RHODE ISLAND CENTER FOR FREEDOM & PROSPERITY

VOTING WITH THEIR FEET

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Keeping Rhode Islanders Home

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Why Taxpayer Migration Matters

Rhode Islanders clearly are leaving the state. From time to time, over the past decade, groups across the ideological divide have sparred over the question of who is fleeing and why, but the overall trend is inarguable. The issue is critical *now* — and the particulars of such arguments are largely irrelevant — because cities and towns are facing wave after wave of difficult decisions, as the state's long decline continues and the inadvisable policies of the past come to the ends of their lines.

The clearest message of the RI Center for Freedom & Prosperity's research is that a significant number of those leaving the state are merely hopping across the border. Individual migrants' reasons will differ, but local and state policymakers should be concerned that residents appear to be seeking nearby havens to improve their quality of life. In terms of the public sector, that means more-reasonable taxation, better-quality public education, and generally more effective and efficient community and safety services.

With state fiscal oversight working its way around the Rhode Island map, and with near universal crises of pensions and other post-employment benefits (OPEB), leaders must determine which side of the ledger will bear correction: spending or revenue. The analysis presented in this document strongly suggests that Rhode Island has passed the point of diminishing returns on the revenue side and *must* turn toward reductions in government, but without eliminating the public services that New Englanders have come to expect.[1]

The Big Loss

Every year, more than 10,000 income-tax-paying RI households leave for other states. Fortunately, the ebb and flow of American society annually moves many in the opposite direction, offsetting the loss. Since 2003, however, the push out of the state has consistently been stronger than the pull in.

According to taxpayer migration data produced by the Internal Revenue Service,[2] between tax returns filed in 2003 and those filed in 2010, the net migration out of the state has left Rhode Island with 24,455 fewer income-tax-paying households. Based on the adjusted gross incomes (AGIs) declared from their new states, Rhode Island has lost $1.2 billion of annual income (not inflation adjusted).

The average effective state income tax rate charged to Rhode Island residents is 2.66%.[3] Consequently, the state's coffers are approximately $32 million emptier every year simply as a result of this exiting population. Of more concern is the effect that declining residential income has on the economy; $1.2 billion is equivalent to about 2.4% of Rhode Island's total gross state product (GSP).[4] Not all personal income flows directly into the economy, but a population with that much additional wealth is better able to support local businesses and charities.

As a percentage of population, Rhode Island lost more taxpayers, from 2003 to 2010, than any other state in the country. In terms of AGI, Rhode Island's per capita loss was third largest. Absent this exodus of income, the state could grant every man, woman, and child in Rhode Island a $1,142.59 tax deduction every year.

Outward Migrants Staying Close

A significant portion of Rhode Island's net out-migration has not been long-distance, moving instead into the bordering counties of Connecticut and Massachusetts. This is not surprising, given that Rhode Island's tax burden is significantly higher than either state's. In fiscal 2009, Rhode Island's state and local tax burden, as a percentage of private sector personal income, was 16.1%, compared with 14.5% in Connecticut and 12.9% in Massachusetts.[5]

The tax differential is an important driver of out migration, since a short move over the border results in an immediate increase in after-tax income. Relocating can also result in an immediate improvement in the educational opportunities for Rhode Islanders' children. The Ocean State consistently underperforms Connecticut and Massachusetts in educational rankings.[6] The Center's competitiveness report card for Rhode Island shows an even fuller scope of the state's poor service performance.[7]

The analysis in this study shows that Rhode Islanders are "voting with their feet" and arbitraging the differences in tax burdens and public services — yet living close enough to enjoy amenities, friends, and family still in the state.

