Minnesotans on the Move to Lower Tax States

By Peter J. Nelson

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By Peter J. Nelson, J.D., Director of Public Policy

Introduction

There's no question 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 and the proposals being considered in St. Paul promote or harm economic growth. Those who favor a higher tax rate argue Minnesota needs more revenue to fund the education and infrastructure necessary to sustain economic growth. Advocates for lower taxes argue Minnesota needs low rates to make Minnesota an attractive place to invest, work and grow a business.

Like most economic questions, making the direct connection between state tax policy and economic growth is difficult. As William McBride—chief economist at the Tax Foundation—admits, "the economy is sufficiently complex that virtually any theory can find some support in the data."

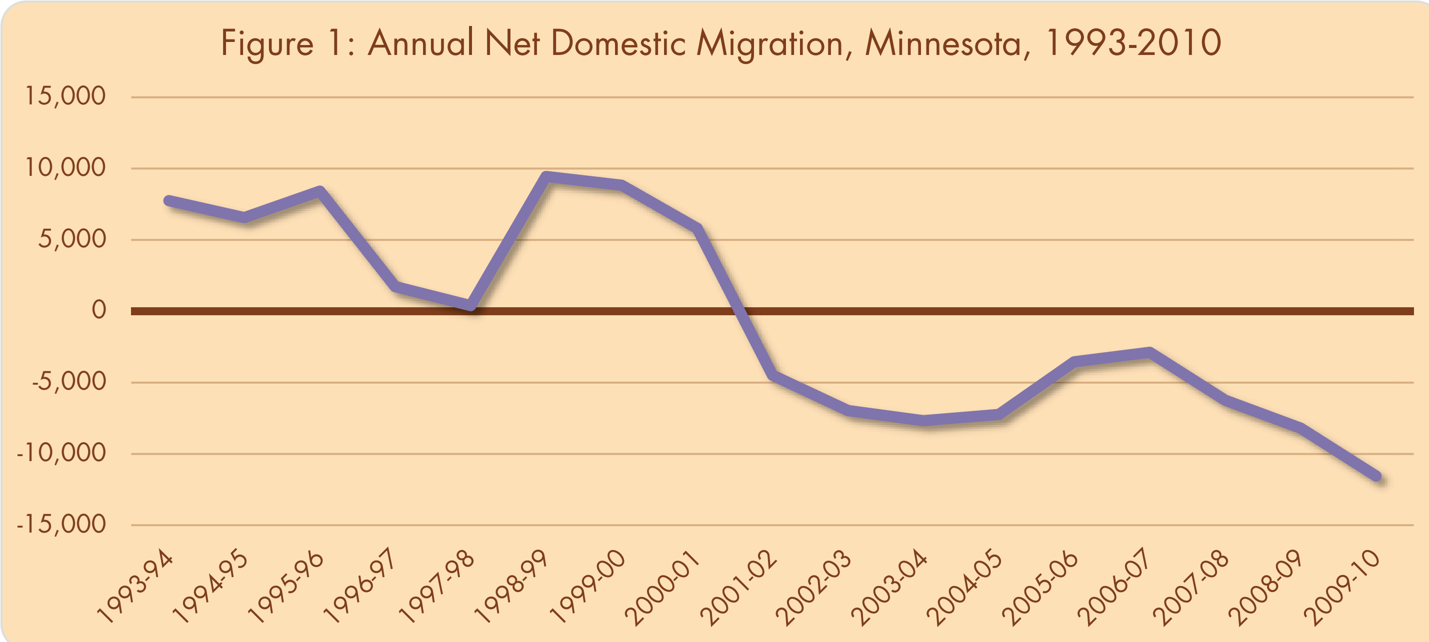
Though data can deliver mixed messages, data from the Internal Revenue Service (IRS) point to one clear and worrisome fact: Minnesotans and their wealth are moving to Southern and Western states. Between 1995 and 2010, an average of $340 million in income—based on 2010 dollars—moved each year from Minnesota to other states—a movement totaling more than $5 billion over 15 years. 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.

While people move for all sorts of reasons, a closer look at this data strongly suggests that state tax policies are influencing movement to and from Minnesota. The implications for current proposals to raise Minnesota tax rates is clear: Higher taxes will likely lead to even more wealth moving to other states.

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. In 1995, the IRS began reporting the aggregate of the adjusted gross income (AGI) of the taxpayers that moved.[1] Thus, from 1995 forward there is a very accurate picture of where taxpayers

1 In the two years prior to 1995, the IRS reported the aggregate of a different measure of income that included nontaxable income.



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.

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.[2]

The Tax Foundation provides a very useful tool on its website for exploring the state migration data for all states.[3] Most of the state-level data presented in this report rely on the Tax Foundation data tool. The county-level data come directly from the IRS website.

