"Leaving Rhode Island"
Policy Lessons from Rhode Island's Exodus of People and Money

An analysis of the migration of people and wealth into and out of Rhode Island

Ocean State Policy Research Institute

"Leaving Rhode Island"
Policy Lessons from Rhode Island's Exodus of People and Money

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Introduction

"Last one out turn off the lights."

"Get your pension and move to Florida—the Rhode Island Dream."

"The Brain Drain."

"Voting with your feet."

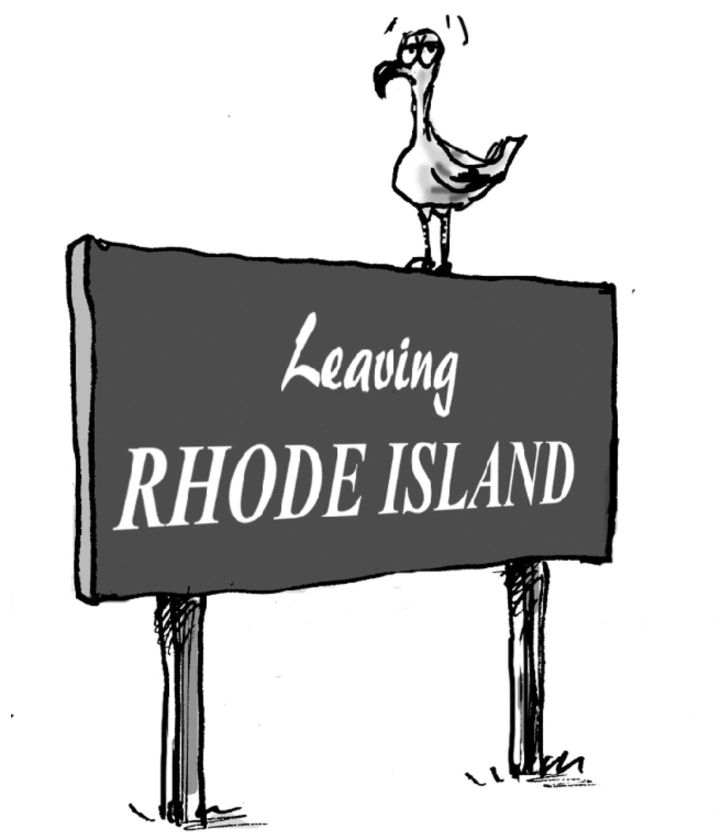
For quite a few years quotes like those have been used to illustrate the feeling that people are leaving Rhode Island for greener pastures elsewhere. Now we have the statistics to prove it.

Our weather isn't the greatest, but Rhode Island is a beautiful state. There are lots of beaches and we are small enough that everything is around the corner and everyone is your neighbor. So, why are people leaving.

This study looks at Census data and IRS tax return information for all years available—the last 13 years—and attempts to identify the dynamics of RI's population and wealth migration. Are they leaving? Where are they going? What is so attractive about those other states?

We hope to provide an understanding of why people are leaving Rhode Island and what the financial costs of that out-migration has been.

While the data is clear that people have been moving out of the state at a disproportionably high rate, the most significant impact has been due to states offering a more competitive estate tax environment. This is especially true in terms of where wealth has migrated to.



Executive Summary

FROM 1995 TO 2007 RHODE ISLAND COLLECTED $341.3 MILLION FROM THE ESTATE TAX WHILE IT LOST $540 MILLION IN OTHER TAXES DUE TO OUT-MIGRATION

Migration between the U.S. states is the ultimate expression of "voting with your feet." This study undertakes a thorough examination of Rhode Island's migration patterns to better understand progress on important public policy issues. Key findings include:

- Rhodes Island lost a net of 107,086 residents to other states between 1991 and 2009, or about one in ten current residents.

- The top states that people from Rhode Island move to are Florida, North Carolina, Virginia, Georgia, and Texas.

- The top states that people move into Rhode Island from are New York, Massachusetts, New Jersey, California and Illinois.

- Between 1995 and 2007, total net income (in–migration minus out-migration) leaving the state averaged $78,468,000 every year translating into a total loss of over $1 billion. Had this income stayed in Rhode Island, state and local governments would have collected an average of $9,111,000 every year translating into a total loss of over $118,449,000 in additional taxes. But this data does not reflect the compound effect needed to accurately reflect the fact that the person moving out of RI in 1995 did not move back in 1996.

- Of course, when someone leaves permanently, state and local governments don't just lose income and taxes for that one year, but rather for all future years as well. If the annual income and tax loss are compounded over the thirteen years examined in this study, the state has cumulatively lost $4.6 billion in income and $540 million in state and local tax revenue due to out-migration.

- From 1995 to 2007 Rhode Island collected $341.3 million from the estate tax. During the most recent year, the state only collected $27 million.

- People move to states where the weather is warmer, taxes are lower, union membership is lower, population density is lower, and the cost of housing is lower.

- The most significant driver of out-migration is the estate tax, especially considering that the number one destination state for former Rhode Island residents is Florida, a state with no estate tax (or individual income tax).

- It is no surprise that after Florida's estate tax disappeared in 2004, the level of Rhode Island's out-migration significantly accelerated. In fact, almost $900 million of all income lost (of the $1 billion total) due to out-migration happened after 2004, of which over $400 million went to Florida.

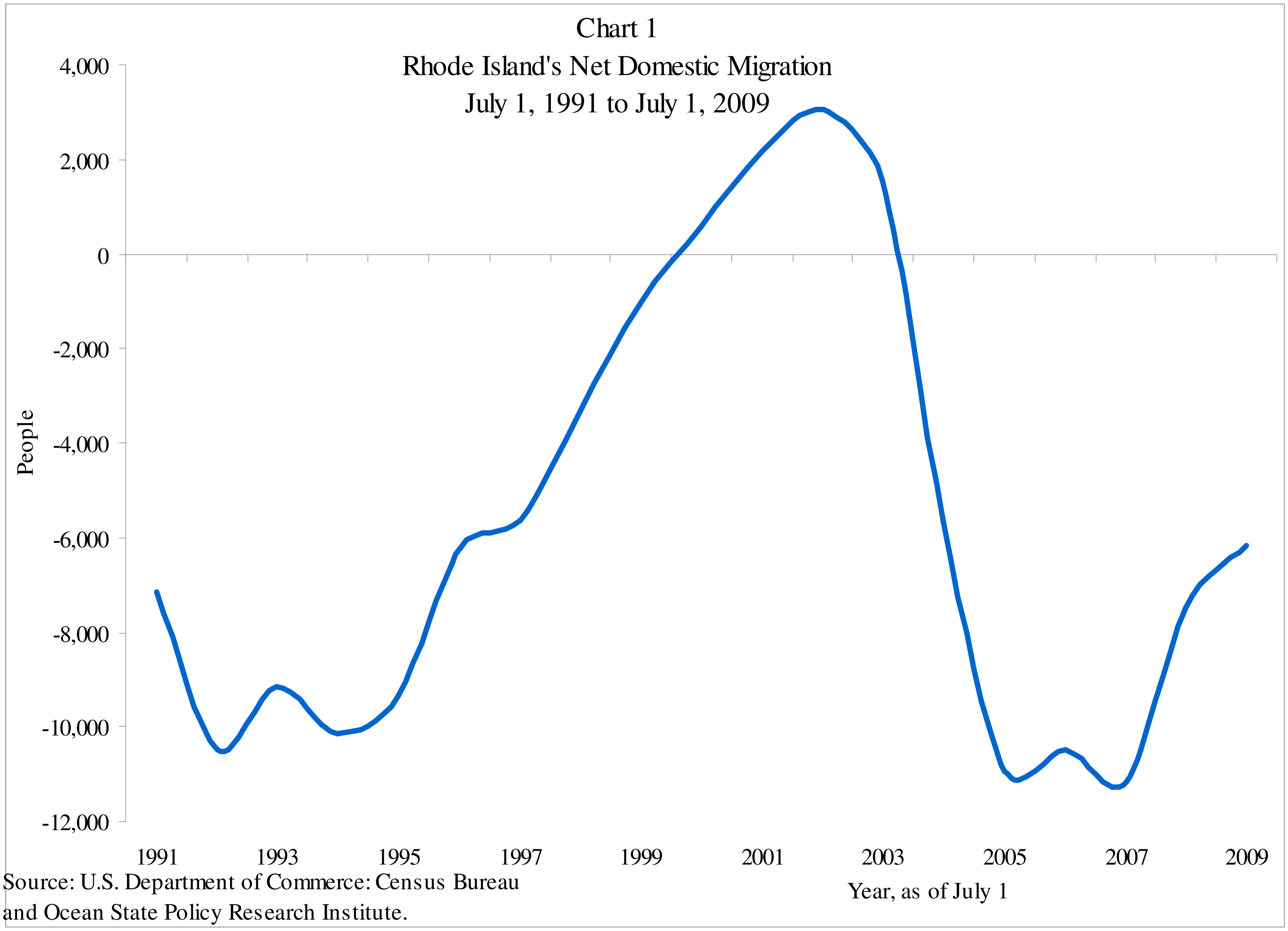
- Prior to 2004, Rhode Island had a gross average annual income loss of $580,934,000, but after the elimination of the estate tax our gross average loss of income increased by an alarming 44 percent to $833,992,000.

