SCNOW MORNING NEWS

A compelling case against high taxes

Richard Eckstrom

January 11, 2019

It's the central dividing line of American politics: the age-old debate between those who generally favor higher spending and taxes and those on the other hand who believe it's beneficial to let taxpayers keep more of their own money.

The case favoring the taxpayers is a bit stronger following a batch of recent research comparing each states' taxes and population trends. One analysis by the Cato Institute, a nonprofit research organization, found Americans are moving in substantial numbers from states with higher taxes to states with lower taxes.

Cato researchers ranked states by their tax levels, which were measured as household taxes (all state and local taxes, including individual income, property and sales taxes) as a percentage of personal income. They split that list in two and compared growth patterns of the 25 "high tax states" to the 25 "low tax states." Tax and population figures were based on 2016 data from the IRS, which tracks taxpayers' address changes.

The pattern is hard to ignore: All but one of the 25 high-tax states had more people moving out than moving in, with Maine the lone exception. By contrast, 17 of the 25 low-tax states had more people moving in than leaving.

Nationwide, 600,000 more people over the year migrated from high-tax states to low-tax states than vice versa. The people who are relocating tend to be the well-educated, those with higher disposable income and senior citizens. And they're bringing with them a net $33 billion in annual taxable income.

The odds are that this isn't a coincidence. That people are fleeing almost every high-tax state is, at least in some part, a backlash against costly government. It also reflects to some extent the much better economic growth in low-tax states; people go where the jobs are.

Because you're probably wondering: South Carolina is one of the low-tax states, although it might not feel like it for many folks. The report showed our average state and local taxes to be 7.9 percent of our average personal income. Only 10 states had lower tax burdens by that measure.

Meanwhile, ours is among the most desirable states to relocate. South Carolina welcomes three newcomers for every two people who leave, ranking fourth nationally by that measure. In terms of net gain we rank eighth, with 18,519 more people moving here than leaving in 2016.

No matter how you dissect the data, such a stark pattern establishes an unmistakable correlation between taxes and the migration patterns of Americans. Americans see low-tax states as greener pastures, and that factors into their decisions.

Folks of a certain persuasion understandably prefer to downplay any such conclusions. In New York, which has the nation's highest taxes, the governor blamed his state's shrinking population on the cold weather. But I understand it also gets cold in New Hampshire, a state with a steady influx of new residents – and no income tax.

High-tax states that dismiss the correlation between taxes and population declines do so at their own peril.

It's worth noting that, in nearly every state, the 2016 population loss or gain reflects a longer-term trend. Of the 24 high-tax states experiencing an exodus, 23 have seen net declines over a five-year period, according to the study.

And the Cato report paralleled the findings of earlier research. A report from last spring identified a similar trend over a 10-year period. (That study, based on U.S. Census data, showed South Carolina with the fourth-highest net population increase, 361,117, of the 25 low-tax states.)

This is a cautionary tale for public officials with sights set on their constituents' wallets. The power to set spending and tax rates isn't something to be taken lightly.

Every dollar we pull from someone's pocket comes at a cost, and one day that cost could be a high one – our people. Tax-happy politicians should take note.

Richard Eckstrom is a CPA and South Carolina's comptroller.

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