There are, of course, some limitations to the data that need to be explained up front.[4] First off, the

2 *See e.g.*, Travis H. Brown, *How Money Walks* (2013); 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; 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; 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; 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.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), 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 The Tax Foundation, "State to State Migration Data," at http://interactive.taxfoundation.org/migration/. Founded in 1937, the Tax Foundation is a non-partisan tax research group based in Washington, D.C. which provides economically principled analysis of tax policy issues.

4 For a full explanation of the dataset and its limitations,

Table 1. Domestic Migration In and Out of Minnesota, 1995-2010

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)
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
1995-10	644,292	1,181,995		675,654	1,206,103		-31,362	-24,108

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.

data do not include the movement of non-taxpayers or the movement of taxpayers who file late—taxpayers who tend to be higher income. 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.

Net domestic migration for Minnesota turned negative in 2002

A look at domestic migration within America reveals that Minnesota began losing more people to other states than it gains about ten years ago. As shown in Figure 1, net domestic migration into Minnesota turned negative in 2002 and has remained negative ever since. Comparing the 1990s with the 2000s, U.S. Census Bureau 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.[5]

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.

5 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

Table 2. Movement of adjusted gross income in and out of Minnesota, 1995-2010 (thousands of $2010)

Year	AGI In	Average AGI In	AGI Out	Average AGI Out	Net AGI
1995-96	$2,085,585	$49,513	$2,144,692	$53,472	-$59,107
1996-97	$2,136,902	$50,854	$2,504,881	$57,700	-$367,979
1997-98	$2,225,814	$51,441	$2,673,369	$59,396	-$447,555
1998-99	$2,586,307	$55,917	$2,814,880	$64,911	-$228,573
1999-00	$2,592,842	$55,301	$3,047,507	$69,625	-$454,665
2000-01	$2,737,257	$58,755	$2,993,823	$66,206	-$256,566
2001-02	$2,385,418	$54,854	$2,700,395	$57,966	-$314,977
2002-03	$2,161,135	$52,506	$2,539,509	$56,129	-$378,374
2003-04	$2,119,117	$52,223	$2,513,534	$55,608	-$394,417
2004-05	$2,129,038	$51,566	$2,537,939	$55,624	-$408,901
2005-06	$2,328,189	$52,888	$2,739,707	$58,922	-$411,518
2006-07	$2,333,232	$53,620	$2,700,965	$59,129	-$367,733
2007-08	$2,399,872	$54,347	$2,798,194	$57,593	-$398,322
2008-09	$2,077,070	$49,879	$2,306,544	$48,936	-$229,474
2009-10	$1,685,335	$45,176	$2,061,695	$46,629	-$376,360
1995-00	$11,627,450	$52,720	$13,185,329	$61,138	-$1,557,879
2000-05	$11,995,769	$54,115	$13,285,200	$58,300	-$1,753,235
2005-10	$11,267,401	$51,385	$12,607,105	$54,315	-$1,783,407
1995-10	$33,983,113	$52,745	$39,077,634	$57,837	-$5,094,521

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.

Thanks to migration from foreign countries, Minnesota manages to still post a small net gain in migration from year to year. However, that does not change the fact that Minnesota appears to have become a less attractive place to live for families from other states.

Table 1 on the previous page shows the change in the net number of people moving to Minnesota is due more to fewer people moving *into* Minnesota versus people leaving. Since 1997, the number of people leaving Minnesota from year to year consistently registered between 78,000 and 84,000 until 2008 when the Great Recession slowed migration. Recall that exemptions represent individual movement and returns represent household movement. By contrast, the number of people moving into Minnesota fell below 80,000 in 2002 and has remained lower than 80,000 ever since. Much of this drop is a function of smaller households moving to Minnesota. The average number of exemptions per tax return—an estimate of average household size—has consistently dropped since the early 1990s.

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; 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.

Minnesota is annually losing hundreds of millions of dollars in income to other states

Between 1995 and 2010, as shown in Table 2, Minnesota lost a net of $5.1 billion (2010 dollars) in income to other states. This loss averages to $340 million per year. Breaking that down into five year increments, Minnesota lost $1.56 billion between 1995 and 2000, $1.75 billion between 2000 and 2005, and $1.78 billion between 2005 and 2010.

The *growth* in adjusted gross income (AGI) from 2009 to 2010 would have been 5.3 percent higher if there had been no net loss in income.[6] Year after year, the cut in the growth of aggregate AGI in Minnesota compounds to a substantial loss.

