

Understanding the Impact of State Taxes on Interstate Migration

Idea for Future Research

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One important political factor when deciding on the overall level of taxation in a state is the fear that setting taxes too high will cause people to move to other states. Oftentimes, the general out migration from high tax states in the North and Northeast over to the lower tax states of the South and Southwest is cited as evidence that high taxes really are driving more people to move to lower tax states. Practically, however, it is important to point out that these low tax states in the South and Southwest also have much better weather and a lower cost of living than the high tax states in the North and Northeast, so these factors could provide another explanation for this overall trend in interstate migration.

One of my ideas for future research is to use the IRS dataset on interstate migration to tease out whether people are moving to other states because of high state taxes or because of other reasons like weather or cost of living. I have developed four specific tests to see which is the more likely explanation. The first test would estimate a linear regression for net migration in the 50 states against taxes alone, and then add in variables for weather and cost of living to see if the connection between taxes and net migration is robust to adding other controls. The second test would look at net migration flows between every possible state pair combination to see if people move from high tax states to low tax states in general, and whether they move from high tax states to low tax states even when there is no weather or cost of living advantage.

The third test to see if it is taxes or weather driving interstate migration patterns is to look at population levels and net migration in counties on each side of a state border. In this test, you identify counties that fall on a state border and then classify whether they are on the high tax side of the border or on the low tax side of the border, and then compare the overall levels of population and net migration in these border counties to their counterparts on the other side of the border. Presumably, since counties on one side of the state border have similar weather patterns and cost of living to those on the other side of the state border, this would allow us to see if state taxes have a powerful impact on interstate migration while effectively controlling for the impact of weather and overall cost of living.

The fourth test would basically do an event study by identifying the seventeen states that enacted the largest tax cuts over the last 30 years and then analyze how interstate migration for those states responded as a result. Again, by looking at the same states over different periods of time, you could isolate the impact of changes to state taxes while eliminating the effects of any broader population flows due to underlying weather or cost of living reasons. This would also reveal how much of an impact any change to state taxes would likely have, since you could see the effects of the largest tax decreases over time.

This paper would add to the growing literature on the impact of taxes on interstate migration patterns by providing some new techniques for estimating the relative effects of state taxes compared to the overall contribution of weather or cost of living differences. In particular, it would identify the impact on the broader population rather than just focusing on high income individuals or the elderly, which has been the focus for many of the papers already completed in the literature. As a result, completing this paper would give us some new insights into the overall policy question at hand and because of its rigorous empirical approaches would yield interesting results for policymakers to look to for guidance.