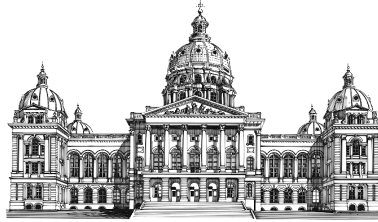

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Taxpayer Migration - Iowa to Texas and Arizona

ISSUE

The federal Internal Revenue Service (IRS) annually compiles information on state-to-state taxpayer migration. The IRS compares the state of residence of a taxpayer with the state of residence for the same taxpayer the previous year. This *Issue Review* presents IRS state-to-state migration from/to Iowa and Arizona and Texas, as well as migration information for Iowa's six surrounding states to Arizona and Texas. The data provided by the IRS include number of returns, number of exemptions, and amount of adjusted gross income (AGI). The time period of study includes tax returns filed for tax years 1996 through 2002 (seven years). The IRS data do not include any information as to the age of the taxpayers.

Taxation of personal income is examined as a possible explanation for migration patterns including taxation of retirement income. Finally, this *Issue Review* examines how Iowa General Fund revenue would have been different if the outflow to these two states had not occurred.

ANALYSIS

From 1996 through 2002, 43,336 more Iowa tax returns migrated to a different state than migrated to Iowa from other states. Iowa saw a positive inflow from seven states and an outflow to 43.¹ The total net outflow of AGI was just under \$2.0 billion over the seven years. Minnesota was the most common destination of former Iowa tax returns as Iowa lost a net total of 6,780 returns and \$262.2 million in AGI to that state.

Texas and Arizona are both in the top six states for net outflow from Iowa and both states are widely regarded as attractive to Iowans of retirement age. Texas does not have a state personal income tax on retirement or any other income. Arizona does not tax Social Security income and provides a \$2,500 exemption for pension income. The top tax rate in Arizona is 5.03% and Arizona does not allow the deduction of federal taxes.

¹ The net outflow of people, measured by the number of exemptions, was 50,520, with Iowa gaining from 16 states and losing to 34. The largest net outflow was to Minnesota and the largest net inflow from California.

By comparison, Iowa taxes a maximum of 50.0% of social security benefits² and provides a pension exclusion of \$6,000 for single filers and \$12,000 for married filers.³

A specific breakdown of income tax provision for Arizona, Texas, Iowa, and the states that surround Iowa is provided in the following table.⁴ The final column of **Table 1** is the basis for labeling a state a “high” or “low” income tax state during the remainder of the *Issue Review*.

State	Top State Income Tax Rate	Top Rate Starts at:	Income Tax Deduction for Federal taxes Paid	Max. % of Social Security Income Subject to Tax	Pension Exclusion	State Income Tax as % of State Personal Income (2002)	Income Tax Ranking *
Arizona	5.04%	\$150,000	0%	0.0%	\$2,500	1.5%	Low
Texas	0.00%	N/A	N/A	0.0%	N/A	0.0%	None
Iowa	8.98%	55,890	100%	50.0%	\$6,000/\$12,000	2.1%	Medium
South Dakota	0.00%	N/A	N/A	0.0%	N/A	0.0%	None
Minnesota	7.85%	63,860	0%	85.0%	\$0	3.2%	High
Wisconsin	6.75%	129,150	0%	50.0%	\$0	3.0%	High
Illinois	3.00%	0	0%	0.0%	Not Taxed	1.7%	Low
Missouri	6.00%	9,000	\$5,000/\$10,000	85.0%	\$6,000/\$12,000	2.2%	Medium
Nebraska	6.84%	26,500	0%	85.0%	\$0	2.3%	Medium

* Based on income tax as a percent of state personal income.

The lack of a personal income tax in Texas would make it a logical destination for taxpayers wishing to reduce income tax liability. Arizona would seem a less desirable destination, but its top tax rate is relatively low and is not reached until \$150,000 of AGI, so it should be a draw from higher tax states. On the other end of the equation, it would seem that a state without personal income tax (South Dakota) would see a smaller portion of its population move to Texas as there would be no income tax savings. Similarly, South Dakota residents should move to Arizona in even smaller relative numbers, as they would be moving to an income tax state from a no income tax state. Minnesota, with its 7.85% top rate starting at \$64,000, no ability to deduct federal taxes paid, and high taxation of retirement income would be expected to see a larger proportion of its taxpayers and AGI move to Arizona and particularly Texas than the rest of the region.

Texas Migration

Table 2 provides total out migration to Texas over the seven years for Iowa and the six surrounding states, as well as an average for the region.⁵ The Table presents the out migration as percentages of the total federal return data for that state for tax year 2000. This method adjusts the raw numbers to more accurately display the impact of the outflow on each state. Only out migration

² Social Security income in Iowa is 100.0% exempt for single filers under \$25,000 in income and for married filers under \$32,000.

³ Pension income includes company and government pensions, Individual Retirement Accounts, 401(k) and similar pre-tax wage deferrals, and annuities and other arrangements that provide a periodic retirement payment.