These substantial annual losses in income appear to have begun in 1997—five years before net domestic migration turned negative. There is only one prior year of directly comparable data, which shows a much smaller loss of $59 million in 1996. However, the IRS also reported income movement in 1994 and 1995 using a different measure of income. In both of these years, there was virtually no net movement. This suggests a change in trend, but there's not enough data to know for sure.

Early on, much of the net loss in income was driven by the fact that people leaving Minnesota had, on average, much higher incomes than those moving in. Minnesota actually lost $455 million in income in 2000—the peak year for income loss—despite gaining 3,116 taxpaying households. Beginning in 2002, Minnesota began losing taxpaying households and continued to lose higher income taxpayers. In the years during and after the Great Recession, the gap between the average income moving to and from Minnesota closed. Thus, the net loss in income is now primarily due to a net loss in taxpaying households.

6 The aggregate adjusted gross income reported on Minnesota federal tax returns grew by $7,123,992,000 between 2009 and 2010, rising from $145,272,483,000 to $152,396,475,000. After adjusting 2009 AGI to 2010 dollars, AGI grew by $4,742,131,811. In 2010 dollars, growth in AGI would have been 7.9 percent higher. Statistics of Income, Internal Revenue Service, Individual Master File System, Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2010 (Dec. 2011); and Statistics of Income, Internal Revenue Service, Individual Master File System, Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2009 (Dec. 2010). AGI data is available at http://www.irs.gov/uac/SOI-Tax-Stats---Historic-Table-2.

Where are Minnesota households and income moving?

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? The map shown in Figure 2 delivers a powerful visual for the movement of income to and from Minnesota between 2005 and 2010, which represents the last five years of data reported by the IRS.[7] Minnesota is losing income to the orange states on the map and gaining income from the purple 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 orange on the map, a closer look at the county to county movement reveals Wisconsin would be purple if it weren't for Minnesotans moving to five border counties in 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.

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 from the West and South. Minnesota

7 This time period was chosen to show the most recent movement of income, but the map would look very similar regardless of the time period chosen.

Table 3. Top ten states receiving net income from Minnesota and top ten states contributing net income to Minnesota, 2005-2010 (thousands of $2010)

From State	Returns In	Exemp-tions In	AGI In ($1,000s)	Average AGI In	Returns Out	Exemp-tions Out	AGI Out ($1,000s)	Average AGI Out	Net Returns In	Net Exemp-tions In	Net AGI In ($1,000s)
Florida	8,793	15,341	$485,249	$55,186	11,906	20,740	$1,204,321	$101,152	-3,113	-5,399	-$719,072
Arizona	6,947	12,282	$372,184	$53,575	10,537	18,095	$769,174	$72,997	-3,590	-5,813	-$396,990
Texas	9,745	20,388	$504,808	$51,802	13,663	28,104	$702,066	$51,384	-3,918	-7,716	-$197,258
Colorado	5,730	10,147	$307,435	$53,654	8,639	14,021	$459,864	$53,231	-2,909	-3,874	-$152,429
Washington	4,434	8,119	$222,499	$50,180	6,382	10,954	$327,371	$51,296	-1,948	-2,835	-$104,872
South Dakota	7,904	13,131	$296,536	$37,517	9,248	15,898	$397,173	$42,947	-1,344	-2,767	-$100,637
North Carolina	3,315	6,366	$166,259	$50,154	4,261	8,170	$263,645	$61,874	-946	-1,804	-$97,386
Georgia	3,256	6,471	$190,439	$58,489	4,307	8,588	$280,423	$65,109	-1,051	-2,117	-$89,984
Nevada	2,258	4,009	$110,315	$48,855	3,065	4,902	$188,408	$61,471	-807	-893	-$78,093
California	14,018	25,637	$870,355	$62,088	16,998	27,593	$936,996	$55,124	-2,980	-1,956	-$66,641
New York	5,460	8,989	$316,872	$58,035	6,114	8,783	$299,374	$48,965	-654	206	$17,498
Idaho	1,065	2,377	$74,185	$69,657	1,030	1,981	$52,531	$51,001	35	396	$21,654
Indiana	3,445	6,795	$191,254	$55,516	3,049	5,843	$168,971	$55,418	396	952	$22,283
New Jersey	2,438	4,539	$186,899	$76,661	1,863	3,280	$144,928	$77,793	575	1,259	$41,971
Ohio	4,083	7,754	$284,551	$69,692	3,489	6,525	$235,835	$67,594	594	1,229	$48,716
Pennsylvania	2,960	5,647	$242,881	$82,054	2,923	5,467	$192,392	$65,820	37	180	$50,489
Iowa	12,392	21,096	$550,352	$44,412	11,044	20,230	$497,131	$45,014	1,348	866	$53,221
North Dakota	16,617	27,363	$663,996	$39,959	17,280	27,001	$587,917	$34,023	-663	362	$76,079
Illinois	12,886	23,961	$776,615	$60,268	12,340	21,187	$672,909	$54,531	546	2,774	$103,706
Michigan	6,427	11,584	$363,046	$56,488	4,113	7,442	$243,653	$59,240	2,314	4,142	$119,393

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.

