss. Though just 15 percent, this still amounts to a substantial loss of \$149 million in AGI.

**Loss in AGI stems from both working-age and retirement-age people.** Before the IRS released the new Gross Migration File, some people dismissed Minnesota’s substantial yearly loss of AGI as a product of retirement patterns. Setting aside whether state policy can influence where Minnesotans retire, these new data show that 34 percent (\$343 million) of the net loss in AGI for 2013-14 is from working-age people between the ages of 35 and 54. Another 30 percent (\$298 million) of the net loss in AGI comes from people aged 55 to 64, most of whom are still active and



Note: The net losses reported here do not exactly match the incomes lost to domestic migration shown in Table 2 because the IRS Gross Migration File includes foreign migration and excludes tax payers who report negative income.

Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

thriving in their careers.<sup>15</sup> Altogether, working-age people under 65 account for 75 percent of the net loss in AGI for 2011-12, 86 percent for 2012-13 and 72 percent for 2013-14. These data confirm retirement is by no means the only or even the principal factor behind the large net loss in AGI Minnesota has been experiencing.

**Net migration rate shows Minnesota is generally not as attractive as the median state.** The new gross migration data can be used to compare a states' attractiveness to taxpayers by age and

income by calculating the net migration rate for returns, exemptions and AGI. The net migration rate shows how much population or income a state gains or loses relative to the state's population or income that existed at the start of the period.<sup>16</sup>

For the 2013-14 period, Minnesota's net migration rate performs below the median state across nearly every age and income range. Overall, the state's net migration rate for tax filers ranks 31st and the rate for AGI ranks 43rd. Across the age groups,

<sup>15</sup> Only 14.6 percent of 55 to 64 year olds report being retired in 2012-13. U.S. Department of Health and Human Services, *Health, United States, 2014* (May 2015).

<sup>16</sup> The IRS calculates the net migration rate by subtracting the number of out-migrants from the number of in-migrants and dividing this net amount by the sum of the nonmigrants and the out-migrants. Pierce *supra* note 3 at 3.

**Table 4. Net Income Migration Rate for Taxpayers Earning More than \$200,000**

Rank	2011-12		2012-13		2013-14	
1	FL	4.44%	ID	4.98%	FL	4.66%
2	SC	3.30%	NV	4.12%	SC	3.91%
3	NV	2.72%	HI	3.99%	NV	3.63%
4	WY	2.61%	SC	3.77%	HI	1.88%
5	HI	2.14%	MT	3.70%	AZ	1.67%
6	ME	1.63%	FL	3.46%	WY	1.64%
7	AZ	1.48%	AZ	2.47%	UT	1.55%
8	UT	1.34%	WY	1.81%	ID	1.49%
9	CO	1.24%	UT	1.36%	NH	1.45%
10	NC	0.96%	WA	1.29%	MT	1.33%
11	TN	0.58%	NH	1.24%	TN	1.00%
12	MT	0.54%	TX	1.20%	SD	0.84%
13	WA	0.51%	NC	1.11%	NC	0.78%
14	KY	0.40%	RI	1.03%	WA	0.75%
15	AL	0.39%	SD	0.82%	OR	0.75%
16	TX	0.27%	VT	0.75%	CO	0.68%
17	NM	0.09%	CO	0.63%	KS	0.56%
18	OK	0.04%	OR	0.43%	TX	0.54%
19	CA	0.00%	ME	0.35%	AR	-0.09%
20	IA	-0.12%	ND	0.16%	MA	-0.19%
21	LA	-0.12%	MO	0.04%	GA	-0.24%
22	NE	-0.24%	NM	0.01%	AL	-0.32%
23	OR	-0.35%	IA	-0.04%	NM	-0.36%
24	GA	-0.36%	KS	-0.06%	MO	-0.39%
25	MS	-0.40%	OK	-0.08%	LA	-0.44%
26	MI	-0.40%	TN	-0.09%	DE	-0.44%
27	ND	-0.48%	MS	-0.15%	AK	-0.46%
28	PA	-0.53%	AR	-0.17%	MI	-0.47%
29	NH	-0.54%	KY	-0.20%	OK	-0.52%
30	VA	-0.55%	AL	-0.21%	ME	-0.54%
31	NY	-0.58%	PA	-0.37%	WI	-0.62%
32	MA	-0.59%	IN	-0.39%	VA	-0.67%
33	IN	-0.60%	NJ	-0.52%	RI	-0.69%
34	AR	-0.64%	MA	-0.53%	IN	-0.69%
35	KS	-0.72%	VA	-0.53%	IA	-0.69%
36	MD	-0.75%	MI	-0.54%	MS	-0.75%
37	<b>MN</b>	<b>-0.79%</b>	WI	-0.56%	OH	-0.84%
38	WI	-0.84%	DE	-0.58%	PA	-0.85%
39	SD	-0.91%	NE	-0.67%	NY	-0.87%
40	OH	-1.00%	WV	-0.70%	CA	-0.89%
41	MO	-1.14%	CA	-0.72%	CT	-0.95%
42	NJ	-1.24%	OH	-0.75%	KY	-0.99%
43	RI	-1.24%	GA	-0.79%	WV	-1.00%
44	ID	-1.26%	LA	-0.86%	MD	-1.04%
45	AK	-1.34%	NY	-1.02%	ND	-1.13%
46	IL	-1.36%	<b>MN</b>	<b>-1.17%</b>	NE	-1.23%
47	VT	-1.75%	IL	-1.67%	<b>MN</b>	<b>-1.45%</b>
48	DC	-1.76%	MD	-1.78%	NJ	-1.56%
49	DE	-1.89%	CT	-1.83%	IL	-1.76%
50	WV	-2.51%	AK	-3.07%	VT	-1.84%
51	CT	-2.58%	DC	-4.08%	DC	-2.84%

Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

Minnesota net migration rate for households (returns) performs above the median for only the 26 to 34 year old age bracket. Despite this better performance, that age group’s net household migration rate is still negative. Similarly, Minnesota net migration rate for population (exemptions) and AGI performs below the median for nearly all income levels, and the AGI migration age categories where Minnesota does better than the median still register a negative rate.

Digging deeper into the data and sorting by both age and income does produce some categories with positive net migration rates. Unfortunately, these categories all represent low-income tax filers who are far more likely to place demands on state welfare programs than to make strong contributions to the workforce. For instance, Minnesota on net attracts 26- to 34-year old people with incomes under \$10,000.

**Minnesota loses top earners at a far higher rate than most states.** Minnesota’s net income migration rate ranks particularly low for top earners making more than \$200,000. People earning this level of income tend to be the entrepreneurs and job creators driving growth and innovation throughout the economy. Moreover, they also contribute a large share of state tax revenues through Minnesota’s highly progressive income tax.

Relative to other states, Minnesota is losing these top-earning taxpayers and their income at an alarming rate. Table 4 identifies and ranks each states’ net income migration rate for people earning more than \$200,000 for the 2011-12, 2012-13 and 2013-14 periods. Minnesota’s rate dropped from -0.79 percent for 2011-12 to -1.45 percent for 2013-14 and the state’s ranking dropped from 37th to 47th—ahead of only New Jersey, Illinois, Vermont and D.C. These data show that Minnesota is one of the least attractive states to top earners in the country.

Minnesota's consistent net loss of people and income to other states poses serious challenges to the state both today and into the future. Economic growth is currently constrained by a tight labor market, which, in part, is due to the state not attracting the people with the qualifications necessary to fill today's jobs. In the future, demographics will make workforce problems worse. With boomers retiring in growing numbers each year and with deaths projected to surpass births in the coming decades, Minnesota's future growth will depend on migration to fill jobs. Minnesota's economic future also depends on attracting entrepreneurs who will start and grow the state's next Fortune 500 companies. To keep Minnesota's economy growing it is imperative to understand why people are leaving and what can be done to reverse these migration flows.

## VII. Taxes Influence Migration

For most people, the decision to move is complicated. A number of factors influence the decision-making process, including school, family, retirement, better jobs, the great outdoors, the quality of government services, warmer climates, lower cost of living, cultural amenities, and so on. State tax rates are also a factor.

Economist Charles Tiebout is largely credited with originating the idea that people vote with their feet. In his seminal 1956 paper, Tiebout set forth a commonsense hypothesis that "the consumer-voter moves to that community whose local government best satisfies his set of preferences."<sup>17</sup> This hypothesis forms the basis for decades of ongoing research into whether the level of state and local government expenditures and revenues influence migration.

**Empirical studies generally find taxes do influence decisions to move.** Economist Mark Gius's review of the academic literature concludes

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17 Charles M. Tiebout, "A Pure Theory of Local Expenditures," *The Journal of Political Economy*, Vol. 64, No. 5 (October 1956): 416-24.