- Additional analysis also shows a negative post-2004 effect on Rhode Island's capital income (interest, dividends and capital gains) and high-income taxpayers.

THE MOST SIGNIFICANT DRIVER OF OUT-MIGRATION FOUND IN THIS STUDY IS THE ESTATE TAX

Measuring Rhode Island's Out-Migration Problem

The most comprehensive data available on domestic migration comes from the U.S. Department of Commerce's Census Bureau.[1] Chart 1 and Table 1 show between 1991 and 2009, Rhode Island lost 107,086 residents from other states—or the equivalent of one in ten residents. Additionally, despite a short respite between 2000 and 2003, Rhode Island has lost residents to out-migration in every year losing an average of 5,636 people per year. Clearly Rhode Island has a severe out-migration problem.



However, while the Census Bureau data is comprehensive, it is also very shallow in terms of the information provided about the migrants. Fortunately, the Internal Revenue Service (IRS) provides an annual snapshot of taxpayer migration using tax returns which provides for a much richer picture of migrants (see Methodology section).[2]

Since the IRS has access to actual tax returns, the information contained is very useful: the tax return itself is a good proxy for the number of households; the number of exemptions claimed on the tax return is a good proxy for the number of people in the household; and the reported Adjusted Gross Income (AGI) on the tax return is a good proxy of household income.

Table 1 Rhode Island's Net Domestic Migration July 1, 1991 to July 1, 2009		
Year, as of July 1	Net Domestic Migration	Aggregate Change
1991	(7,144)	(7,144)
1992	(10,479)	(17,623)
1993	(9,139)	(26,762)
1994	(10,138)	(36,900)
1995	(9,343)	(46,243)
1996	(6,223)	(52,466)
1997	(5,645)	(58,111)
1998	(3,361)	(61,472)
1999	(1,029)	(62,501)
2000 (a)	574	(61,927)
2001	2,177	(59,750)
2002	3,061	(56,689)
2003	1,548	(55,141)
2004	(5,682)	(60,823)
2005	(10,940)	(71,763)
2006	(10,502)	(82,265)
2007	(11,151)	(93,416)
2008	(7,498)	(100,914)
2009	(6,172)	(107,086)

(a) Interpolated.

Source: U.S. Department of Commerce: Census Bureau and Ocean State Policy Research Institute.

Rhode Island lost a net of 107,086 residents to other states between 1991 and 2009, or about one in ten current residents.

Table 2 and Chart 2 shows the aggregate migration data from the IRS for Rhode Island. In 2007 (the latest data available), 16,172 taxpayers, or households, left the state while 12,412 taxpayers entered the state—for a net loss of 3,760 taxpayers. Overall, Rhode Island also lost 7,231 exemptions (people) and $244,631,000 in AGI (income).

For the entire time-period between 1995 and 2007, Rhode Island has lost 23,783 taxpayers (household), 44,701 exemptions (people) and $1,020,078,000 in AGI (income, in nominal dollars). More disturbingly, as shown in Chart 3, AGI plummets after 2004 driven by a surge in the out-migration of income. In fact, between 1995 and 2003, the average annual income out-migration was $580,934,000; whereas in 2004 and beyond the average annual income out-migration jumped by 44 percent to $833,992,000. But those numbers show an average over time, the averages of individual taxpayers also shows an alarming increase of wealth leaving the state.

CLEARLY, THE STATE HAS BEEN LOSING WEALTH FOR A LONG TIME BUT NOW THERE ARE NOT ONLY MORE PEOPLE TAKING MONEY OUT OF THE STATE BUT THEY ARE ALSO WEALTHIER ON AVERAGE

The average AGI per taxpayer moving out of Rhode Island prior to 2004 was $42,709 but after that it jumped overnight to an average of $50,471. The out-migration of wealth on an individual basis has grown by 18% while the increase of our loss on an annual basis has been 44%. Clearly, the state has been losing wealth for a long time but now there are not only more people taking money out of the state but they are also wealthier on average. As a result, both factors contribute to even more money leaving the state.