Over the 2003-2010 period, Massachusetts was the most common destination of taxpayers leaving Rhode Island, and in the exchange of residents with its northern neighbor, the Ocean State lost $133.5 million in AGI. Connecticut was the third-leading destination, claiming $37.2 million of Rhode Island income.[8]

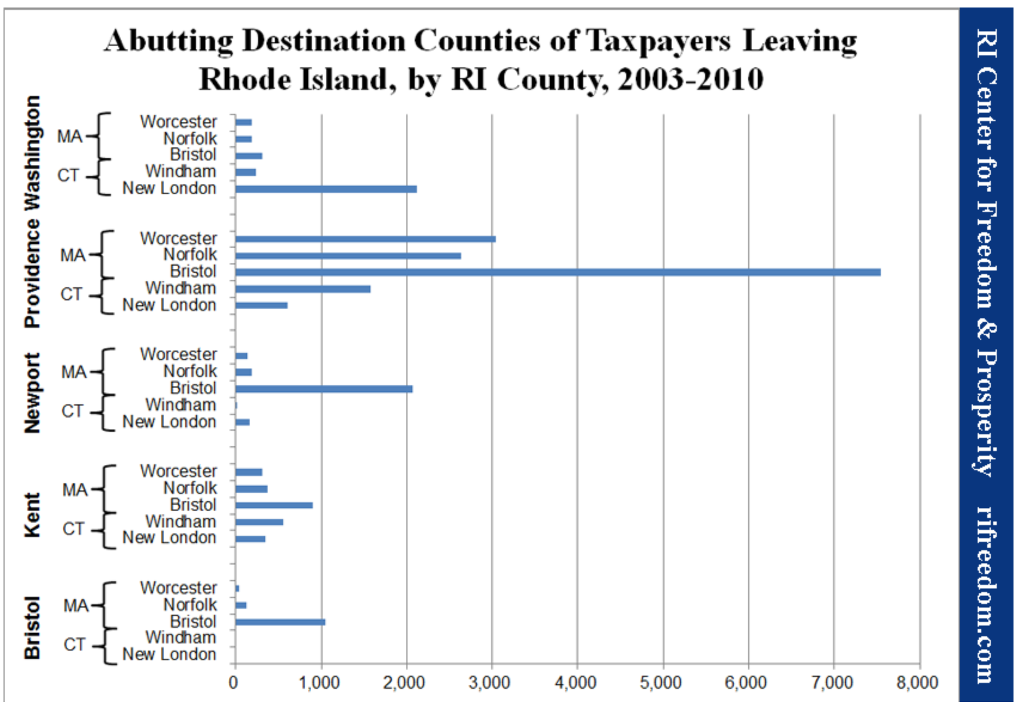
Obviously, taxation and government ineptitude aren't the only reasons people leave a state. However, a consistent trend of out-migration to nearby areas suggests that such considerations are more prominent among the various explanations in those cases. Massachusetts' weather, after all, is much more like Rhode Island's than Florida's.

One Step Away

Of the 110,207 taxpaying households that have left Rhode Island since 2003, 35%, or approximately 38,820, have headed to either Massachusetts or Connecticut. Of those, 64%, or 24,737, moved to abutting counties in our neighboring states.[9]

Furthermore, as Chart 1 illustrates, when Rhode Islanders move to nearby counties in Massachusetts and Connecticut, they are exponentially more likely to step right over the border.

Chart 1



(In general, departing Rhode Islanders are less likely to head to those counties in Massachusetts and Connecticut *not* immediately over the border than to any of those that are. In no cases, however, do the more-distant counties come significantly closer to the leading destinations shown in Chart 1 than do the other abutters. Placing Suffolk County on the chart, for example, would not make the leading counties any less conspicuous.)

A Movable Population

The good news, for Rhode Island, is that taxpayers in border counties appear to be easier to attract, as well as to repel. Border skipping is a two-way phenomenon.

Analysis of Rhode Island's migration patterns based on data from the IRS taxpayer migration service for the years 1995 (the first year of available data) through 2009 (based on returns filed in 2010, the latest available) produces an interesting outcome. As in Chart 1, above, the abutting counties are New London and Windham, in Connecticut, and Bristol, Norfolk, and Worcester, in Massachusetts.

Table 1 shows the net gain or loss for Rhode Island for each year and in aggregate. For most purposes, taxpayers (defined per tax return) are equivalent to households, while exemptions can be considered a stand-in for number of individual people.