"most of the prior research found that taxes had a negative effect on migration; in other words, the lower the taxes in a person's home state, the less likely they will migrate."<sup>18</sup> To assess how taxes influence where the wealthy choose to live, recent research investigates the movement of highly paid athletes. These studies find star NBA basketball players and European footballers move to lower tax locations.<sup>19</sup> A similar study on star scientists likewise "uncover[s] large, stable, and precisely estimated effects of personal and corporate taxes on star scientists' migration patterns."<sup>20</sup> Another study on inventors finds that "superstar top 1% inventors are significantly affected by top tax rates when deciding where to locate."<sup>21</sup>

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18 Mark Gius, "The effect of income taxes on interstate migration: an analysis by age and race," *The Annals of Regional Science*, Vol. 46, No. 1 (February 2011): 205-18. See also Richard J. Cebula and Usha Nair-Reichert, "Migration and public policies: a further empirical analysis," *Journal of Economics and Finance*, Vol. 36 (2012): 238-48; Ira S. Saltz, "State income tax policy and geographic labour force mobility in the United States," *Applied Economic Letters* (1998): 599-601; Yu Hsing, "A Note on Interstate Migration and Tax Burdens: New Evidence," *Journal of Applied Business Research*, Vol. 12, No. 1 (1996), available at <http://cluteonline.com/journals/index.php/JABR/article/view/5831>; and David Clark and William Hunter, "The Impact of Economic Opportunity, Amenities and Fiscal Factors on Age-Specific Migration Rates," *Journal of Regional Science*, Vol. 32, Iss. 3 (Aug. 1992): 349-65.

19 Henrik Kleven, Camille Landais, and Emmanuel Saez, "Taxation and International Migration of Superstars: Evidence from the European Football Market." *American Economic Review*, Vol. 103, No. 5 (2013): 1892-1924; Nolan Kopkin, "Tax Avoidance: How Income Tax Rates Affect the Labor Migration Decisions of NBA Free Agents," *Journal of Sports Economics*, Vol. 13, No. 6 (December 2012): 571-601. Cf. James Alm, William H. Kaempfer, and Edward Batte Sennoga, "Baseball Salaries and Income Taxes: The 'Home Field Advantage' of Income Taxes on Free Agent Salaries," *Journal of Sports Economics*, Vol. 13, No. 6 (December 2012): 619-634.

20 Enrico Moretti and Daniel Wilson, "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists," Federal Reserve Bank of San Francisco Working Paper 2015-06 (February 2016).

21 Ufuk Akcigit, Salomé Baslandze, Stefanie Stantcheva, "Taxation and the International Mobility of Inventors," NBER Working Paper No. 21024 (March 2015).

Like most economic questions, there are some mixed findings in the research on the connection between taxes and migration. As William McBride—chief economist at the Tax Foundation—explains, “the economy is sufficiently complex that virtually any theory can find some support in the data.” For instance, dueling studies from economists affiliated with the Stanford Center on Poverty and Inequality and the New Jersey Department of Treasury come to opposite conclusions on the impact of New Jersey’s 2004 “millionaires’ tax” on migration.<sup>22</sup>

Putting aside this academic debate over New Jersey taxes, the weight of the empirical evidence shows taxes influence decisions on where to move. The IRS migration data adds convincingly to the evidence that taxes do matter.

**IRS data show that Minnesotans tend to move to low tax states.** A review of the tax policies of the top ten states receiving income from Minnesota with the top ten states contributing income to Minnesota shows Minnesota tends to lose income to low tax states and gain income from high tax states.

Table 5 compares the state and local tax burden as measured by the Tax Foundation for the top ten receiving states and the top ten contributing states. These data show Minnesota tends to

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<sup>22</sup> Compare Cristobal Young and Charles Varner, “Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment,” *National Tax Journal*, Vol. 64 (June 2011): 255-84; and Cristobal Young and Charles Varner, “A Reply to ‘A Replication of ‘Millionaire Migration and State Taxation of Top Incomes Evidence from a Natural Experiment’ (National Tax Journal 2011),” *Public Finance Review*, Vol. 43, No. 2 (March 2015): 226-34 with Roger Cohen, Andrew Lai, and Charles Steindel, “Tax Flight Has Tangible Effects On Income Tax Revenue,” *State Tax Notes* (February 20, 2012): 617-622; and Roger Cohen, Andrew Lai, and Charles Steindel, “A Replication of ‘Millionaire Migration and State Taxation of Top Incomes Evidence from a Natural Experiment’ (National Tax Journal 2011),” *Public Finance Review*, Vol. 43, No. 2 (March 2015): 206-25. See also Antony Davies and John Pulito, “Tax Rates and Migration,” Mercatus Center Working Paper No. 11-31 (August 2011).

receive people and income from higher tax states and contribute people and income to lower tax states. Eight of ten receiving states are in the top half of the tax burden rankings, while seven of ten contributing states are in the bottom half of the rankings.