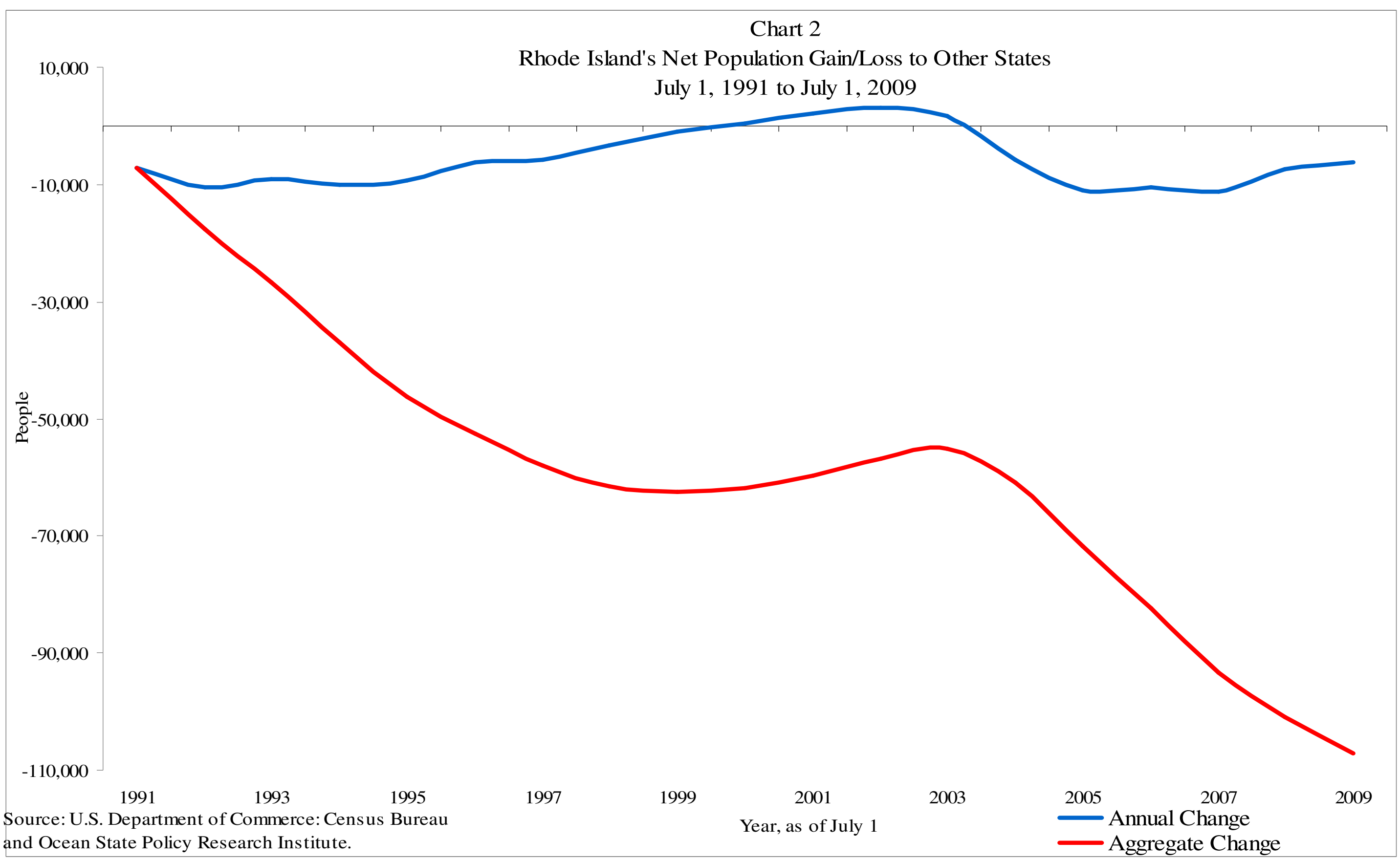


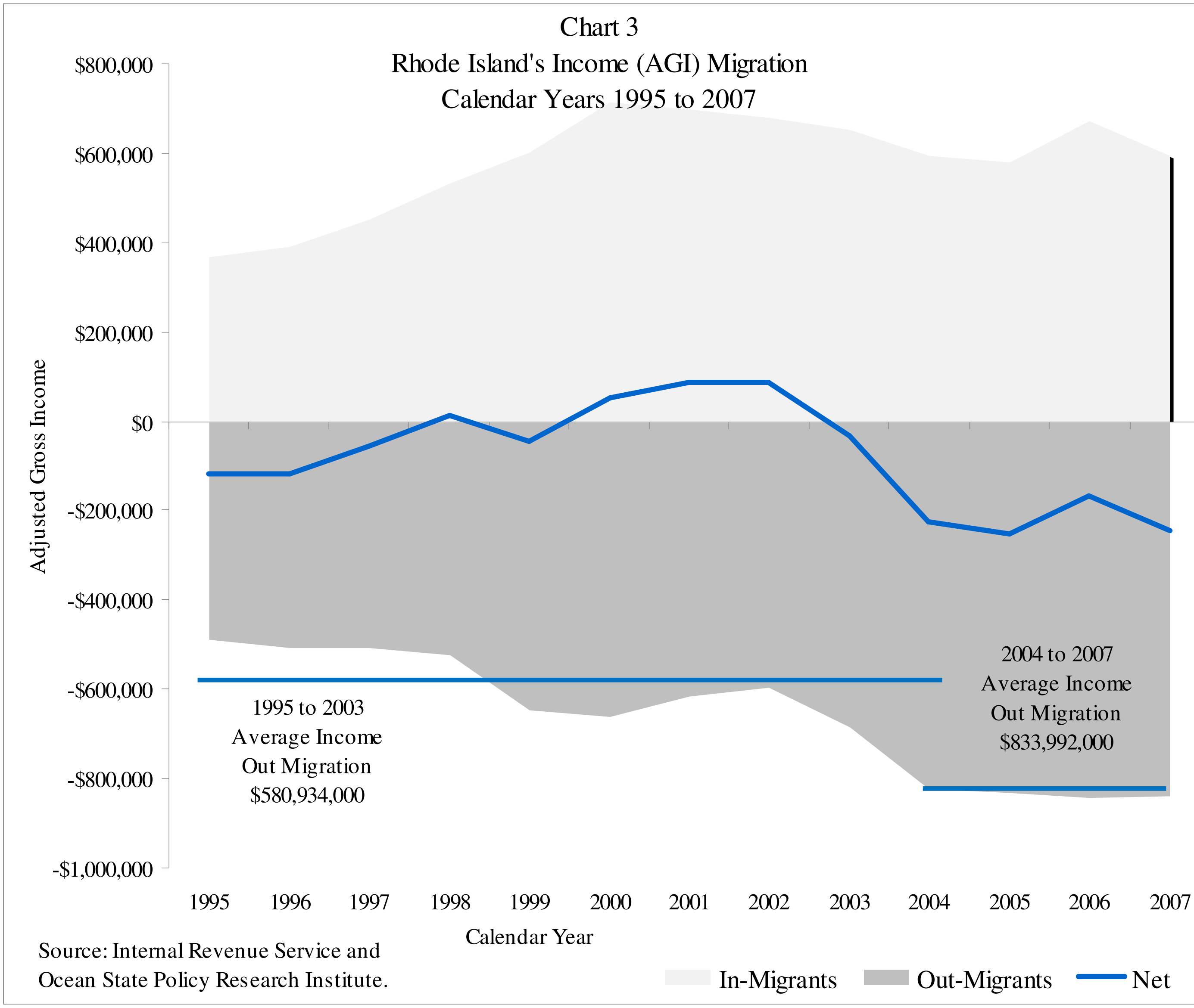
Table 2

Rhode Island's Net Taxpayer Migration

Tax Year 1995 to 2007

Tax Year	In-Migrants			Out-Migrants			Net		
	Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI
1995	10,492	18,848	367,760	13,392	23,899	485,733	(2,900)	(5,051)	(117,973)
1996	10,892	19,386	389,678	13,263	23,860	507,991	(2,371)	(4,474)	(118,313)
1997	11,434	20,240	453,500	13,171	23,281	508,354	(1,737)	(3,041)	(54,854)
1998	12,478	22,117	534,647	13,060	22,764	522,732	(582)	(647)	11,915
1999	13,506	23,983	604,587	13,032	22,451	646,934	474	1,532	(42,347)
2000	14,314	24,957	714,848	13,636	23,196	662,625	678	1,761	52,223
2001	14,834	26,079	700,341	13,723	23,512	615,243	1,111	2,567	85,098
2002	14,498	25,329	680,650	13,705	24,085	595,217	793	1,244	85,433
2003	13,181	22,780	652,765	15,297	27,244	683,577	(2,116)	(4,464)	(30,812)
2004	12,467	21,332	596,723	16,655	30,209	823,479	(4,188)	(8,877)	(226,756)
2005	12,295	20,730	580,290	17,049	30,730	830,886	(4,754)	(10,000)	(250,596)
2006	12,128	20,569	673,366	16,259	28,589	841,831	(4,131)	(8,020)	(168,465)
2007	12,412	20,504	595,139	16,172	27,735	839,770	(3,760)	(7,231)	(244,631)
Total	***164,931***	***286,854***	***7,544,294***	***188,414***	***331,555***	***8,564,372***	***(23,483)***	***(44,701)***	***(1,020,078)***

Source: Internal Revenue Service and Ocean State Policy Research Institute.



THE OUT-MIGRATION OF WEALTH ON AN INDIVIDUAL BASIS HAS INCREASED BY 18% WHILE THE INCREASE OF OUR LOSS ON AN ANNUAL BASIS HAS GROWN BY 44%

Where are the Out-Migrants Going

The IRS data also provides migrant data by state which is useful in determining where out-migrants are going and where in-migrants are coming from. Tables 3a, 3b and 3c ranks the net migration totals for the years 1995 to 2007 for taxpayers, exemptions and AGI, respectively.[3]

As shown in Table 3a, the top taxpayer (household) out-migrant states (destination states) are Florida (13,318), North Carolina (2,219), Virginia

(1,998), Georgia (1,430), and Texas (1,079). On the other hand, the top taxpayer in-migrant states are New York (2,543), Massachusetts (1,801), New Jersey (804), Ohio (119) and Michigan (80). Overall, Rhode Island loses taxpayers to 41 states while gaining taxpayers from only 9 states.

As shown in Table 3b, the top exemption (people) out-migrant states are Florida (25,993), North Carolina (4,465), Virginia (4,430), Georgia (3,076) and Texas (2,502). On the other hand, the top exemption in-migrant states are New York (6,763), Massachusetts (3,571), New Jersey (1,631), California (1,351) and Illinois (149). Overall, Rhode Island loses exemptions to 41 states while gaining exemptions from 9 states.

As shown in Table 3c, the top AGI (income) out-migrant states are Florida ($775,297,000), North Carolina ($97,505,000), New Hampshire ($86,795,000), Virginia ($80,291,000) and Kentucky ($72,855,000). On the other hand, the top AGI in-migrant states are New York ($160,953,000), Connecticut ($106,579,000), Massachusetts ($65,523,000), New Jersey ($58,748,000) and Ohio ($27,200,000). Overall, Rhode Island loses AGI to 35 states while gaining AGI from only 15 states.

Table 3a
Net Rhode Island Migration to Other States
Sorted by ***Taxpayers (*)***
Tax Years 1995 to 2007

State	***Taxpayers***	***Rank***	Exemptions	AGI
Florida	***(13,318)***	***1***	(25,993)	(775,297)
North Carolina	***(2,219)***	***2***	(4,465)	(97,505)
Virginia	***(1,998)***	***3***	(4,430)	(80,291)
Georgia	***(1,430)***	***4***	(3,076)	(56,413)
Texas	***(1,079)***	***5***	(2,502)	(38,061)
South Carolina	***(1,013)***	***6***	(2,237)	(65,717)
Arizona	***(996)***	***7***	(1,653)	(51,179)
California	***(793)***	***8***	1,351	14,372
Maryland	***(748)***	***9***	(1,075)	(6,039)
New Hampshire	***(729)***	***10***	(1,766)	(86,795)
Maine	***(711)***	***11***	(1,890)	(39,964)
Nevada	***(558)***	***12***	(774)	(21,874)
Colorado	***(350)***	***13***	(542)	(30,626)
Tennessee	***(345)***	***14***	(878)	(7,950)
District of Columbia	***(296)***	***15***	(223)	(1,502)
Connecticut	***(285)***	***16***	(2,023)	106,579
Oregon	***(246)***	***17***	(420)	(8,326)
Alabama	***(178)***	***18***	(404)	(13,654)
Washington	***(161)***	***19***	110	(5,933)
New Mexico	***(144)***	***20***	(167)	(5,693)
Vermont	***(143)***	***21***	(370)	(19,645)
Mississippi	***(122)***	***22***	(323)	(3,732)
Minnesota	***(121)***	***23***	(414)	10,095
Hawaii	***(115)***	***24***	(82)	(3,100)
Delaware	***(114)***	***25***	(252)	(4,556)
Oklahoma	***(84)***	***26***	(172)	(818)
Arkansas	***(82)***	***27***	(183)	(3,591)
Kentucky	***(77)***	***28***	(152)	(72,855)
Missouri	***(60)***	***29***	(335)	(3,012)
Louisiana	***(56)***	***30***	19	6,322
Idaho	***(50)***	***31***	(106)	(249)
Pennsylvania	***(41)***	***32***	(694)	2,895
Nebraska	***(40)***	***33***	(231)	(744)
Indiana	***(36)***	***34***	(152)	2,500
Illinois	***(33)***	***35***	149	19,508
Wisconsin	***(32)***	***36***	(146)	(5,394)
Montana	***(30)***	***37***	(32)	(1,671)
Wyoming	***(21)***	***38***	(17)	(461)
Utah	***(20)***	***39***	(54)	(1,919)
Alaska	***(15)***	***40***	0	(437)
North Dakota	***(3)***	***41***	(13)	(343)
South Dakota	***1***	***42***	(24)	(389)
Kansas	***3***	***43***	(58)	621
Iowa	***12***	***44***	(10)	672
West Virginia	***30***	***45***	(20)	1,216
Michigan	***80***	***46***	13	17,145
Ohio	***119***	***47***	(172)	27,200
New Jersey	***804***	***48***	1,631	58,748
Massachusetts	***1,801***	***49***	3,751	65,523
New York	***2,543***	***50***	6,763	160,953

Source: Internal Revenue Service and Ocean State Policy Research Institute.
* "Taxpayers" are the number of tax returns filed.

