

Minnesotans on the Move to Lower Tax States

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Executive Summary

A new Center of the American Experiment report investigates an important question: Does state tax policy motivate people to leave or avoid Minnesota? Analysis of IRS income migration data reveal clear patterns of movement away from Minnesota and to lower tax states, which strongly suggest that taxes make a difference in where people and their incomes are moving. The implications for proposals to raise Minnesota tax rates is clear: Higher taxes will likely lead to even more wealth moving to other states.

On net, Minnesota loses thousands of people and their income each year to other states. Between 1995 and 2010, an average of \$340 million in income—based on 2010 dollars—moved each year from Minnesota to other states. **In total, more than \$5 billion moved from Minnesota over those 15 years.** The growth in adjusted gross income (AGI) in 2010, the most recent year for which data is available, would have been 5.3 percent higher if there had been no net loss in income. Year after year, the cut in the growth of aggregate AGI in Minnesota compounds to a substantial loss.

Where are Minnesota households and income moving? With only a few exceptions, **Minnesota is losing income to Western and Southern** states while gaining income from Midwestern and Northeastern states. The map on the next page delivers a powerful visual of the movement of income to and from Minnesota between 2005 and 2010. Minnesota is losing income to the orange states on the map and gaining income from the purple states.

The role taxes play in the decision to move. People move from state to state for all sorts of reasons. The data here strongly suggest that state tax policies impact decisions to move. The IRS data reveal a clear pattern, **Minnesota tends to receive people and income from higher tax states and contribute people and income to lower tax states.** The table on the next page 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. Nine of ten receiving states are in the bottom half of the tax burden rankings, while eight in ten of the contributing states are in the top half of the rankings.

This movement cannot be fully explained by retirees and weather. First, many of the leading destination cities are economic centers, not retirement centers. Second, as migration and retirement slowed during the Great Recession, Minnesota continued to lose substantial income to low-tax states in the South and the West that are not the locus of retirement. Third, analyses of the movement of income to and from other states show similar patterns of movement from high tax states and to low tax states. And fourth, a nationwide analysis of the last year of IRS data show a very clear pattern of movement from higher tax states to lower tax states.

The data presented here show first and foremost that Minnesota is consistently losing the battle to attract people and income to the state. **The migration patterns are very convincing. Taxes do impact decisions to move.** If Minnesota is to continue to compete and prosper, the state should follow the lead of lower tax states and, at the very least, not raise taxes. Though it's hard to see Minnesota following Texas, Minnesota should look to Colorado or Washington—two “blue” states with much more competitive tax systems.

