Policy Matters Ohio

Tax Policy
March 2013

The Tax Flight Myth

People move for jobs, housing, family – not taxes

Key findings
Do states that lower their income taxes attract or retain more people? **No**
What would be the net result of the plan to reduce taxes and state revenue? **More people would leave**
Why do people move? **Jobs, affordable housing, good pay, family**
Do taxes matter? **Too little to be measured**
Will reducing Ohio's income tax keep people in Ohio? **No**

Reducing state income taxes will have no discernible impact on whether people move into or out of the state. Ohio Gov. John Kasich's fiscal year 2014-15 budget proposes a 20 percent reduction in income tax rates over a three-year period and a tax cut for certain business income. This reduces revenue in the state budget. The whole tax package, on average, would slash taxes for Ohio's wealthiest by more than $10,000 each and slightly increase taxes for middle-income and poor households

In proposing the income tax reduction, the Kasich administration cited one rationale as reducing out-migration of households, referring to study findings that personal income taxes "encourage out-migration from a state." Policy Matters worked with the Political Economy Research Institute at the University of Massachusetts-Amherst to conduct an in-depth analysis of the relationship between taxes, other economic issues, and interstate migration for Ohio and surrounding states and for the nation as a whole. We found that for Ohio and surrounding states, employment and unemployment have the largest impact on interstate migration. When employment rises, migration to Ohio rises. By contrast, income taxes had no discernable relationship to migration.

We modeled what would happen if Ohio raised its income tax by one standard deviation or 1.9 percentage points across all income levels. We found that even this large across-the-board tax increase, far exceeding the magnitude of the proposed cuts, would not have a statistically significant effect on migration in the Ohio region. By contrast, similarly sized changes in unemployment insurance claims, housing affordability, or property crime have statistically significant effects on migration patterns.

After entrants and exiters are considered, we found that these other variables had a measurable effect. When unemployment claims rise one standard unit, more than 10,000 people leave or don't come to the state. A one-standard-unit rise in property crime repels or sends away more than 5,000 people. A one-standard-unit employment increase lures nearly 1,000 people to Ohio on net. And a one-standard-unit increase in housing affordability attracts more than 2,000 people on net. By contrast, changes in capital gains taxes or income taxes have no measurable effect.

We also modeled the effects of the state receiving $487 million less in revenue, the low end of the Kasich administration's estimate of how much less the state would collect in 2016 as a result of proposed tax changes. This reduction would cause a small but statistically significant number of residents to move out of the state. If the public sector reduced employment or did not hire when it otherwise would have, population loss could be higher. If the $487 million in cutbacks results in a loss of 7,300 jobs, the net impact would be a population loss of more than 1,000 residents. If jobs lost were in law enforcement or other sectors that could lead to higher property crime, then it might cause even more net out-movement.

Other research completed for this report, found:

- Just 1.6 percent of American households moved from one state to another in 2010;
- Households are most likely to move if they are unemployed, in their 20s, at the beginning of their careers, and don't have children. Married adults, homeowners, and those over age 40 are much less likely to move;
- The four main reasons Americans between the ages of 30 and 64 cited for moving were jobs (36 percent), family (22 percent), housing (28 percent), and quality of life (8 percent). Together, about 93 percent of Americans cite at least one of these four variables. Americans also cite college, retirement, and natural disasters more frequently than taxes;
- The seven states to which Ohio lost the most households in 2011 – Florida, Kentucky, Texas, Indiana, Pennsylvania, California and Michigan – were also the seven states from which it gained the most households. More people came to Ohio from Florida than any other state. Five of these seven states have income taxes, some with top rates that exceed Ohio's.

Taxes pay for services, so higher tax rates often mean better schools, universities, parks, libraries, safety services, child care or elderly care. These factors can improve quality of life, career prospects, or a financial bottom line – services like education or elderly care are worth far more than would be saved on taxes by living in a lower-tax community.

In short, even large increases in income taxes do not lead to measurable changes in migration in the Ohio region. But adequate revenue is essential to creating a state economy with excellent schools, universities, worker training and infrastructure. If we want a prosperous state, we should start by determining what we need to provide to businesses, students, workers and families, and then put in place the tax structure that most fairly and sufficiently provides those public goods. An adequate income tax is a crucial part of that structure.