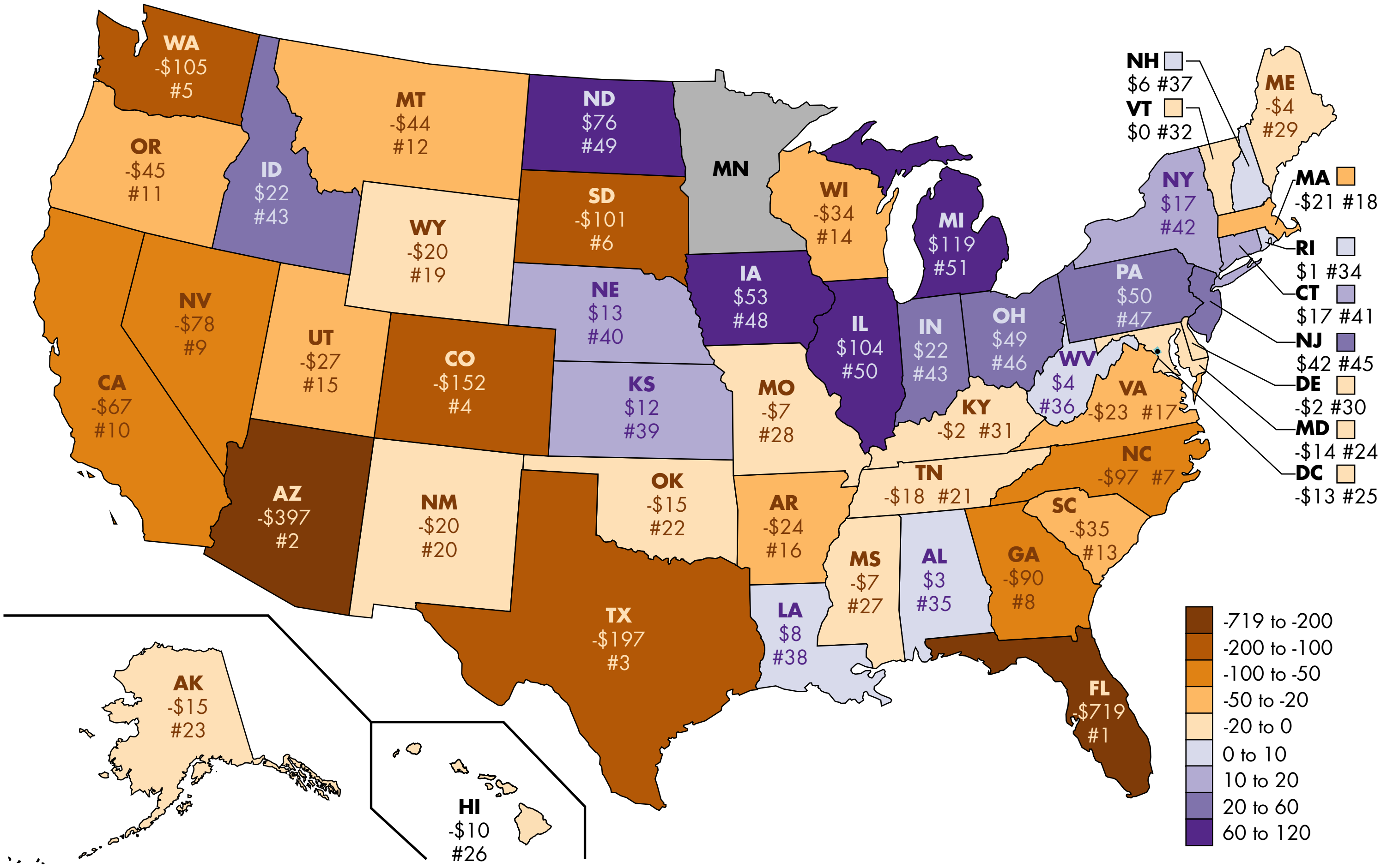
lost $2 billion in income to these states between 2006 and 2010. By comparison, nine of the top ten contributing states are from the Midwest and Northeast. Minnesota gained just $555 million from these states over the same period. Comparing the top states for loss and gain, the magnitude of the loss to Florida is six times greater than the gain from Michigan.