Table 3b Net Rhode Island Migration to Other States Sorted by ***Exemptions (*)*** Tax Years 1995 to 2007				
State	Taxpayers	***Exemptions***	***Rank***	AGI
Florida	(13,318)	***(25,993)***	***1***	(775,297)
North Carolina	(2,219)	***(4,465)***	***2***	(97,505)
Virginia	(1,998)	***(4,430)***	***3***	(80,291)
Georgia	(1,430)	***(3,076)***	***4***	(56,413)
Texas	(1,079)	***(2,502)***	***5***	(38,061)
South Carolina	(1,013)	***(2,237)***	***6***	(65,717)
Connecticut	(285)	***(2,023)***	***7***	106,579
Maine	(711)	***(1,890)***	***8***	(39,964)
New Hampshire	(729)	***(1,766)***	***9***	(86,795)
Arizona	(996)	***(1,653)***	***10***	(51,179)
Maryland	(748)	***(1,075)***	***11***	(6,039)
Tennessee	(345)	***(878)***	***12***	(7,950)
Nevada	(558)	***(774)***	***13***	(21,874)
Pennsylvania	(41)	***(694)***	***14***	2,895
Colorado	(350)	***(542)***	***15***	(30,626)
Oregon	(246)	***(420)***	***16***	(8,326)
Minnesota	(121)	***(414)***	***17***	10,095
Alabama	(178)	***(404)***	***18***	(13,654)
Vermont	(143)	***(370)***	***19***	(19,645)
Missouri	(60)	***(335)***	***20***	(3,012)
Mississippi	(122)	***(323)***	***21***	(3,732)
Delaware	(114)	***(252)***	***22***	(4,556)
Nebraska	(40)	***(231)***	***23***	(744)
District of Columbia	(296)	***(223)***	***24***	(1,502)
Arkansas	(82)	***(183)***	***25***	(3,591)
Ohio	119	***(172)***	***26***	27,200
Oklahoma	(84)	***(172)***	***27***	(818)
New Mexico	(144)	***(167)***	***28***	(5,693)
Indiana	(36)	***(152)***	***29***	2,500
Kentucky	(77)	***(152)***	***30***	(72,855)
Wisconsin	(32)	***(146)***	***31***	(5,394)
Idaho	(50)	***(106)***	***32***	(249)
Hawaii	(115)	***(82)***	***33***	(3,100)
Kansas	3	***(58)***	***34***	621
Utah	(20)	***(54)***	***35***	(1,919)
Montana	(30)	***(32)***	***36***	(1,671)
South Dakota	1	***(24)***	***37***	(389)
West Virginia	30	***(20)***	***38***	1,216
Wyoming	(21)	***(17)***	***39***	(461)
North Dakota	(3)	***(13)***	***40***	(343)
Iowa	12	***(10)***	***41***	672
Alaska	(15)	***0***	***42***	(437)
Michigan	80	***13***	***43***	17,145
Louisiana	(56)	***19***	***44***	6,322
Washington	(161)	***110***	***45***	(5,933)
Illinois	(33)	***149***	***46***	19,508
California	(793)	***1,351***	***47***	14,372
New Jersey	804	***1,631***	***48***	58,748
Massachusetts	1,801	***3,751***	***49***	65,523
New York	2,543	***6,763***	***50***	160,953
Source: Internal Revenue Service and Ocean State Policy Research Institute. * "Exemptions" are all people represented on the tax return.				

Table 3c Net Rhode Island Migration to Other States Sorted by ***AGI (*)*** Tax Years 1995 to 2007				
State	Taxpayers	Exemptions	***AGI***	***Rank***
Florida	(13,318)	(25,993)	***(775,297)***	***1***
North Carolina	(2,219)	(4,465)	***(97,505)***	***2***
New Hampshire	(729)	(1,766)	***(86,795)***	***3***
Virginia	(1,998)	(4,430)	***(80,291)***	***4***
Kentucky	(77)	(152)	***(72,855)***	***5***
South Carolina	(1,013)	(2,237)	***(65,717)***	***6***
Georgia	(1,430)	(3,076)	***(56,413)***	***7***
Arizona	(996)	(1,653)	***(51,179)***	***8***
Maine	(711)	(1,890)	***(39,964)***	***9***
Texas	(1,079)	(2,502)	***(38,061)***	***10***
Colorado	(350)	(542)	***(30,626)***	***11***
Nevada	(558)	(774)	***(21,874)***	***12***
Vermont	(143)	(370)	***(19,645)***	***13***
Alabama	(178)	(404)	***(13,654)***	***14***
Oregon	(246)	(420)	***(8,326)***	***15***
Tennessee	(345)	(878)	***(7,950)***	***16***
Maryland	(748)	(1,075)	***(6,039)***	***17***
Washington	(161)	110	***(5,933)***	***18***
New Mexico	(144)	(167)	***(5,693)***	***19***
Wisconsin	(32)	(146)	***(5,394)***	***20***
Delaware	(114)	(252)	***(4,556)***	***21***
Mississippi	(122)	(323)	***(3,732)***	***22***
Arkansas	(82)	(183)	***(3,591)***	***23***
Hawaii	(115)	(82)	***(3,100)***	***24***
Missouri	(60)	(335)	***(3,012)***	***25***
Utah	(20)	(54)	***(1,919)***	***26***
Montana	(30)	(32)	***(1,671)***	***27***
District of Columbia	(296)	(223)	***(1,502)***	***28***
Oklahoma	(84)	(172)	***(818)***	***29***
Nebraska	(40)	(231)	***(744)***	***30***
Wyoming	(21)	(17)	***(461)***	***31***
Alaska	(15)	0	***(437)***	***32***
South Dakota	1	(24)	***(389)***	***33***
North Dakota	(3)	(13)	***(343)***	***34***
Idaho	(50)	(106)	***(249)***	***35***
Kansas	3	(58)	***621***	***36***
Iowa	12	(10)	***672***	***37***
West Virginia	30	(20)	***1,216***	***38***
Indiana	(36)	(152)	***2,500***	***39***
Pennsylvania	(41)	(694)	***2,895***	***40***
Louisiana	(56)	19	***6,322***	***41***
Minnesota	(121)	(414)	***10,095***	***42***
California	(793)	1,351	***14,372***	***43***
Michigan	80	13	***17,145***	***44***
Illinois	(33)	149	***19,508***	***45***
Ohio	119	(172)	***27,200***	***46***
New Jersey	804	1,631	***58,748***	***47***
Massachusetts	1,801	3,751	***65,523***	***48***
Connecticut	(285)	(2,023)	***106,579***	***49***
New York	2,543	6,763	***160,953***	***50***
Source: Internal Revenue Service and Ocean State Policy Research Institute. * "AGI" is the adjusted gross income on the tax return.				

Why Should Policymakers Worry about Out-Migration

These out-migrants also take their incomes and purchasing power with them. As shown in Table 4 and Chart 4, between 1995 and 2007, the total amount of AGI leaving the state was at least $1,020,078,000 (nominal dollars). The greatest single-year out-flow of AGI was in 2005 at $250,596,000. More disturbingly, the out-flow of AGI has accelerated with $890,448,000 in AGI leaving the state just between 2004 and 2007.

Overall, had this income stayed in Rhode Island, state and local governments would have collected an estimated $118,449,000 in higher taxes, on an annual basis, over this time-period. This not only includes higher income taxes, but also higher sales taxes and property taxes.

Of course, when someone leaves, the lost revenue to state and local government isn't limited to the year the person left; it's lost for every year