Table 1

Rhode Island's Net Taxpayer Migration to Abutting Counties

Tax Year	Net		
	Taxpayers (Households)	Exemptions (People)	AGI ($000)
1995	-268	-685	-10,491
1996	-106	-415	-13,349
1997	-96	-317	-7,828
1998	194	116	-459
1999	314	450	590
2000	674	1,133	33,089
2001	627	1,006	30,205
2002	406	570	21,177
2003	-34	-486	-13,366
2004	-651	-1,753	-46,107
2005	-802	-2,110	-58,587
2006	-547	-1,472	-22,932
2007	-587	-1,465	-49,771
2008	-420	-972	-28,585
2009	-220	-612	-29,767
Total	***-1,516***	***-7,012***	***-196,181***

Source: Internal Revenue Service and Rhode Island Center for Freedom and Prosperity

From 1995 to 2010, Rhode Island has lost a net of 1,516 taxpayers, 7,012 exemptions, and $196.2 million in AGI (not adjusted for inflation).

Keep in mind that the income loss estimate is based on the net out-flow of income in only the year of migration. In that regard, the total at the bottom of the table can be considered the annual loss. When people leave, their income is lost to the state forever, meaning the compounded losses are significantly larger. A dollar lost 15 years ago represents $15 lost since then.

The income estimates also do not factor in the multiplier effect on Rhode Island's economy as money ripples from hand to hand. A dollar spent may eventually become $3 or $4 in total economic activity.

In other words, between the assumption that former Rhode Islanders have not seen their income increase, even by inflation, and the narrow view of income only (disregarding its effect in commerce), this is a very conservative estimate of the hit to the local economy.

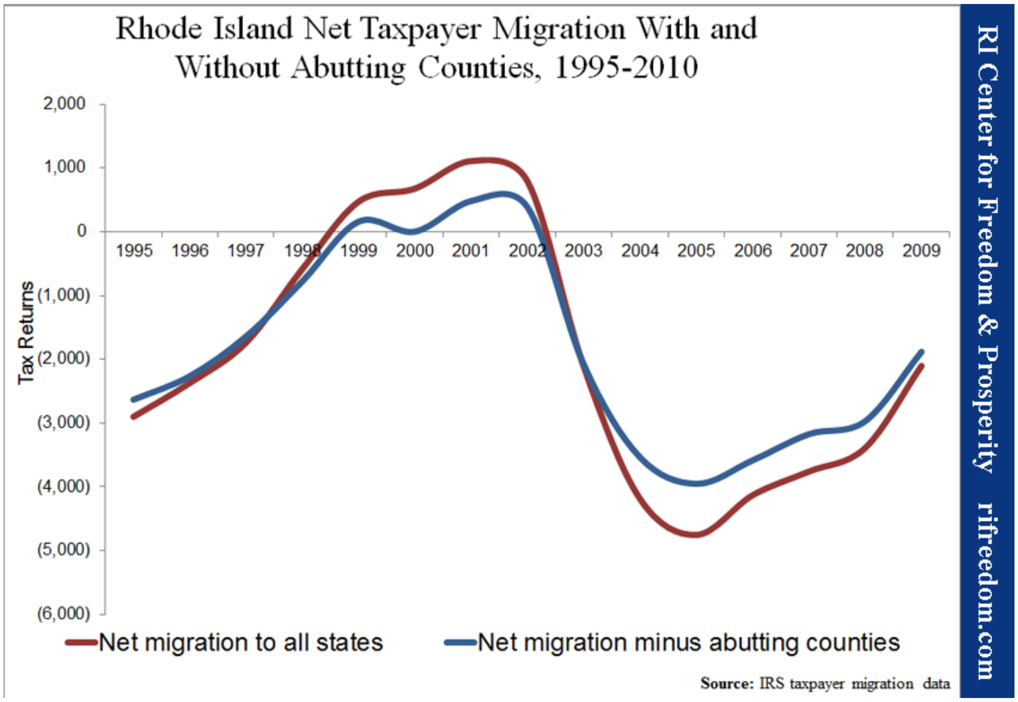
The silver lining enters the picture with Chart 2, which shows Rhode Island's net migration between all states and net migration subtracting out the exchanges with border counties. For most years, Rhode Island has had net out-migration. And the overall ebb and flow is in the same direction for migrants near and far.