The role taxes play in the decision to move

People move from state to state for all sorts of reasons. People move for school, family, retirement, better jobs, the great outdoors, the quality of government services, warmer climates, lower cost of living, more cultural amenities, and still some move for fewer amenities and simpler living. Low tax rates are also a factor, according to a number of econometric studies.[8] In the main, people move to

8 *See* Richard Cebula and Gigi Alexander, "Determinants of Net Interstate Migration, 2000-2004," *Journal of Regional Analysis and Policy*, Vol. 36, No. 2 (2006): 116-123, available at http://jrap-journal.org/pastvolumes/2000/v36/F36-2-1.pdf; 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;

Figure 2. 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.

find better opportunities for themselves and their families.

The Midwestern purple surrounding Minnesota and spreading up through the Northeast in Figure 2 is certainly good news. It suggests people tend to find Minnesota a more attractive place to live and work relative to those states with the most comparable demographic, cultural, and climate conditions. People are clearly finding better opportunities in Minnesota than Michigan and Illinois. However, on net, people appear to be finding better opportunities outside Minnesota to the West and to the South. So what is it about the South and the West that draws more Minnesotans?

No doubt there are many factors at play drawing Minnesotans South and West. Whether or not taxes are part of the draw is the most important question for today. That's because there are numerous proposals coming from the Minnesota legislature and Governor Dayton to raise Minnesota's taxes. So the question is: Would these tax proposals motivate more people and their income to leave or avoid Minnesota? After reviewing the tax policies of the top ten states receiving income from Minnesota with the top ten states contributing income to Minnesota, the likely answer is yes.

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.

Table 4. 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 2010 [a]	State and Local Tax Burden, 2010 [b]	Rank	State and local tax revenue as a percent of personal income, 2010 [c]	Rank	State Business Tax Climate Rank, 2011 [d]	January Average Mean Temperature Index, 1971-2000 [e]
Florida	-$719,072	0.00%	9.31%	27	9.11%	39	5	58.09
Arizona	-$396,990	4.54%	8.42%	41	9.06%	40	27	42.27
Texas	-$197,258	0.00%	7.93%	46	8.96%	42	9	45.63
Colorado	-$152,429	4.63%	9.10%	33	9.64%	32	17	23.71
Washington	-$104,872	0.00%	9.29%	28	9.45%	36	8	31.47
South Dakota	-$100,637	0.00%	7.58%	50	8.00%	51	2	16.11
North Carolina	-$97,386	7.75%	9.91%	17	9.89%	29	46	39.97
Georgia	-$89,984	6.00%	8.96%	34	8.98%	41	34	45.77
Nevada	-$78,093	0.00%	8.24%	43	10.48%	18	4	30.43
California	-$66,641	10.55%	11.23%	4	11.04%	11	48	45.14
New York	$17,498	8.97%	12.77%	1	14.30%	2	49	20.65
Idaho	$21,654	7.80%	9.37%	25	8.75%	45	22	23.60
Indiana	$22,283	3.40%	9.59%	23	10.56%	16	11	26.03
New Jersey	$41,971	10.75%	12.42%	2	11.52%	9	50	30.62
Ohio	$48,716	6.24%	9.71%	20	10.47%	19	39	26.50
Pennsylvania	$50,489	3.07%	10.24%	10	10.25%	22	21	25.78
Iowa	$53,221	8.98%	9.58%	24	10.34%	21	42	17.84
North Dakota	$76,079	4.86%	8.91%	36	12.14%	4	33	7.90
Illinois	$103,706	3.00%	10.20%	11	9.95%	28	16	24.58
Michigan	$119,393	4.35%	9.84%	18	10.53%	17	19	18.87
Minnesota		7.85%	10.79%	7	10.79%	15	45	7.94

a Tax Policy Center, Individual State Income Tax Rates 2000-2011 (Mar. 14, 2013), available at http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=406.
b Tax Foundation, State and Local Tax Burdens: All States, One Year, 1977 - 2010 (October 23, 2012), available at http://taxfoundation.org/article/state-and-local-tax-burdens-all-states-one-year-1977-2010.
c Tax Policy Center, State and Local Tax Revenue as a Percentage of Personal Income, Selected Years 1977-2010, available at http://www.taxpolicycenter.org/taxfacts/listdocs.cfm?topic2id=90.
d Tax Foundation, State Business Tax Climate Index Rankings, 2011-2012 (January 25, 2012), available at http://taxfoundation.org/article/state-business-tax-climate-index-rankings-2011-2012.
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.

Table 4 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. The data show Minnesota tended to receive people and income from higher tax states and contribute people and income to lower tax 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. (Later in this report Figure 3 includes the tax burden rank for each state.)

There are about five states—two receiving states and three contributing states—huddled in the middle of the ranking. However, there is a key difference in the tax systems of the two receiving states: Florida and Washington do not impose an income tax. In fact, five of the top ten receiving states do not impose an income tax. All of the top ten contributing states do impose an income tax.