Notably, five of the top ten receiving states impose no income tax. All of the top ten contributing states do impose an income tax. These migration patterns strongly suggest that people pay close attention to these income tax rates when deciding where to live.

These patterns are corroborated by data from the Tax Policy Center. Table 5 compares state and local revenue as a percent of personal income, a measure the Tax Policy Center reports each year directly from U.S. Census Bureau data. These data reveal a very similar pattern to the state and local tax burden estimated by the Tax Foundation. This isn’t surprising, considering they start from similar data sources. The difference is that the Tax Foundation makes adjustments to account for the significant amount of shifting of the tax burden that occurs across states and across groups.<sup>23</sup>

The Tax Foundation also publishes a state business tax climate index. The better states for business should be creating the jobs and opportunities that attract residents. If the index is tracking the right things, then people and income should generally move to the top ranked states, which is what Table 5 shows. Four of the top ten states receiving people and income from Minnesota ranked in the top ten on the index.

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<sup>23</sup> For instance, the Tax Foundation accounts for the fact that businesses can shift taxes to employees in the form of lower wages and to consumers in the form of higher prices. The Minnesota Department of Revenue makes similar adjustments when estimating the tax incidence by income level. For a full explanation of the Tax Foundation’s methodology, see Gerald Prante, “Tax Foundation State and Local Tax Burden Estimates for 2008: An In-Depth Analysis and Methodological Overview,” Tax Foundation Working Paper No. 4 (Aug. 7, 2008), available at <http://taxfoundation.org/sites/taxfoundation.org/files/docs/wp4.pdf>.

Table 5. Top state income tax rates, tax burden, state and local tax revenue as a percent of personal income, business tax climate and January average daily mean temperature for the top ten states receiving net income from Minnesota and top ten states contributing net income to Minnesota

State	Net AGI Into MN (\$1,000s)	Top State Income Tax Rate 2014 <sup>a</sup>	State and Local Tax Burden, 2012 <sup>b</sup>	Rank	State and local tax revenue as a percent of personal income, 2013 <sup>c</sup>	Rank	State Business Tax Climate Rank, 2016 <sup>d</sup>	January Average Mean Temperature Index, 1971-2000 <sup>e</sup>
Florida	-\$1,686,896	0.00%	8.93%	17	7.15%	2	4	58.09
Arizona	-\$992,769	4.54%	8.85%	15	9.13%	25	24	42.27
Texas	-\$514,243	0.00%	7.58%	5	8.15%	11	10	45.63
Colorado	-\$319,551	4.63%	8.91%	16	8.12%	10	18	23.71
California	-\$298,337	12.30%	10.95%	46	9.36%	30	48	45.14
Georgia	-\$259,130	6.00%	9.14%	19	8.79%	20	39	45.77
Washington	-\$239,593	0.00%	9.27%	23	8.39%	13	12	31.47
North Carolina	-\$209,891	5.80%	9.75%	31	8.60%	15	15	39.97
Nevada	-\$170,848	0.00%	8.11%	8	8.11%	9	5	30.43
South Dakota	-\$165,077	0.00%	7.09%	2	8.83%	21	2	16.11
North Dakota	\$37,798	3.22%	9.02%	18	9.30%	27	26	7.90
Kansas	\$43,225	4.80%	9.50%	28	8.78%	19	22	28.77
Indiana	\$44,964	3.30%	9.54%	29	8.09%	7	8	26.03
Pennsylvania	\$53,681	3.07%	10.19%	36	9.34%	29	32	25.78
Nebraska	\$61,957	6.84%	9.23%	21	8.93%	23	27	22.73
New Jersey	\$65,572	8.97%	12.21%	49	9.33%	28	50	30.62
Ohio	\$75,268	5.39%	9.78%	32	8.10%	8	42	26.50
Iowa	\$143,071	8.98%	9.20%	20	9.56%	32	40	17.84
Michigan	\$176,863	4.25%	9.40%	26	10.61%	44	13	18.87
Illinois	\$256,946	5.00%	10.99%	47	9.59%	33	23	24.58
Minnesota		9.85%	10.85%	44	10.32%	10	47	7.94

a Tax Policy Center, Individual State Income Tax Rates 2000-2015 (Feb. 16, 2015), available at <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=406>.