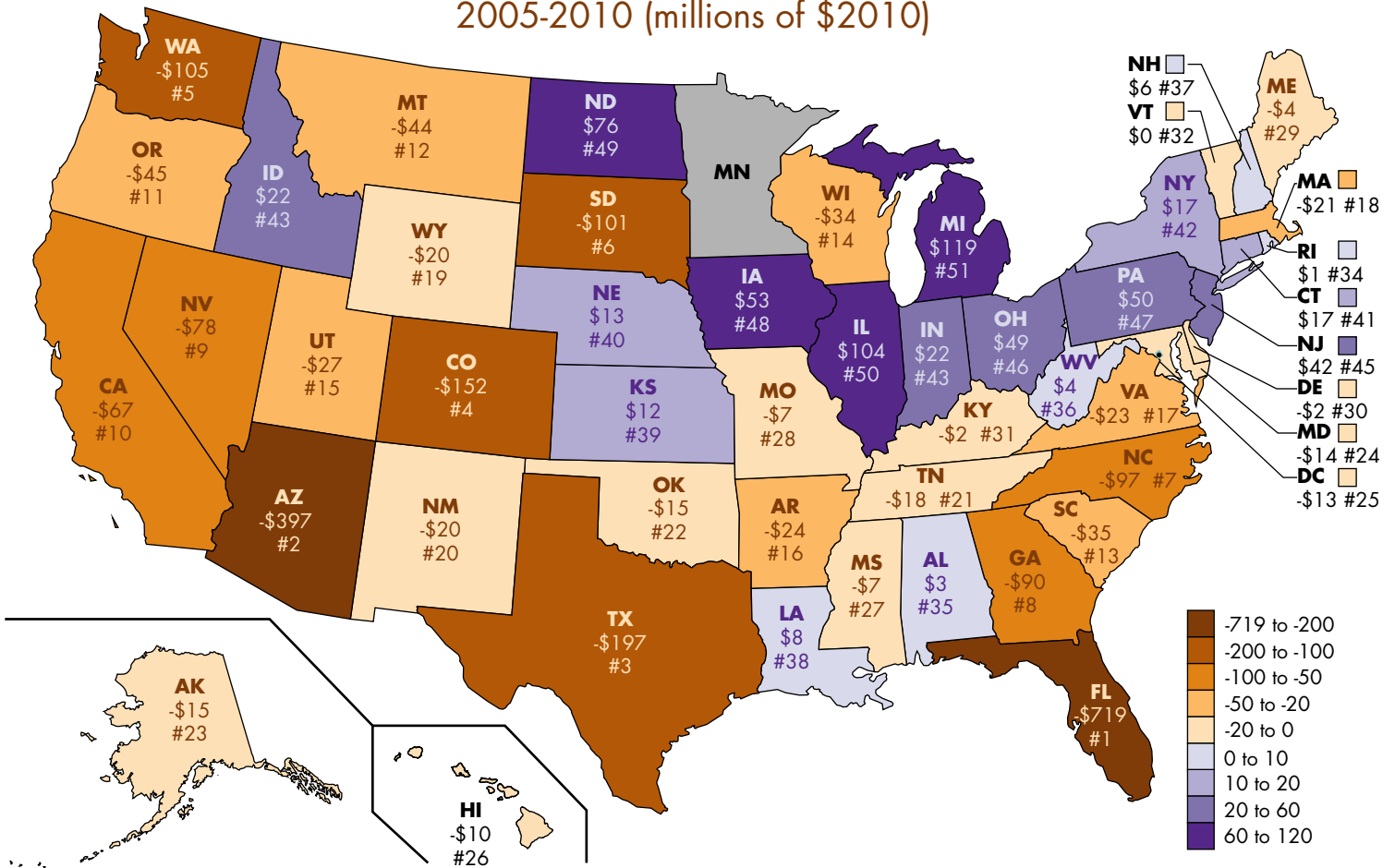
The full report can be found at www.AmericanExperiment.org.



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Net movement of adjusted gross income to and from Minnesota by state, 2005-2010 (millions of \$2010)



Source: Tax Foundation, "State to State Migration Data," at <http://interactive.taxfoundation.org/migration/>. Data from Statistics of Income, Internal Revenue Service, "U.S. Population Migration Data," available at <http://www.irs.gov/uac/SOI-Tax-Stats-Migration-Data>.

Net adjusted gross income into Minnesota, top income tax rate, tax burden, and business tax climate rank for the top ten states receiving net income from Minnesota and top ten states contributing net income to Minnesota

Top Ten States Receiving Income From Minnesota, 2005-2010					Top Ten States Contributing Income to Minnesota, 2005-2010				
State	Net AGI Into MN (thousands of \$2010)	Top Income Tax Rate 2010	State and Local Tax Burden, 2010	Rank	State	Net AGI Into MN (thousands of \$2010)	Top Income Tax Rate 2010	State and Local Tax Burden, 2010	Rank
Florida	-\$719,072	0.00%	9.31%	27	Michigan	\$119,393	4.35%	9.84%	18
Arizona	-\$396,990	4.54%	8.42%	41	Illinois	\$103,706	3.00%	10.20%	11
Texas	-\$197,258	0.00%	7.93%	46	North Dakota	\$76,079	4.86%	8.91%	36
Colorado	-\$152,429	4.63%	9.10%	33	Iowa	\$53,221	8.98%	9.58%	24
Washington	-\$104,872	0.00%	9.29%	28	Pennsylvania	\$50,489	3.07%	10.24%	10
South Dakota	-\$100,637	0.00%	7.58%	50	Ohio	\$48,716	6.24%	9.71%	20
North Carolina	-\$97,386	7.75%	9.91%	17	New Jersey	\$41,971	10.75%	12.42%	2
Georgia	-\$89,984	6.00%	8.96%	34	Indiana	\$22,283	3.40%	9.59%	23
Nevada	-\$78,093	0.00%	8.24%	43	Idaho	\$21,654	7.80%	9.37%	25
California	-\$66,641	10.55%	11.23%	4	New York	\$17,498	8.97%	12.77%	1

Sources: Tax Policy Center, Individual State Income Tax Rates 2000-2011 (Mar. 14, 2013); Tax Foundation, State and Local Tax Burdens: All States, One Year, 1977 - 2010 (October 23, 2012); and Tax Foundation, State Business Tax Climate Index Rankings, 2011-2012 (January 25, 2012).