These patterns are corroborated by data from the Tax Policy Center. Table 4 also compares state and local revenue as a percent of personal income, a measure the Tax Policy Center reports each year straight 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 too 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.[9]

The Tax Foundation also publishes a state business tax climate index.[10] The better states for business should be creating the jobs and opportunities that attract more people to make a move. If the index is tracking the right things, then people and income should generally move to the top ranked states, which is what Table 4 shows. Five of the top ten states receiving people and income from Minnesota ranked in the top ten on the index.

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.

Movement cannot be fully explained by retirees and weather

Admittedly, the pattern of people moving to Minnesota from higher tax states and leaving for lower tax states doesn't entirely prove that taxes impact where Minnesotans move. As already mentioned, people move for all sorts of reasons. For instance, Table 4 also shows states' average mean temperature index from 1971 to 2000 for the coldest month of the year. All ten contributing states registered a temperature below freezing. Only four of the receiving states were below freezing.

9 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 they estimate 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.

10 Business climate indexes published by CNBC and Forbes were also reviewed for this report to identify any other possible connections to why people are moving. These rankings are less helpful because they often incorporate measures that reflect current economic conditions, which bias them toward the states with better economies and, thus, better economic opportunities. Obviously, people are moving to these states. We want to know why. There was, however, one index ranking that offered a possible answer. The CNBC index includes a workforce ranking based on a metric that incorporates education level, numbers of available workers, union membership, and relative success of worker training programs. Higher union membership was considered a negative for businesses. All but two of the top ten receiving states ranked in the top fifteen on this metric. Eight of the top ten contributing states rated in the bottom half.

Some people will argue that Minnesotans are primarily moving for other reasons, such as to retire to warmer climates. To the extent taxes play a role, they argue the role is very small. There are, however, a number of reasons found in IRS and other migration data to further support the idea that taxes do play a larger role.

First, many of the leading destination cities are economic centers, not retirement centers. Retirees certainly account for a large portion of the people and income leaving Minnesota. Some of the places receiving the largest portion of people and income from Minnesota include retirement destinations like Naples, Fort Meyers, and Scottsdale. But there are a large number of economic centers in the South and the West that are clearly attracting many more workers than retirees. Cities like Atlanta, Seattle, Dallas, Austin, Sioux Falls, and Denver have all gained substantial numbers of people and income from Minnesota. Looking back at Table 3, if Florida and Arizona were removed from the list, the income from receiving states would still far outweigh the contributing states.

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. The net movement of income to Florida dropped from $149 million in 2008 to $77 million in 2009, the first time Minnesota lost less than $100 million to Florida since 1996. The movement of income to Arizona also dropped substantially. Despite these drops, most of the other top states receiving income from Minnesota showed either no change or a bump in the income received from Minnesota. Both Texas and Georgia gained more income in both 2009 and 2010, while states like Colorado, Washington, South Dakota and North Carolina remained in a normal range. Importantly, the continued movement of income to these places during the Great Recession helps confirm that these are Southern and Western destinations for economic opportunity, not retirement, which reinforces the first point.

After making these first two points, it is important to note that Minnesota should not give up on retaining the state's retirees. While retirees are likely more influenced by weather than other people contemplating a move, tax rates are still a factor. The previous two points go to show that it's not just retirees driving the pattern of income movement to the South and the West. Working-age people are looking for better opportunities and they are finding them in lower tax states.