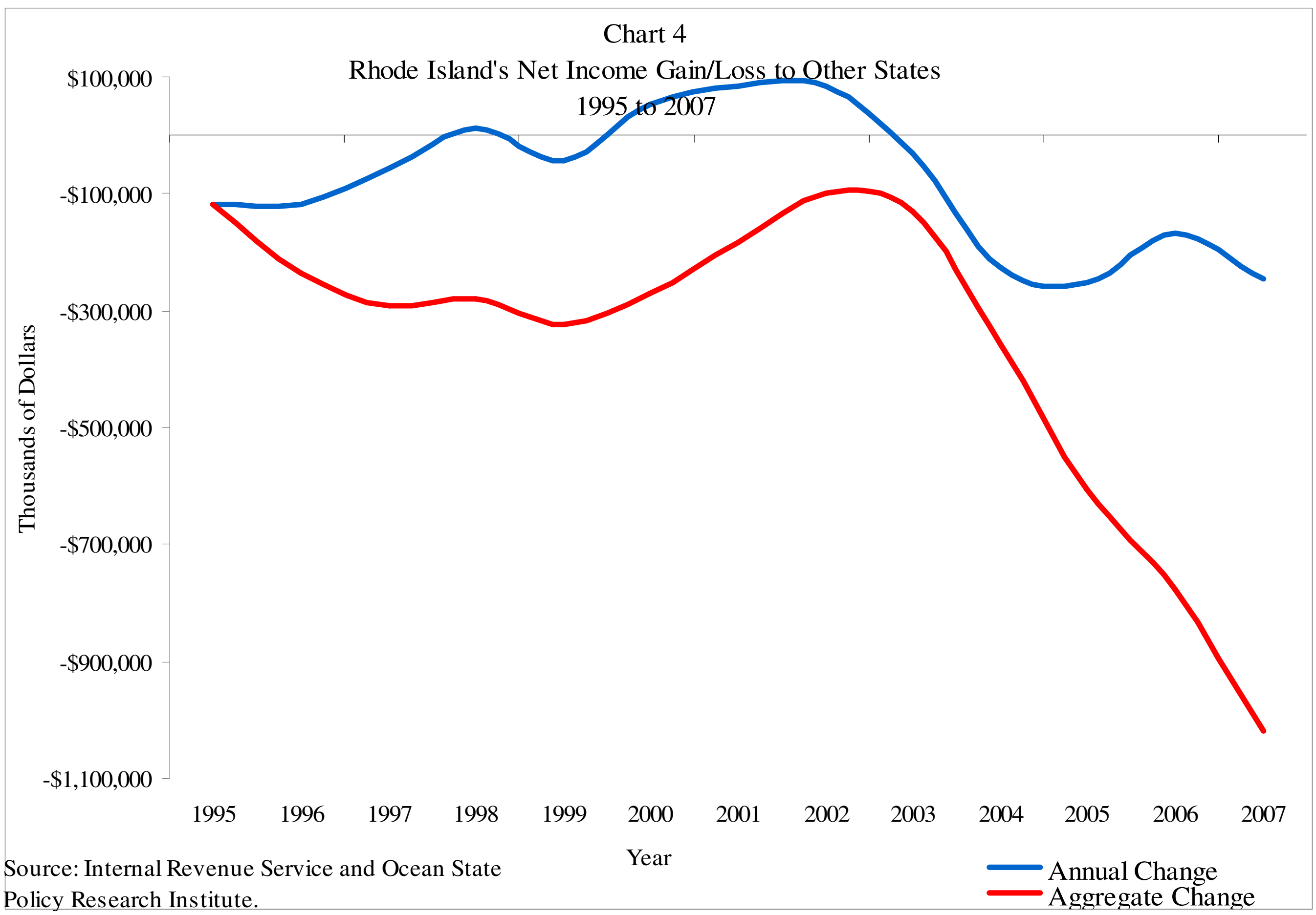
Table 4

Estimated State and Local Taxes Lost Due to Migration

Tax Years 1995 to 2007

Tax Year	Net AGI (1000s)	State and Local Tax Burden	Estimated Annual Tax Loss (1000s)	Aggregate Tax Loss, 1995 to 2007 (1000s)
1995	(117,973)	11.37%	(13,418)	(174,608)
1996	(118,313)	11.16%	(13,207)	(161,655)
1997	(54,854)	11.42%	(6,263)	(68,826)
1998	11,915	11.39%	1,357	13,589
1999	(42,347)	11.29%	(4,780)	(43,474)
2000	52,223	11.40%	5,956	47,717
2001	85,098	11.51%	9,796	68,050
2002	85,433	10.77%	9,203	58,484
2003	(30,812)	11.07%	(3,412)	(17,773)
2004	(226,756)	11.44%	(25,950)	(105,688)
2005	(250,596)	11.82%	(29,614)	(88,121)
2006	(168,465)	11.81%	(19,903)	(39,332)
2007	(244,631)	11.53%	(28,212)	(28,212)
Total	***(1,020,078)***	--	***(118,449)***	***(539,849)***

Note: Not adjusted for inflation.
Source: Internal Revenue Service, U.S. Department of Commerce: Bureau of Economic Analysis and Census Bureau, and Ocean State Policy Research Institute.



Source: Internal Revenue Service and Ocean State Policy Research Institute.

moving forward, too. Compounding the tax losses over the thirteen years considered above, the total tax losses come to roughly $539,849,000 (not adjusted for inflation).

Reversing Out-Migration:

Rhode Island's motto is "Hope" and we all certainly hope things turn around. But how will it happen?

While Rhode Island has been losing population proportionally more than most other states over the 13 years studied, the recent impact of the estate tax, or more accurately, the recent impact of an option not to pay an estate tax, has had a significant impact.

As seen in Table 5, Rhode Island places a higher tax burden on its residents in 4 of the 5 criteria listed, but the migration data indicate the Estate Tax has the most significant impact on the migration of wealth.

Reversing Rhode Island's out-migration problem requires an understanding of why residents are leaving. As shown in Table 6, one way to do this is by comparing various characteristics of Rhode Island versus the destination states. In economic terms, out-migrants are expressing their "revealed preferences" by moving to another state more in-line with their preferences and values. We compare Rhode Island to these destination states via four common variables used in migration studies—state and local tax burdens, union membership, population density, cost-of-housing and average temperature. Additionally, to provide more clarity on the tax issue, state and local tax burdens are further analyzed more specifically by income tax burdens and estate tax burdens.[4]

Table 5

Comparative State and Local Tax Burdens as a Percent of Personal Income

Top 10 States as Sorted by AGI (Income)
Fiscal Years 1995 to 2007

State	State and Local Tax Burden (a)	Individual Income Tax Burden (a)	Sales Tax Burden (a)	Property Tax Burden (a)	Estate Tax Burden (b)
Florida	9.6%	0.0%	3.3%	3.4%	0.00%
North Carolina	10.0%	3.2%	2.2%	2.3%	0.04%
New Hampshire	8.5%	0.2%	0.0%	5.3%	0.00%
Virginia	9.6%	2.9%	1.5%	2.9%	0.00%
Kentucky	10.7%	3.4%	2.3%	1.9%	0.03%
South Carolina	9.7%	2.3%	2.5%	2.9%	0.00%
Georgia	10.0%	2.7%	3.0%	2.8%	0.00%
Arizona	10.2%	1.6%	3.9%	3.0%	0.00%
Maine	12.7%	3.0%	2.4%	5.1%	0.07%
Texas	9.5%	0.0%	3.0%	3.9%	0.00%
Rhode Island	11.4%	2.6%	2.1%	4.7%	0.06%

(a) Tax burden averaged over the 1995 to 2007 time-period.

(b) Estate tax burden for 2009.

Source: U.S. Department of Commerce: Census Bureau and Bureau of Economic Analysis and Ocean State Policy Research Institute.

State and Local Tax Burden: This variable measures total state and local taxes collected as a percent of personal income as averaged over the 1995 to 2007 time-period.[5] Rhode Island's average tax burden was 11.4 percent. Taxpayers left for states where tax burdens were 13.17 percent lower (9.9 percent), while exemptions were 13.2 percent lower (9.9 percent) and AGI was 14.03 percent lower (9.8 percent).[6] Overall, AGI was most sensitive to state and local tax burdens.

Income Tax Burden: This variable measures total state and local income taxes collected as a percent of personal income as averaged over

Table 6 Netted Values of Key Variables Tax Years 1995 to 2007							
Variable	Rhode Island	Weighted Average of Other States			Percent Difference		
		Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI
State and Local Tax Burden	11.40%	9.90%	9.90%	***9.80%***	-13.17%	-13.20%	***-14.03%***
Income Tax Burden	2.57%	1.24%	1.27%	***1.06%***	-51.62%	-50.39%	***-58.79%***
Estate Tax Burden	0.06%	0.01%	0.02%	***0.01%***	-83.19%	-75.82%	***-86.74%***
Union Membership	17.3%	7.5%	7.5%	***7.2%***	-56.33%	-56.73%	***-58.59%***
Population Density	1,003.5	319.1	267.7	***222.8***	-68.20%	-73.32%	***-77.80%***
Cost of Housing	$133,000	$114,668	$111,081	***$109,526***	-13.78%	-16.48%	***-17.65%***
Average Temperature	51.1	65.1	64.3	***65.1***	27.33%	25.83%	***27.49%***

Note: Bold, italics indicate results of interest.

Sources: U.S. Department of Commerce: Bureau of Economic Analysis and Census Bureau, www.unionstats.com, U.S. National Oceanic and Atmospheric Administration and Ocean State Policy Research Institute.

the 1995 to 2007 time-period.[7] Rhode Island's average income tax burden was 2.57 percent. Taxpayers left for states where income tax burdens were a 51.62 percent lower (1.24 percent), while exemptions were 50.39 percent lower (1.27 percent) and AGI was 58.79 percent lower (1.06 percent). Overall, AGI was the most sensitive to state and local income tax burdens.

Estate Tax Burden: This variable measures estate taxes collected as a percent of personal income in 2009.[8] Rhode Island's average estate tax burden was 0.06 percent. Taxpayers left for states where estate tax burdens were a whopping 83.19 percent lower (0.01 percent), while exemptions were 75.82 percent lower (0.02 percent) and AGI was 86.74 percent lower (0.01 percent). Overall, AGI was the most sensitive to estate tax burdens.