Interestingly, however, note the substantial gap between the two lines. With the exclusion of border counties, both the in-flow of taxpayers during good years and the out-flow during bad years would be mitigated. This suggests that nearby communities are especially susceptible to trends and policies that encourage immigration or emigration.

Recommendation

While Rhode Island suffers from a chronic problem of out-migration, the large number of former Rhode Islanders who have only moved across the border should be the easiest to convince to return. (See Table 2.) Such families did not move for regional reasons, such as weather, and their behavior suggests a desire to remain near local communities. Even less effort should be required to halt the exodus in the first place.

Chart 2



Policymakers and others interested in turning Rhode Island around should take note that the gradual softening of out-migration from the state in the latter half of the last decade corresponded with a period of capital-gains-tax phase out and an annual lowering of the flat tax on higher incomes. Since then, both policies have been arrested, and the most prominent debate on taxes recently has been whether to lunge in the opposite direction.

A state in its 41st month of unemployment above 10% — and likely its tenth year of net taxpayer out-migration — cannot afford to wait for the IRS to release data reflecting that about-face in the wrong direct. Already the General Assembly wasted its 2012 session, as an RI Center for Freedom & Prosperity analysis suggested.[10] With no major positive changes to economic policy, the legislature further ratcheted up the burden on active and productive Rhode Islanders through new taxes, fees, and tolls.

The debate about residents' motivation for moving is intricate and heated, yet one substantial factor that few would dispute is the influence of optimism or pessimism. Whatever else may be going on in a family's life, it is more difficult to leave a state that one believes to be headed in the right direction. And it is much easier to decide to transplant to an area that actually lives up to Rhode Island's motto of "Hope."

Toward that end, the state should pursue a bold strategy that makes the statement that it has learned from its time in the economic desert. Incremental improvements and technocratic adjustments will not do. Therefore, the Center sees in its study of income-taxpayer migration further support of its proposed *Zero.Zero* program to eliminate Rhode Island's sales tax.[11]

After all, nothing draws income as directly as employment, and nothing attracts Americans so well as the opportunity to live the American Dream.

WHAT IS THE IRS MIGRATION DATA?

The IRS data used in this study derives from the tax year 1995 to 2009 County-to-County Migration Data-Set (SSMD) that is published annually by the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS). To qualify for inclusion in the SSMD, the IRS compares address information supplied on the taxpayer's tax form between two years. If the address is different in year 2 from year 1, then the taxpayer is classified as a "migrant"; otherwise, the taxpayer is classified as a "non-migrant."

Law requires the IRS to ensure that its products do not reveal taxpayer identities. Therefore, the IRS lumps counties with taxpayer movement below 10 into a residual category in order to prevent identification. As a result, the exact movement of all taxpayers between counties is unknown except in these more general terms. These excluded residuals could slightly increase or decrease the final numbers shown in the tables and charts presented in this document.

The major strength of the SSMD is that it is based on actual data — not a survey — that is enforced with criminal penalties. This makes it especially reliable as a data source given people's incentive to be truthful in their data reporting. In addition, the SSMD includes reported AGI, which allows researchers to not only track population flows, but also income flows.

The major weakness of the SSMD is that it excludes certain segments of the population. First, it excludes low-income groups such as students, welfare-recipients, and the elderly for whom standard deductions and exemptions are greater than income. Second, the very wealthy are under-represented because they are more likely to request filing extensions and miss the late September cut-off for inclusion into the dataset. Finally, it may miss taxpayers who changed filing status — especially from "married filing joint" to "married filing separately."