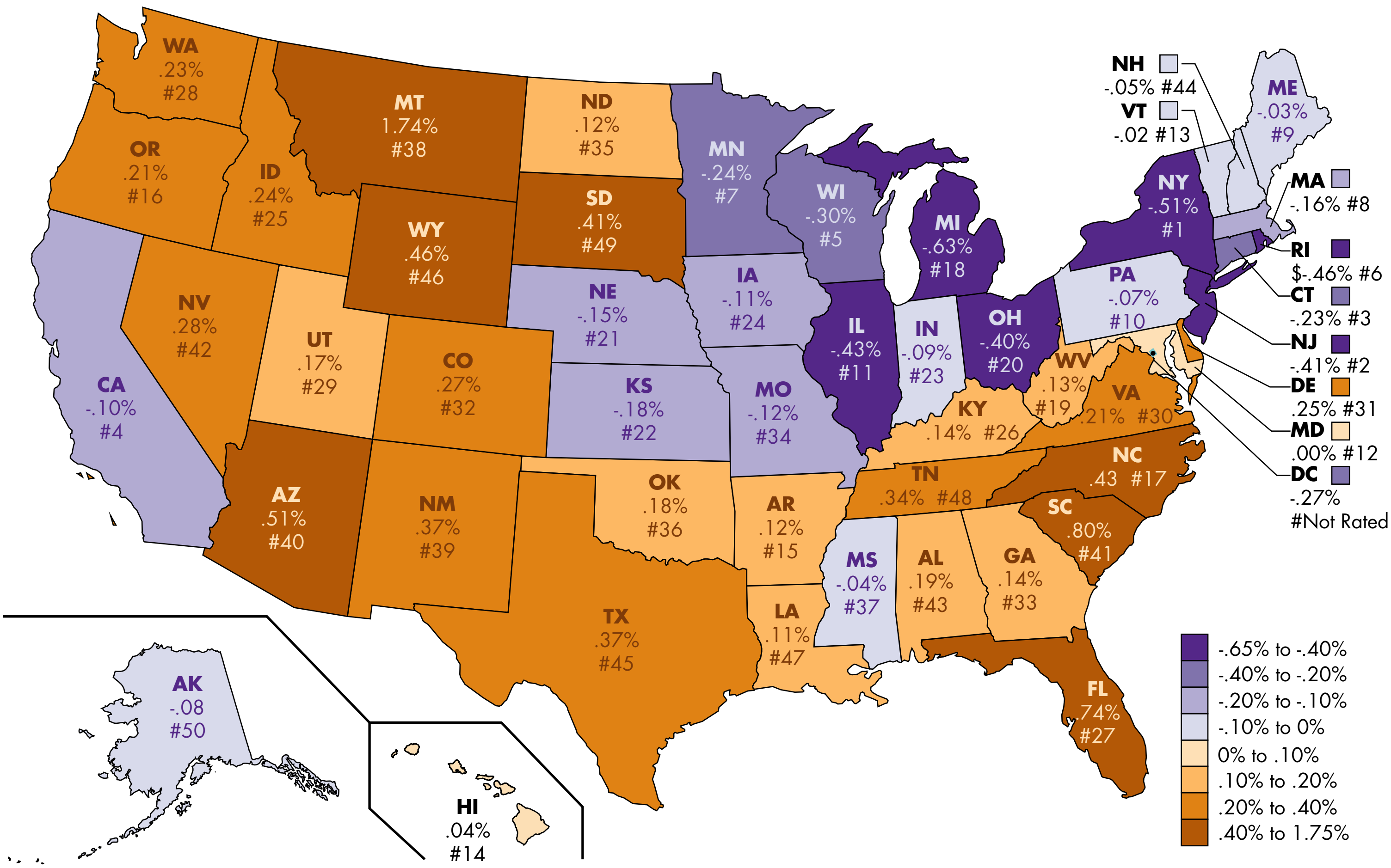
A third reason why taxes likely play a larger role is the fact that analyses of the movement of income to and from other states show similar patterns of movement from high tax states and to low tax states. In his book *How Money Walks*, after analyzing the same IRS data set for the entire country, Travis Brown concludes: "When you look at the mapped data over this period of time an unmistakable pattern emerges: income moved from high-tax states to states with no personal income taxes or lower per capita taxes."[11] In addition, a recent Manhattan Institute report documents the "exodus" from California using the data.[12] The authors found, "as a general rule, Californians have tended to flee high taxes for low ones." Thus, California, a state with a similar tax climate to Minnesota but very different weather, is experiencing similar migration patterns.

Fourth, analysis of the IRS data for this report shows a very clear national pattern of movement from higher tax states to lower tax states from 2009 to 2010. The map in Figure 3 shows net income migration from 2009 to 2010 by state as a percent of a state's total AGI reported to the IRS in 2010. In contrast to Figure 2, which mapped the net income movement to and from Minnesota, this map shows

11 Travis H. Brown, *How Money Walks* (2013). Travis H. Brown is the CEO and co-founder of Pelopidas, LLC, a St. Louis-based public affairs and advocacy firm. He is the president of Let Voters Decide, a coalition that supports state tax reform and the protection of voters' rights at the ballot box. He is a contributor to Forbes.com and a blogger at YourTaxCode.com.

12 Tom Gray and Robert Scardamalia, "The Great California Exodus: A Closer Look," Manhattan Institute Civic Report, No. 71 (Sept. 2012), available at http://www.manhattan-institute.org/html/cr_71.htm#.UXRQZcrheSc.

Figure 3. Net movement of adjusted gross income as a percent of a state's total AGI, 2010, and state and local tax burden ranking by the Tax Foundation, 2010



Source: Statistics of Income, Internal Revenue Service, Individual Master File System, Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2010 (Dec. 2011); Tax Foundation, State and Local Tax Burdens: All States, One Year, 1977 - 2010 (October 23, 2012), available at http://taxfoundation.org/article/state-and-local-tax-burdens-all-states-one-year-1977-2010; and 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).

