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Debunking the Five Major Myths About Outmigration

By Kurt Wise, Senior Policy Analyst

Recently, multiple news articles, op-eds, and think tank reports have asserted that Massachusetts is suffering an exodus of households, particularly high-income households, fleeing to states with lower taxes. A closely related claim is that outmigrants are taking billions of dollars out of the Massachusetts economy when they leave. These claims about income migration are both overblown and based on a fundamental misunderstanding of the available data.

The scary portrayals of population flight are typically connected to calls for tax cuts that overwhelmingly would benefit the wealthiest households. This is illogical given that high-income households are departing Massachusetts at lower rates than other households. Moreover, evidence shows taxes have only a very limited impact on the decisions of high-income households as to where to live. Worse still, the proposed tax cuts would result in the loss of hundreds of millions annually in state tax revenue, significantly impeding the Commonwealth's ability to address the real challenges that are pushing some households to leave. These challenges include the affordability of housing, childcare, and higher education, and the ongoing deterioration of our transportation systems.

Available data do not show an exodus of households from Massachusetts

First and foremost, the available IRS and Census data suggest that while outmigration and population growth are issues worthy of policymakers' attention, Massachusetts is not facing an immediate crisis. The most recent IRS Statistics of Income data (2020-2021) indicates that Massachusetts saw a net decline of less than 1 percent in the number of tax returns from the prior year. This is a larger year-to-year decline than seen in the prior several years, but the COVID pandemic had major impacts on migration patterns throughout the US during 2020 and more current years.

More recent U.S. Census Bureau data from July 2021 through July 2022 show a net population decline in Massachusetts of just 7,700 people for the entire 12-month period. This is about one-tenth of one percent of the total Massachusetts population. While these data should place migration issues on the radar of policymakers, there is time to study and understand which trends are temporary pandemic-response behavior versus which trends may be longer-term. Policymakers can then determine the causes and then design and implement effective solutions.

The data also do not show an exodus of income from Massachusetts

It is erroneous to assert that IRS Statistics of Income (SOI) data show Massachusetts is "losing" several billion dollars a year in Adjusted Gross Income (AGI) from its economy as households leave Massachusetts. This error arises from a fundamental misunderstanding of how to interpret properly the IRS' use of the AGI measure. As Lyman Stone, a tax analyst who has worked at the conservative Tax Foundation, has written:

> "It is common for migration commentators to treat the AGI of IRS SOI migrants as 'migration of money.' This is an egregiously wrong use of the data…(T)hose who read the data this way have either failed to perform the most basic due diligence of looking at the (IRS SOI) manual, or else actively mislead their readers."

In fact, the IRS Statistics of Income (SOI) data tell us nothing definitive about how much income follows outmigrants when they leave a state nor how much income arrives with in-migrants. Here's why:

- For most people, their AGI (essentially, their taxable income) is composed of their wage and salary income, which is tied directly to the job they perform. When a restaurant worker, police officer, doctor, realtor, teacher or nurse decides to move to another state, they do not take their job with them. The job remains in the state of origin and a new worker will fill that position, collecting the income the departing worker had been earning prior to their move. Total in-state AGI remains largely unaffected by this type of natural churn in the make-up of the workforce.

> *When a worker decides to move, they often do not take their job with them. The job remains in-state and another worker will fill that position.*

- For people whose income derives from owning and operating a business – as opposed to wage and salary income – typically, they take little if any of this business income with them when they move. If a self-employed carpenter, dentist, lawyer, or restaurant owner departs, the demand for the services they provided remains. Some departing owners will sell their business to new owners who will continue to generate that same income previously earned by the original owner. Some businesses may close when their owners leave, but the customers will remain. Existing businesses will expand to meet the ongoing demand. In the process, these existing businesses will capture much, or all, of the income formerly earned by owners that move out of state. The overall state economy will go largely unaffected.

- Importantly, as far as state tax collections are concerned, income derived from Massachusetts-based economic activity typically is taxable by the Commonwealth, regardless of where the recipient of this income resides. Workers that commute physically from a neighboring state to work in Massachusetts are subject to our state income tax on the portion of their income earned in Massachusetts. Even for people who may "telecommute" from out of state some of the time, if their job is in Massachusetts and they periodically work in-state, their Massachusetts-based income is taxable by the Commonwealth.