Union Membership: This variable measures percent of the state's employed labor forces who are members of a union as averaged over the 1995 to 2007 time-period.[9] Rhode Island's average union membership was 17.3 percent. Taxpayers left for states where union membership was 56.33 percent lower (7.5 percent), while exemptions were 56.73 percent lower (7.5 percent) and AGI was 58.59 percent lower (7.2 percent). Overall, AGI was most sensitive to union membership.

Population Density: This variable measures total population divided by land area and is as averaged over the 1995 to 2007 time-period.[10] Rhode Island's population density was 1,003.5 people per square mile. Taxpayers left for states where the population density was 68.2 percent lower (319.1 people per square mile), while exemptions were 73.32 percent lower (267.7 people per square mile) and AGI was 77.8 percent lower (222.8 people per square mile). Overall, AGI was most sensitive to population density.

Cost-of-Housing: This variable measures the median cost-of-housing as reported from the 2000 Census.[11] Rhode Island's median cost-of-housing was $133,000. Taxpayers left for states where the cost-of-housing was 13.78 percent lower ($114,668). However, for exemptions the cost-of-housing was 16.48 percent lower ($111,081) and AGI was 17.65 percent lower ($109,526). Overall, AGI was most sensitive to cost-of-housing.

Average Temperature: This variable measures the annual average of the daily mean temperature.[12] Rhode Island's temperature by this measure was 51.1 degrees Fahrenheit. Taxpayers left for states where temperatures were 27.33 percent higher (65.1 degrees), while exemptions were 25.83 percent higher (64.3 degrees) and AGI was 27.49 percent higher (65.1 degrees). Overall, AGI was most sensitive to temperature.

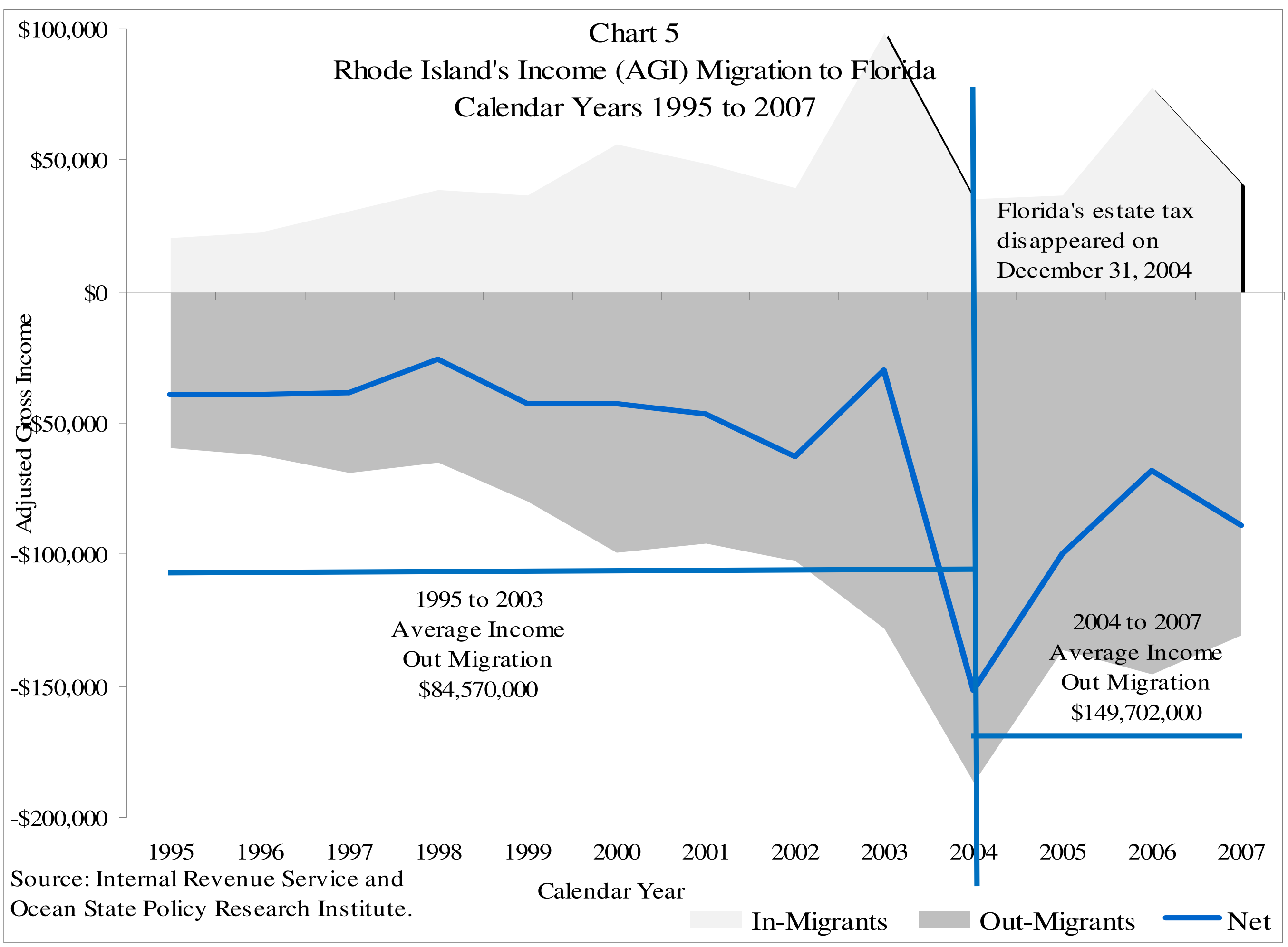
Out-Migration and the Estate Tax

ONLY TWO OTHER STATES HAVE A MORE PUNITIVE ESTATE TAX THAN RHODE ISLAND

The rules of the estate tax changed dramatically after the passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001 under President Bush. EGTRRA began a ten year phase-out of the federal estate tax with its complete elimination in 2010.

More importantly to the states, in 2005 EGTTRA eliminated the "pick-up tax" that states used to piggyback on the federal estate tax. As a result, after 2005 states had to create their own estate tax or allow their estate tax to disappear with the pick-up tax.

In anticipation of these changes, Rhode Island's policymakers created a separate state estate tax based on the pre-EGTRRA federal estate tax parameters—a $675,000 exclusion with tax rates up to 55 percent. For 2010, policymakers increased the exclusion to $850,000 which is still the 3rd lowest exclusion in the country (of the 15 states plus D.C. that levy their own estate tax). Only two other states have a more punitive estate tax than Rhode Island. [13]



After 2004, the average income out-migration to Florida jumped by 77% to $149,702,000 annually

Economically, the elimination of the federal estate tax has provided another dimension from which states can now compete against one another. State that have chosen to allow their estate tax to disappear have a tax advantage over the 15 states plus D.C. that have chosen to have their own estate tax.

As shown previously, Rhode Island's chief competitor for people is Florida. Florida not only allowed its estate tax to disappear after December 31, 2004, but their state Constitution would have to be ratified in order for the state to enact its own estate tax. Unlike states such as Delaware and Hawaii which have recently re-enacted their estate tax (in 2009 and 2010, respectively), Florida's taxpayers are assured that there will be no estate tax as long as the

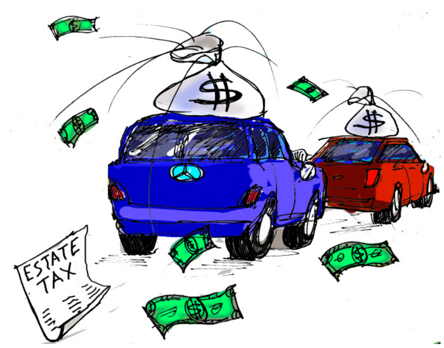
Table 7
Rhode Island's Net Taxpayer Migration to Florida
Tax Year 1995 to 2007

Tax Year	In-Migrants			Out-Migrants			Net		
	Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI
1995	831	1,480	20,618	1,740	3,182	59,531	(909)	(1,702)	(38,913)
1996	821	1,482	22,909	1,781	3,346	62,413	(960)	(1,864)	(39,504)
1997	955	1,735	30,644	1,720	3,183	69,028	(765)	(1,448)	(38,384)
1998	1,028	1,838	39,090	1,628	3,020	64,903	(600)	(1,182)	(25,813)
1999	1,016	1,806	36,968	1,547	2,788	79,892	(531)	(982)	(42,924)
2000	1,077	1,844	56,588	1,820	3,292	99,299	(743)	(1,448)	(42,711)
2001	1,086	1,924	48,558	1,958	3,550	95,522	(872)	(1,626)	(46,964)
2002	998	1,694	39,702	1,925	3,567	102,219	(927)	(1,873)	(62,517)
2003	886	1,536	98,548	2,487	4,753	128,325	(1,601)	(3,217)	(29,777)
2004	913	1,571	35,219	2,831	5,509	186,538	(1,918)	(3,938)	(151,319)
2005	984	1,753	36,714	2,529	4,759	136,161	(1,545)	(3,006)	(99,447)
2006	1,014	1,812	77,472	2,182	4,009	145,531	(1,168)	(2,197)	(68,059)
2007	1,133	1,873	41,613	1,912	3,383	130,578	(779)	(1,510)	(88,965)
Total	***12,742***	***22,348***	***584,643***	***26,060***	***48,341***	***1,359,940***	***(13,318)***	***(25,993)***	***(775,297)***

Source: Internal Revenue Service and Ocean State Policy Research Institute.

federal estate tax is gone. No estate tax certainty increases Florida's attractiveness from a tax policy standpoint.