Note: Unlike Figure 2, the rankings do not rank the data presented on the map. Instead, they add a new element, the Tax Foundation's state and local tax burden ranking, which reveals the pattern of movement from high to low tax states.

the net state to state movement across the whole country. It identifies the net gaining states and the net losing states. It also shows which states are proportionally gaining and losing the most income in proportion to their size, which reveals which states are being impacted the most by income migration. Each states tax burden ranking is also included. The pattern is clear. All but four of the twenty-two net losing states are higher tax states in the top half of the tax burden rankings and all but six of the twenty-eight net gaining states are lower tax states in the bottom half of the tax burden rankings.

Fifth and finally, much of the current change in Minnesota's migration trend is due to people choosing not to move to Minnesota. This is maybe the best indication that we're not just talking about retirees. Obviously, very few people weighing whether to move to the state are considering Minnesota as a retirement destination. The people considering a move tend to be younger and looking for better jobs and economic opportunities. Table 1 shows a steady decline in the average size of the households moving to Minnesota, dropping from households with 1.94 exemptions per return in 1996 to 1.75 in 2010. This drop suggests that fewer families are choosing to make Minnesota their home.

Conclusion

Minnesota lawmakers are now considering whether to raise taxes by between $1.8 and $2.6 billion and there is much debate over the impact these tax increases will have on Minnesota's future prosperity. The data reviewed in this report show first and foremost 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. Regardless of how large the loss is, it is a loss which demonstrates Minnesota is not competing well with the rest of the country. That's a fact that should be worrisome to every Minnesotan.

The data also strongly suggest that raising taxes is not the path to making Minnesota a more attractive and prosperous state. On net, Minnesota is losing people to lower tax states and gaining people from higher tax states. This pattern is repeated in states across the country, including California, and these consistent patterns strongly suggest there is a link between taxes and where people move.

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 people who work more, which increases individual work effort and overall economic activity in the state. Maybe more important, lower taxes on businesses make states 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.

Recall there is some positive news here. Minnesota competes well against most other Midwestern and Northeastern states. Indeed, next to resource-rich North Dakota, Minnesota experienced the highest growth in personal income among Midwestern and Northeastern states last year. But if Minnesota is to continue to compete, the data here strongly suggest 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. ■

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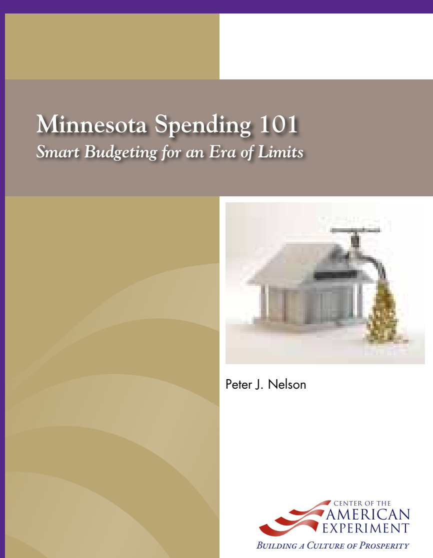

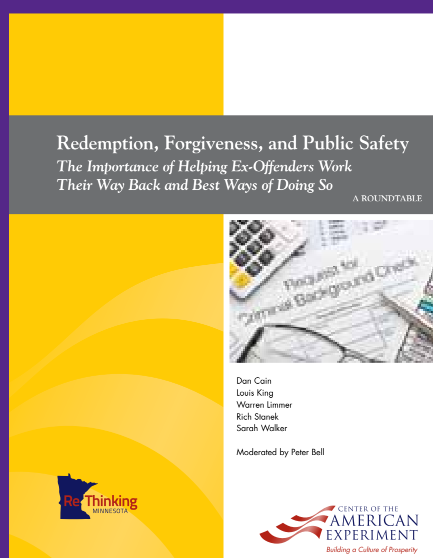

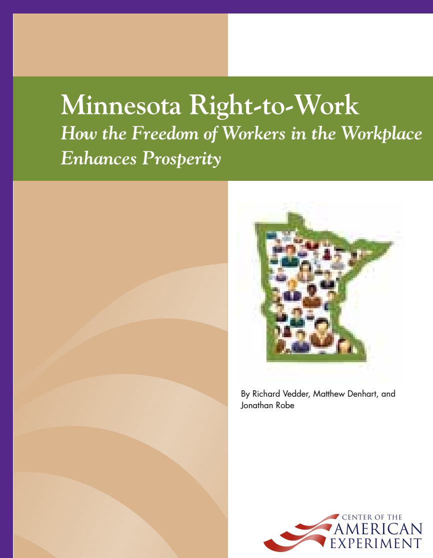

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