- In general, there are only two kinds of income that leave a state's economy when out-migrants depart. The first is investment income - for example, dividend and interest income, and income from the sale of stocks, bonds, and other assets. However, most outmigrants, like most people, earn little or nothing from investments. Typically, it is only high-income households that generate any significant amount of income from investments. The IRS data show that less than 17 percent of Massachusetts AGI came from such sources in Tax Year 2020 (the most recent year for which such data are available). For high-income households as a group (those with incomes above $200,000), investment income in 2020 provided 28 percent of total AGI.

- The second form of income that departs a state's economy when people move out-of-state is retirement income in the form of Social Security payments or payments from other private or governmental pension plans or annuities. While these dollars travel with out-migrants when they depart, IRS data show that only 9 percent of total Massachusetts AGI came from Social Security, pensions and annuities, and individual retirement plans combined. In any case, there are a limited number of policy levers that will affect the migration decisions of retirees. Some retirees inevitably will choose to leave Massachusetts for warmer climates, bigger mountains, or to be nearer to kids, grandkids and other family. As with other age groups, however, there is no exodus of older households. The most recent 2020-2021 IRS data show that less than 11,000 such households departed during this period, while 8,500 such households migrated to Massachusetts from out of state, replacing close to 80 percent of outmigrant households age 65 and above. With a population of over 7 million people, this level of net out-migration among retirees is neither surprising nor cause for undue alarm.

Calls of alarm about outmigration and an associated, large loss of income from the state economy have pointed to IRS data on AGI to support these claims. This is a misuse of the IRS data. The data do not and cannot support such claims. For the reasons outlined above, any actual departure of income from the Massachusetts economy due to outmigration is a fraction of the IRS' net AGI outflow figure. The IRS data do tell us that Massachusetts' AGI, adjusted for inflation, has grown by a third (33.4 percent) – or almost $100 billion dollars - from 2011 through 2020 (the most recent 10-year period for which IRS SOI total state AGI data are available).

High-Income households do not have higher rates of outmigration in Massachusetts

Instead of starting with the assumption that high-income households are at the center of any outmigration challenges Massachusetts may face, we should start with the data. The highest income group broken out in the IRS migration data is households with annual income over $200,000. A forthcoming review of the IRS data from 2011-2021 by the Center on Budget and Policy Priorities looks at the average annual rate of outmigration for this group during the most recent ten years. Massachusetts fares better than most other states, with a lower rate than 38 other states, including New Hampshire and Florida, as well as most other states with no state income tax.

Tax cuts will not change where most high-income and wealthy households choose to live

The most thorough research shows clearly that when it comes to decisions about where to live, most very high-income households are unresponsive to state tax rates, flawed counter-claims notwithstanding., High-income households typically are "embedded elites", having achieved economic success in the place where they live. They also tend to be in demographic groups that are must less likely to move out-of-state; they are married, have children, and are in their peak earning years. Overwhelmingly, very high-income people choose to live where they want to live and where they have built successful careers or businesses, not where state taxes (and, by consequence, state services and amenities) are lowest.

Tax cuts for high-income households are not "cost free" – the loss of tax revenue prevents the Commonwealth from addressing real problems

Massachusetts does have a problem with the affordability of housing, childcare, higher education and more, as well as a longstanding problem with deteriorating transportation infrastructure. These problems present significant challenges for many Massachusetts households. They push some households to leave and discourage others from coming. It is these challenges that the Commonwealth must address if lawmakers decide to prioritize reversing the trend of modest outmigration. Addressing these challenges will be possible only if the Commonwealth has sufficient revenue to make substantial, ongoing investments. Providing a new round of large tax cuts to the very highest-income and wealthiest households will undermine, not support, such efforts.

Calls to stem outmigration by cutting taxes for high-income and wealthy households misdiagnoses the scale and nature of the problem, promotes a "solution" that in any case would do very little to change residency decisions, and which would have the perverse effect of limiting the Commonwealth's ability to address real problems that the people of Massachusetts do face.