Chart 5 and Table 7 shows a clear increase in migration from Rhode Island to Florida, especially the migration of income, in the years after the elimination of Florida's estate tax. Between 1995 and 2003, the average income out-migration from Rhode Island to Florida was $84,570,000 annually; whereas in 2004 and beyond the average income out-migration jumped by 77 percent to $149,702,000 annually.



However, the IRS migration data does not provide information on

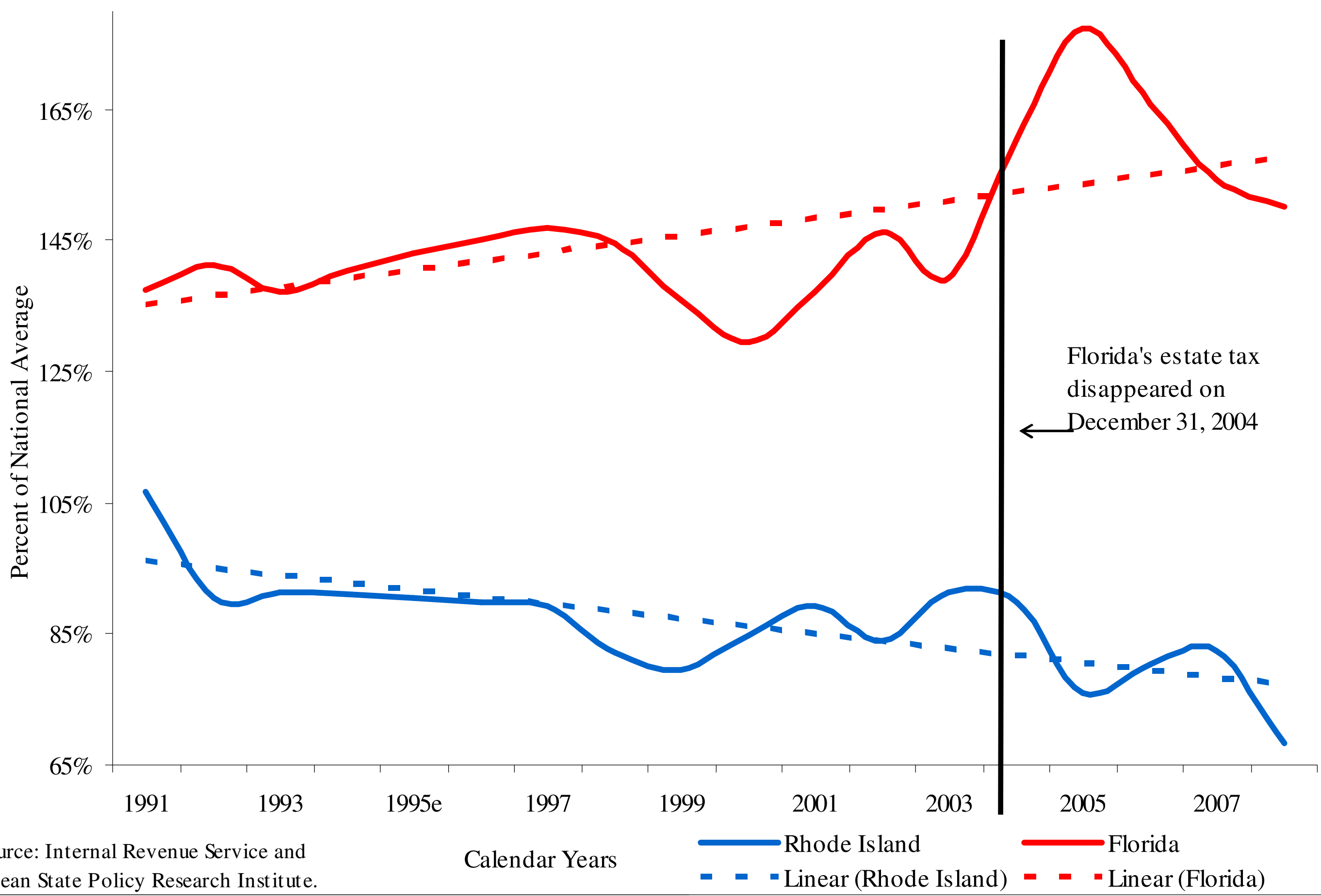
In 2009 Out-migration costs Rhode Island $111 million in lost taxes while the estate tax only raised $27 million

the type of income or taxpayer that may be leaving for Florida to better pin the blame on the estate tax. As a result, this study looks at a couple of other data sources that also show a similar pattern as the migration data.

First, Chart 6 shows the share of capital income (interest, dividends and capital gains) in Rhode Island and Florida relative to the national average between 1991 and 2008. Capital income is an important element because estates that are more likely to be subject to Rhode Island's estate tax would contain a significant amount of assets that generate capital income.

Over the 1991 to 2008 time-period, Rhode Island's average capital income relative to the national average has been declining while in Florida it has been growing. More disturbingly Rhode Island's ratio drops 25 percent to 68.3 percent in 2008—the lowest point ever—from 91.4 percent in 2003.

Chart 6
Capital Income as a Percent of National Average
Calendar Years 1991 to 2008



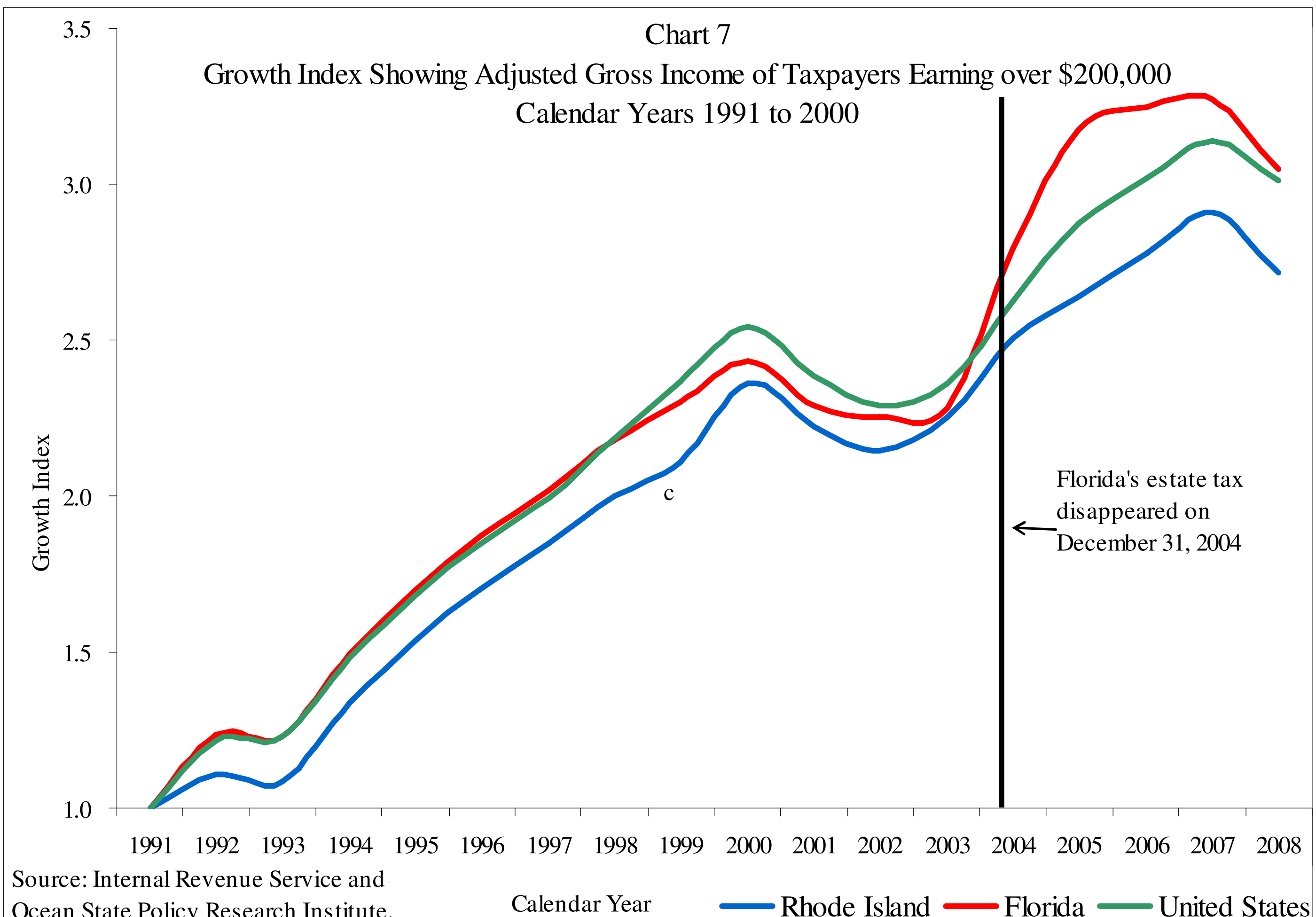
Source: Internal Revenue Service and Ocean State Policy Research Institute.