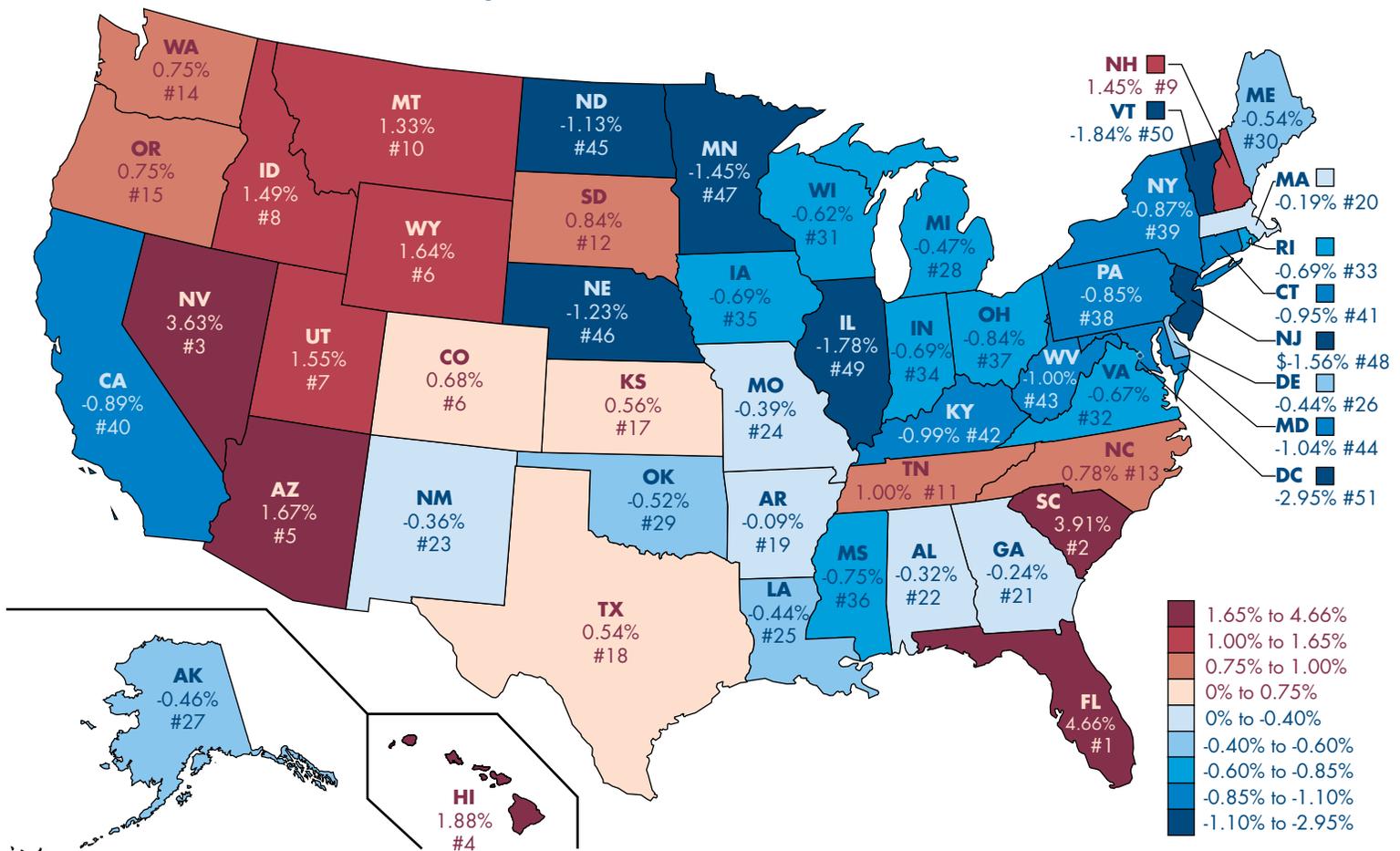
b Tax Foundation, State and Local Tax Burdens: All States, One Year, 1977 - 2012 (January 20, 2016), available at <http://taxfoundation.org/article/state-and-local-tax-burdens-1977-2012>.

c Tax Policy Center, State and Local Tax Revenue as a Percentage of Personal Income, Selected Years 1977-2013, available at <http://www.taxpolicycenter.org/taxfacts/listdocs.cfm?topic2id=90>.

d Tax Foundation, 2016 State Business Tax Climate Index (November 17, 2015), available at <http://taxfoundation.org/article/2016-state-business-tax-climate-index>.

e National Oceanic and Atmospheric Administration, U.S. Department of Commerce, Average Mean Temperature Index by month, 1971-2000, available at <http://www.esrl.noaa.gov/psd/data/usclimate/tmp.state.19712000.climo>.

Figure 10: Net Income Migration Rate of Taxpayers Earning More Than \$200,000, 2013-14



Source: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data.

Together, the lower tax burden, lack of an income tax, and high ranking on the state business tax climate index for most of the top receiving states strongly suggest that taxes make a difference in where people and their incomes are moving.