Table 2

Net Taxpayer Migration from RI Counties to MA and CT Abutting Counties, 2003 to 2010

RI County	Abutting County	Net		
		Taxpayers (Households)	Exemptions (People)	AGI ($000)
Bristol	New London, CT	10	16	246
	Windham, CT	0	0	0
	Bristol, MA	(174)	(348)	(11,966)
	Norfolk, MA	(26)	10	(1,823)
	Worcester, MA	15	9	(51)
Kent	New London, CT	(57)	(96)	(3,947)
	Windham, CT	(385)	(910)	(24,047)
	Bristol, MA	15	(15)	(5,962)
	Norfolk, MA	(116)	(162)	(9,341)
	Worcester, MA	(3)	(73)	(4,656)
Newport	New London, CT	(18)	(44)	(1,698)
	Windham, CT	(10)	(13)	(736)
	Bristol, MA	(291)	(400)	(4,291)
	Norfolk, MA	16	40	4,206
	Worcester, MA	56	75	9,201
Providence	New London, CT	(61)	(174)	(5,812)
	Windham, CT	(979)	(2,266)	(59,026)
	Bristol, MA	(324)	(2,168)	(59,223)
	Norfolk, MA	(172)	(396)	(8,595)
	Worcester, MA	(328)	(1,091)	(37,872)
Washington	New London, CT	(473)	(1,011)	(30,099)
	Windham, CT	(89)	(174)	(5,753)
	Bristol, MA	2	48	(585)
	Norfolk, MA	(29)	11	5,225
	Worcester, MA	15	64	2,147

Source: Internal Revenue Service and Rhode Island Center for Freedom and Prosperity

End Notes:

[1] For town-by-town analyses of population and employment trends, see the *Ocean State Current's* three-part series, "Rhode Island Cities and Towns, Where They Are and Where They've Been," starting here: http://oceanstatecurrent.com/analysis/rhode-island-cities-and-towns-where-they-are-and-where-theyve-been-part-1/

[2] The official count-by-county data is available on a fee basis through the IRS Web site, here: http://www.irs.gov/taxstats/article/0,,id=212683,00.html. However, the Tax Foundation makes aggregate state data available via an interactive online tool: http://interactive.taxfoundation.org/migration/

[3] State Director of Revenue Analysis Paul Dion provided the average effective tax rate.

[4] Rhode Island's gross state product for all industries was $50.1 billion in 2011: http://www.bea.gov/regional/index.htm

[5] Tax burden estimates are based on data from the U.S. Department of Commerce: Census Bureau (http://www.census.gov/govs/www/taxgen.html) and Bureau of Economic Analysis (http://bea.gov/regional/index.htm). Private sector personal income equals total personal income minus government compensation and personal current transfer receipts (Social Security, Medicare, Medicaid, etc.).

[6] For one example, review state comparisons of results on the National Assessment of Educational Progress (NAEP) tests provided by the National Center for Education Statistics: http://nces.ed.gov/nationsreportcard/statecomparisons/

[7] See: http://www.rifreedom.org/2012/02/rhody-fails-report-card/

[8] Florida was the second-most-common destination for leaving Rhode Islanders, but it was by far the greatest net recipient of AGI from former residents, accounting for $556.8 million of RI's loss from 2003 to 2010.

[9] IRS restrictions make precision impossible with this particular data. 110,207 income-tax-filers did indeed leave Rhode Island over this timeframe. However, 40,017 went to either Massachusetts or Connecticut. Our total differs (at 38,820) because the IRS cannot give county-to-county results where the number would be below 10; then it might be possible to determine who the individuals were, which would violate the law. We chose to account for that differential in the step between nationwide results to neighboring states so that the step from neighboring states to abutting counties would be more accurate.

[10] See, "Progress Report: 2013 Budget Does Not Improve Failing Report Card," 6/18/12 : http://www.rifreedom.org/2012/06/progress-report-2013-budget-does-not-improve-failing-report-card/

[11] For details and supporting information, see: http://www.rifreedom.org/2012/06/zero-zero-2/