If Rhode Island's capital income ratio was instead at the national average, there would have been an additional $949 million in capital income in 2008. Since most of this money is taxed at the highest marginal rate (9.9 percent), the state would have collected up to $94 million in additional income taxes. Furthermore, assuming 25 percent of this money is spent on goods subject to the 7 percent sales tax, up to another $17 million would have been collected by the sales tax. Out-migration cost Rhode Island $111 million in lost taxes while our estate tax only raised $27 million in Fiscal Year 2009.

FROM 1995 TO 2007 RHODE ISLAND COLLECTED $341.3 MILLION FROM THE ESTATE TAX WHILE IT LOST $540 MILLION IN OTHER TAXES DUE TO OUT-MIGRATION

Chart 7 shows the growth rate in income (using Adjusted Gross Income) for taxpayers earning more than $200,000 in Rhode Island, Florida and the U.S. average between 1991 and 2008. Examining high-income taxpayers is revealing because they will be most sensitive to the estate tax and will work to minimize its negative economic impact—including leaving the state.

Prior to 2004, the income growth of Rhode Island's high-income taxpayers was in lock-step with Florida and the U.S. average. However, since 2004, the income growth rate has slowed in Rhode Island relative to Florida and the U.S. average. This suggests, along with the declining capital income ratio, that much of the income migration to Florida from Rhode Island has been coming from high-income taxpayers.



Source: Internal Revenue Service and Ocean State Policy Research Institute.

Conclusion

ONEROUS TAX POLICIES NOT ONLY DIMINISH REVENUES TO THE STATE BUT HURT CHARITABLE GIVING AS WELL

People are most inclined to move where it is warmer, taxes are lower (especially income and estate taxes), union membership is lower, population density is lower and the cost-of-housing is lower. Additionally, income (AGI) is the most sensitive variable when it comes to these state characteristics meaning, for example, that state and local tax burdens have a greater impact on the migration of income than it does for households or people.

We have shown the enormous financial loss the state must carry when it's tax policies chase people and wealth out of the state, and we have shown the ripple effect of lost sales tax revenues when so much wealth isn't recycled through the economy, but the impact is also felt on a community level.

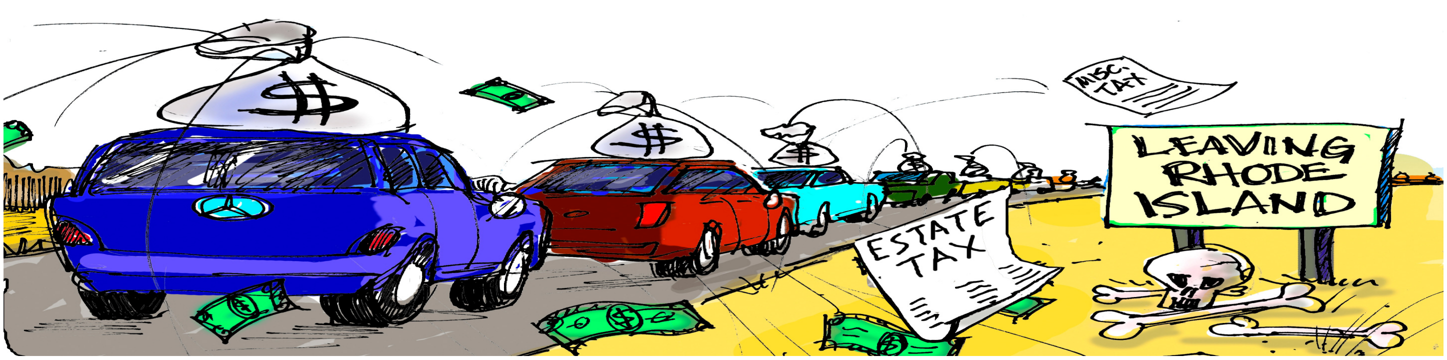
Research from the Fraser Institute using tax data from 2007 reports the charitable giving of residents of the individual states. Rhode Island's national rank is relatively high on the percentage of residents who donate but very low on the amount we give.[15]

- Rhode Island has a respectable 16th ranking on the "percentage of tax filers donating to charity."
- Rhode Island ranks 48th on the "percentage of aggregate income donated to charity."
- Rhode Island ranks dead last (51) on the "average charitable donation."

It may be the case that when tax obligations become so burdensome that the people that don't leave the state give far less to charity. In short, it appears that onerous tax policies not only diminish revenues to the state, but hurt charitable giving as well.

The data in this report shows that migrants have become especially sensitive to Rhode Island's estate tax, or "Death Tax," that is the 3rd worst in the country. As a result, income out-migration to Florida has dramatically accelerated since the elimination of their estate tax in 2004. Other analysis also shows a negative post-2004 effect on Rhode Island's capital income (interest, dividends and capital gains) and high-income taxpayers.

However, the future of the estate tax will first be determined in Washington D.C. as policymakers decide if the federal estate tax should come back in 2011 or not. At the printing of this report, it appears that the Bush tax cuts will be extended and the estate tax will return, albeit at lower rates and higher exemptions, but tax burdens are relative and people will still vote with their feet when better tax environments are available. The results of this study should encourage Rhode Island's Congressional delegation to oppose tax increases and if the federal estate tax is permanently eliminated or reduced, then this study provides clear evidence that Rhode Island's policymaker should follow suit and eliminate or reduce the burden in Rhode Island as well. Florida's estate is not coming back anytime soon and that should keep policymakers up at night.



Methodology

The IRS data used in this study is derived from the calendar year (CY) 1995 to 2007 State-to-State Migration Data-Set (SSMD) that is published annually by the Statistics of Income Division (SOI) 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."

The IRS is required by law to ensure that its data products do not reveal the identity of any taxpayer. In the SSMD, the data suppression affects its "data fidelity"—to borrow a musical term. In music, the term "recording fidelity" describes a recording's ability to capture as much of the total sound as possible, i.e., the lower the recording fidelity, then the lower the recorded sound quality.

Analogous to this is the data fidelity within the SSMD. For example, if only a single taxpayer moved from state A to state B, it would be relatively simple (for those with the know-how) to identify that taxpayer. Therefore, the IRS lumps all such taxpayers into a residual category in order to prevent identification. As a result, the exact movement of all taxpayers is unknown. The percentage that is shown represents the SSMD's data fidelity which is higher in the state-level migration data than the county-level migration data.

The major strength of the SSMD is that it is based on actual data—not a survey—that is enforced with criminal penalties.[14] This makes the CCMD 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.

On the other hand, 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 because the standard deduction and exemptions are greater than their income. Second, it under-represents the very wealthy because they are more likely to request a filing extension and miss the late September cut-off for inclusion into the data-set. Finally, it may miss taxpayers who have changed filing status—especially from "married filing joint" to "married filing separately."

Notes and Sources

[1] The migration data is a subset of data known as "Components of Population Change." The most recent data for Rhode Island can be found here: http://www.census.gov/popest/states/NST-comp-chg.html The data's timeframe is not the typical calendar year as it begins and ends on July 1.

[2] The IRS migration data is available at the state and county levels and can be found here: http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96943,00.html The IRS data is free for the most current year, but charges a nominal fee for historical data.

[3] Including Washington, D.C.

[4] For a comprehensive examination of the migration literature and determinants of migration, see: Hall, Arthur P., Moody, J. Scott and Warcholik, Wendy P., "The County-to-County Migration of Taxpayers and Their Incomes, 1995 to 2006," Center for Applied Economics, Technical Paper 09-0306, March 2009. http://www.business.ku.edu//_FileLibrary/PageFile/1195/TR%2009-0306--Taxpayer%20Migration.pdf

[5] The tax collection data is from the U.S. Department of Commerce's Census Bureau and the personal income data comes from the U.S. Department of Commerce's Bureau of Economic Analysis.

[6] The values for the destination states are based on the weighted average of these states in proportion to their representation of total out-migration from Rhode Island.

[7] The tax collection data is from the Department of Commerce's Census Bureau and the personal income data comes from the Department of Commerce's Bureau of Economic Analysis.

[8] Ibid.

[9] The union membership data is from www.unionstats.com.

[10]The population density data is from the Department of Commerce's Census Bureau.

[11]The median value of housing is based on data from the Department of Commerce's Census Bureau.

[12]The temperature data is from the U.S. National Oceanic and Atmospheric Administration. The data is usually for one selected city in each state. However, in cases where more than one city is provided, especially in large states, the data is averaged.

[13]Garber, Julie, "State Estate Tax and Exemption Chart." http://wills.about.com/od/stateestatetaxes/a/stateestatetaxchart.htm

[14]Economic surveys can be plagued by a variety of problems ranging from purposeful lying to simple forgetfulness. The poster child for such problems is in the Consumer Expenditure Survey published by the U.S. Department of Labor: Bureau of Labor Statistics. The reported expenditures often, and quite significantly, deviate from the reported income.

[15]Gainer, Alex, et. al., "Generosity in the United States and Canada: The 2009 Generosity Index (US edition)." http://www.fraseramerica.org/commerce.web/product_files/US-Generosity-Index-2009.pdf

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