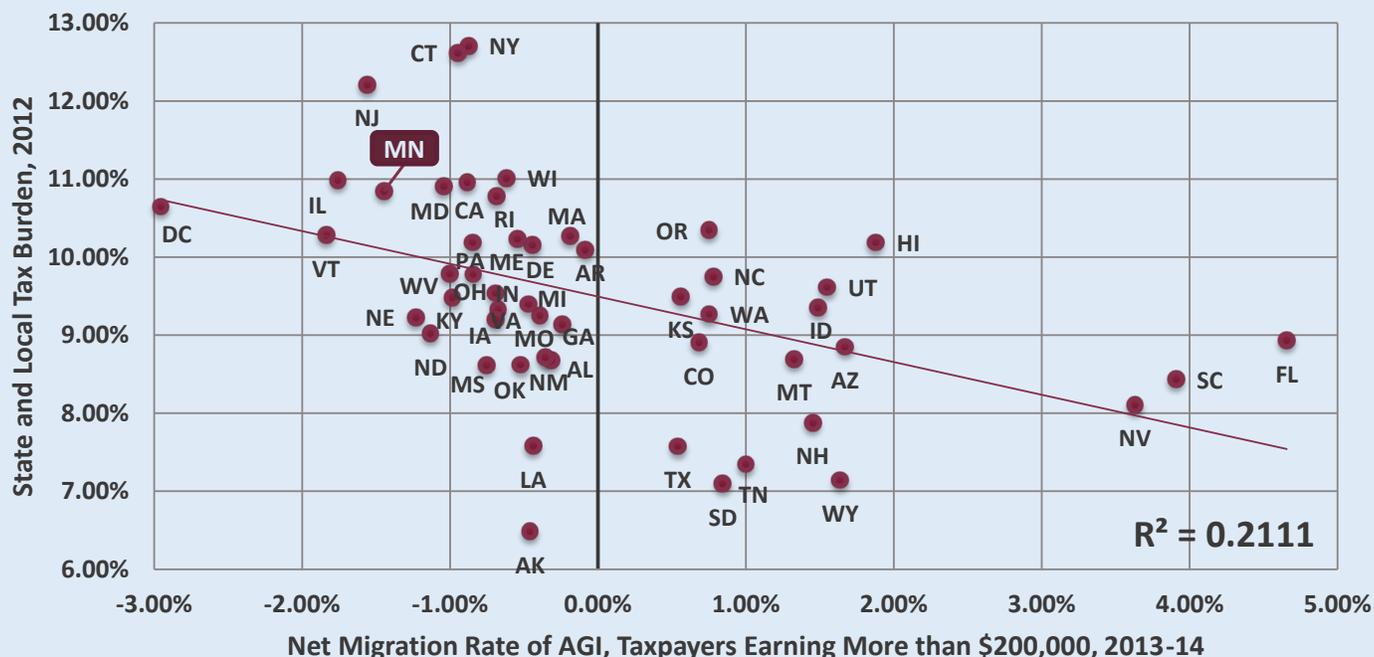
**The net loss of Minnesota income increased substantially after the 2013 tax hikes.** The IRS data show a substantial increase in the net loss of income immediately after Minnesota’s DFL legislature and Gov. Mark Dayton raised taxes in 2013. During the 2013 legislative session, DFLers voted to raise the income tax rate on top earners—single filers earning \$150,000 and married filers earning \$250,000—from 7.85 percent to 9.85 percent. The tax increase took immediate effect

for the 2013 tax year and gave Minnesota the 4th highest top income tax rate in the country.

In the wake of this tax hike, the net loss in AGI rose to nearly \$1 billion for 2013-14 from \$490 million for 2011-12. As previously noted, this \$1 billion loss is well above anything Minnesota has experienced since the IRS started measuring income migration.<sup>24</sup> These larger income losses

<sup>24</sup> Though the IRS data predating the 2011-12 period is not directly comparable to the most recent data, the nearly \$1 billion loss of AGI in just one year is well above anything Minnesota has ever experienced. Recall the IRS found the new full-year methodology resulted in a 45 percent higher net loss in AGI for Minnesota for 2011-12. Increase Minnesota’s largest annual net loss in AGI under the old methodology—\$478 million for 1997-98—by 45 percent

**Figure 11: Tax Burden vs. Net AGI Migration Rate for Top Earners**



Sources: Internal Revenue Service, Statistics of Income Division, U.S. Population Migration Data; Tax Foundation, State and Local Tax Burdens: All States, One Year, 1977 - 2012 (January 20, 2016).

dropped the state’s net migration rate to one of the worst in the country, especially for top earners as shown in Table 4.

