



# WATCHDOG

## **Report: Job creators, wealthier residents are fleeing high-tax states for low-tax states**

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Americans already are fleeing high-tax states and moving to low-tax states in droves, according to a **report** released Thursday by the Cato Institute's Chris Edwards. The Tax Cuts and Jobs Act of 2017, he expects, will only expand this practice.

Federal tax reform enacted in December puts a cap of \$10,000 per federal income tax return on state and local tax deductions. Before the cap was enacted, individuals in high-tax states were able to get more of their local and state tax dollars back through the federal government. This new cap means that individuals in high-tax areas will be hit much harder by their state and local taxes than they were before.

People in high-tax states are finding out that "they're being ripped off by their government," Edwards told [Watchdog.org](http://Watchdog.org). The tax reform will only amplify that feeling and make people more aware of their increased burden of local and state taxes.

Although Edwards said the true impact of federal tax reform on interstate migration won't be known for a few years, pre-tax reform statistics offer a clue.

Edwards' report found that out of the 25 states with the highest taxes, 24 of them had a net loss in migration, meaning more people moved out of the state than moved into the state. Out of the 25 states with the lowest taxes, 17 had a net increase in migration.

The states with the largest net migration losses were New York, Illinois, New Jersey, California, Pennsylvania, Massachusetts, Ohio, Connecticut, Maryland, and Michigan. The largest net inflows were to Florida, Washington, North Carolina, Colorado, Arizona, Oregon, Texas, South Carolina, Georgia, and Nevada.

The state with the worst interstate migration deficit was high-tax New York, while the state with the best interstate migration was low-tax Florida.

Edwards said that it also is important to look at what type of residents are fleeing to low-tax states. Wealthy residents, such as wealthy philanthropists and people with high-skilled jobs, are fleeing to lower-tax states, which puts a further burden on the local economy and decreases the tax base in high-tax states, he said. Retirees and other older people are also moving out of high-tax states to avoid paying property taxes or to avoid an estate tax, which puts a burden on descendants when the person dies.

In 2016 alone, 600,000 people with a combined income of \$33 billion moved from one of the 25 states with the highest taxes to one of the 25 states with the lowest taxes, according to the report.

One state that has taken a hit is Illinois. Illinois lost a net 42,000 people to interstate migration in 2016. The state also lost \$4.8 billion in total personal income because of that.

Ted Dabrowski, president of Illinois government watchdog site Wirepoints, told [Watchdog.org](http://Watchdog.org) that this is one of the more damaging reports and should be a warning to Illinois politicians that property taxes relief and pension reform is desperately needed.

People are sensitive about how their tax dollars are spent, Dabrowski said. When Illinois residents are seeing their taxes continue to rise to pay retired public employees' ever-increasing pension benefits instead of on improving government services, it makes sense that more will move to states with growing economies and that are providing good services at lower tax rates, he said.

The Cato report, Dabrowski said, shows that competition between states is real and that Illinois has “totally forgotten how to compete.” The Illinois legislature has done “absolutely nothing” to address this problem, but instead has made it worse by continuing to raise taxes. Illinois lawmakers approved a \$5 billion income tax increase last year, and a major issue in this year's governor's race is whether to allow for a progressive income tax so rates can be increased further.

Edwards said that elected officials in certain states have taken steps to lower property taxes and eliminate the estate tax to address their ongoing problems with interstate migration. If more states want to compete, he said, they will have to create an environment that wealthy people and businesses want to be in. Until then, some of these states are “shooting themselves in the foot” with their policies, he said.