This unprecedented loss of AGI coming immediately after Minnesota’s legislature raised taxes is no coincidence. Minnesota financial advisors experienced an immediate uptick in requests from clients inquiring about how to move their residence. The Minnesota Society of Certified Public Accountants surveyed its members after the 2013 tax increase and found that “more than 86 percent of respondents said clients had asked for advice regarding residency options and moving from Minnesota.”<sup>25</sup> Ninety-one percent said the number of clients asking about moving

increased from previous years.

**High tax states nationwide show similar migration patterns.** Taxpayers with the highest incomes, of course, have the largest incentive to move to low tax states to avoid taxes. Analysis of income migration for top earners across the nation shows a clear national pattern of movement out of higher tax states and into lower tax states. The map in Figure 10 shows net income migration rates of taxpayers earning more than \$200,000 for the 2013-14 period. It shows which states are proportionally gaining and losing the most income in proportion to their size. The red states reflect the net gaining states and the blue states reflect the net losing states.

and the loss amounts to \$693 million, which is far from the nearly \$1 billion lost for 2013-14.

25 Minnesota Society of Certified Public Accountants, “Survey says: CPAs, clients concerned over tax climate,” MNCPA Legislative Digest (December 2013/January 2014), available at <http://www.mncpa.org/publications/foot-note/2013-12/clients-concerned-over-tax-climate.aspx>.

One fact immediately stands out in the map. The low tax states in each region tend to attract top-earner income, including New Hampshire in the Northeast, South Dakota in the Midwest, Nevada in the West, and Tennessee and South Carolina in the South. Except for South Carolina, these are all states with no income tax.

The top and bottom ranked states for net top-earner income migration are also linked to the top and bottom ranked states for tax burden. Five states among the top ten states gaining income from top earners are also among the ten states with the lowest tax burdens. Similarly, five of the ten states with the highest rate of income loss from top earners also rank among the states with the ten heaviest tax burdens.

Recall from the map in Figure 3 that Minnesota, on net, lost substantial income to a few high tax states, such as California, New York, Wisconsin and Maryland. While these high tax states might attract Minnesota income, Figure 10 shows these states, on net, still lose top-earner income.

Plotting the migration rate of income for top earners against state tax burdens brings the connection between migration and taxes into clearer view. Because the decision to move generally involves weighing a number of factors, no single factor will likely show a strong correlation when plotted on a chart. The other factors create too much noise. Nonetheless, Figure 11 does show a relationship between a state's net income migration for top earners and a state's tax burden. It is significant that this level of correlation rises above the noise of all the other factors driving decisions to move.

## VIII. Conclusion

Minnesota lawmakers are now considering whether to use the state budget surplus to cut taxes. The question is: Would lower taxes motivate more people and their incomes to stay in or move to Minnesota? After taking a close look at who moves and where, the answer is yes. IRS data reviewed in this report show that Minnesota is consistently losing the battle to attract people and income to the state. Year after year, the state on net loses thousands of people and hundreds of millions of dollars in income to migration. These consistent losses demonstrate

Minnesota is not competing well with other states. That fact should be worrisome to every Minnesotan.

This pattern is repeated in other high tax states across the country, including California, and these consistent patterns deliver strong evidence for a link between taxes and domestic migration patterns.

The link is easy to understand. Lower tax rates can motivate people to move for a number of reasons. Of course, lower tax rates allow people to keep more of their income. Lower taxes also reward those who work more, which increases individual work effort and overall economic activity in the state. Perhaps most important, lower taxes on businesses make a state a more attractive place to locate and grow. More business growth creates more jobs, and jobs are clearly one of the main factors that motivate people to move.

If Minnesota is to compete to retain and attract the high quality employees necessary to grow the economy, these IRS data demonstrate the state should follow the lead of lower tax states and reduce the tax burden. ■

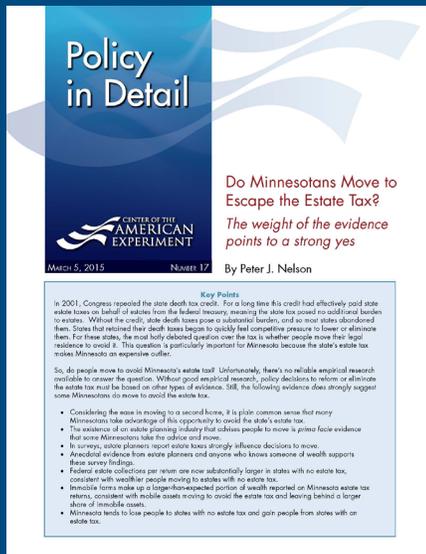


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**Policy  
in Detail**

Do Minnesotans Move to  
Escape the Estate Tax?  
*The weight of the evidence  
points to a strong yes*

By Peter J. Nelson

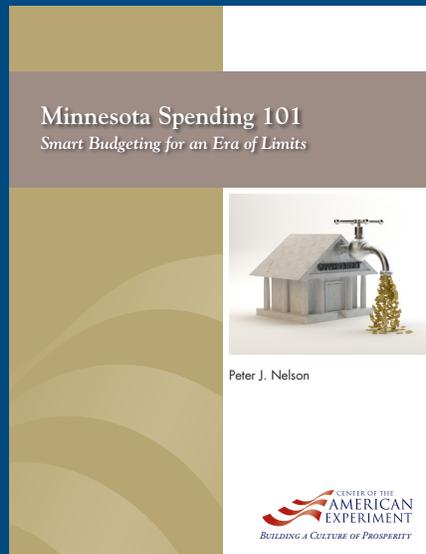
March 5, 2015 November 17

**Key Points**

In 2001, Congress repealed the state death tax credit. For a long time this credit had effectively paid state estate taxes on behalf of estates from the federal treasury, meaning the state tax posed no additional burden to estates. Without the credit, state death taxes pose a substantial burden, and in most states abandoned them. States that retained their death taxes began to quickly feel competitive pressure to lower or eliminate them. For three states, the most hotly debated question over the tax is whether people move their legal residence to avoid it. This question is particularly important for Minnesota because the state's estate tax makes Minnesotans an expensive outlier.

So, do people move to avoid Minnesota's estate tax? Unfortunately, there's no reliable empirical research available to answer the question. Without good empirical research, policy decisions to reform or eliminate the estate tax must be based on other types of evidence. Still, the following evidence does strongly suggest some Minnesotans do move to avoid the estate tax.

- Considering the ease in moving to a second home, it is quite common sense that many Minnesotans take advantage of the opportunity to avoid the state estate tax.
- The existence of an estate planning industry that advises people to move is prima facie evidence that some Minnesotans take the advice and move.
- In surveys, estate planners report estate taxes strongly influence decisions to move.
- Anecdotal evidence from estate planners and anyone who knows someone of wealth supports these survey findings.
- Federal estate collections per return are now substantially larger in states with no estate tax, consistent with wealthy people moving to states with no estate tax.
- Immovable forms make up a larger-than-expected portion of wealth reported on Minnesota estate tax returns, consistent with mobile assets moving to avoid the estate tax and leaving behind a larger share of immovable assets.
- Minnesota tends to lose people to states with no estate tax and gain people from states with an estate tax.



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September 18, 2014

**ALIGNING TAXES  
WITH ECONOMIC  
GROWTH**

John Spry

**EXECUTIVE SUMMARY**

**The Problem**  
Understanding the problems with Minnesota's tax code first requires an understanding of the principles that should guide the state's tax policy. Sound tax policy should promote three core principles: economic efficiency and growth, equal taxation of equally situated people, and simplicity. These principles generally favor low tax rates levied on a broad tax base.

**The basic problems with Minnesota's tax code is that it fails to follow these principles. Instead of low tax rates, Minnesota's personal income, sales, and corporate tax rates are among the highest in the nation. The state boasts the 2nd highest personal income tax rate on the bottom bracket, 4th highest personal income tax rate on the top bracket, 7th highest sales tax rate, and 1st highest corporate income tax rate. These high tax rates are levied on a narrow base, certainly a narrower base than if Minnesota followed sound tax policy principles.**

High tax rates coupled with a narrow tax base damage Minnesota's economy as taxpayers change their behavior. The state's high tax rates discourage work, discourage investment in education and on the job training, discourage entrepreneurial risk-taking, encourage rearranging the timing of financial transactions, encourage publicly financed and less productive investments, and increase the cost of raising revenue.

A tax system with low tax rates and a broad tax base minimizes these economic distortions. With minimal distortions, economic decisions allocate resources to their most productive use. Economists agree this increases the total size of the economic pie. In the simplest terms, the obvious damage then from Minnesota's high tax rates is a smaller economic pie for the entire economy.

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FOR ECONOMIC GROWTH

John A. Spry is an assistant professor in the Private Enterprise of the University of St. Thomas, St. Thomas, MN, is assistant at St. John's University, and at M.A. and Ph.D. in economics at the University of Waterloo. He works as a consultant and has co-authored the Minnesota Tax Expectations Report for the Minnesota Department of Revenue. He was a member of the Minnesota Governor's 21st Century Tax Reform Commission.

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612-338-3605  
612-338-3621 (fax)  
AmericanExperiment.org  
Info@AmericanExperiment.org