⁴ The data sources for state tax comparisons are <http://www.retirementliving.com/RLtaxes.html> and State Rankings 2004 (published by Morgan Quinto Press).

⁵ Texas migration data for each state in the region is provided in **Attachment A**.

is presented in **Table 2** (as opposed to net migration). This is done to isolate the potential negative outcomes associated with the movements between states.

	Returns*	Exemptions*	Adjusted Gross Income*	Out-Migrating AGI Minus State Average AGI
Iowa to Texas	0.99%	0.97%	0.94%	\$-1,771
South Dakota to Texas	1.00%	1.02%	0.84%	-6,162
Minnesota to Texas	0.76%	0.82%	0.66%	-6,788
Illinois to Texas	0.91%	0.98%	0.89%	-1,284
Nebraska to Texas	1.44%	1.52%	1.44%	-160
Missouri to Texas	1.35%	1.39%	1.38%	913
Wisconsin to Texas	0.55%	0.57%	0.51%	-3,442
Region Total to Texas	0.94%	0.98%	0.89%	\$-2,670

*The percentages represent the seven-year total for out-migration returns divided by the 2000 total returns for the state.

Over the seven years, Iowa lost just less than 1.00% of tax returns, exemptions, and AGI to Texas. This was a slightly more negative result than the region as a whole. South Dakota (no income tax) and Iowa were quite similar in relative losses, although South Dakota did marginally better by losing less relative AGI. Two higher tax states than Iowa, Minnesota and Wisconsin, each lost relatively fewer tax returns and AGI than Iowa. Both states appear to be higher retirement income taxing states than Iowa. Nebraska and Missouri, perhaps because of physical location, fared poorest. **Table 2** does not lend evidence to suggest Iowans move to Texas or declare that state their residence in any large numbers, as Iowa's out-migration does not compare as well to high tax states Minnesota and Wisconsin and does almost as well as the no income tax state of South Dakota. Iowa's experience is also very similar to Illinois, a state that does not tax retirement income.

	Returns*	Exemptions*	Adjusted Gross Income*	In-Migrating AGI Minus State Average AGI
Texas to Iowa	0.74%	0.81%	0.64%	\$-5,791
Texas to South Dakota	0.82%	0.87%	0.84%	852
Texas to Minnesota	0.70%	0.80%	0.56%	-10,324
Texas to Illinois	0.68%	0.70%	0.60%	-5,661
Texas to Nebraska	1.13%	1.27%	0.95%	-6,379
Texas to Missouri	1.22%	1.30%	1.13%	-2,811
Texas to Wisconsin	0.47%	0.52%	0.39%	-7,347
Texas to Region	0.77%	0.82%	0.66%	\$-5,352

*The percentages represent the seven-year total for in-migration returns divided by the 2000 total returns for the state.

Table 3 provides information on the migration of taxpayers from Texas to Iowa and surrounding states. In seven years, Iowa gained 0.74% of statewide returns and 0.64% of AGI from Texas. This result is slightly below the average for the region. South Dakota (no income tax) performed

somewhat better than Iowa, and Iowa outperformed high income tax states Minnesota and Wisconsin. Nebraska and Missouri, contributed to by their proximity to Texas, fared markedly better than the rest of the region.

Texas – Net Basis and Summary

On a net basis, Iowa lost 0.25% of tax returns, 0.16% of exemptions, and 0.30% of AGI to Texas over the seven-year period. This result is marginally more negative than the region as a whole. All states had a net loss of returns and exemptions to Texas, and only South Dakota showed a (small) positive gain in total AGI. Overall, the Texas net draw is most significant for Nebraska, and least significant for Minnesota and Wisconsin. Illinois and Iowa show very similar results. Proximity to Texas perhaps contributes to the pull for closer states. Commonly held beliefs related to weather and state income taxes, and perhaps taxation of retirement income however, are not evident from these data. The data show that while out-migration to Texas is a problem for Iowa, it is a similar problem for all surrounding states and income tax policy changes would likely make only a small difference in out-migration to Texas.

Arizona Migration

Table 4 provides total out-migration to Arizona over the seven years for Iowa and the six surrounding states, as well as an average for the region.⁶ The Table presents the out migration as percentages of the total federal return data for that state for tax year 2000. This method adjusts the raw numbers to more accurately display the impact of the outflow on each state. Only outflow is presented in **Table 4** (as opposed to net). This is done to isolate the potential negative outcomes.

	Returns*	Exemptions*	Adjusted Gross Income*	Out-Migrating AGI Minus State Average AGI
Iowa to Arizona	0.69%	0.54%	0.64%	\$-2,920
South Dakota to Arizona	1.04%	0.87%	0.89%	-5,443
Minnesota to Arizona	0.65%	0.54%	0.71%	4,390
Illinois to Arizona	0.65%	0.56%	0.64%	-899
Nebraska to Arizona	0.90%	0.78%	0.84%	-2,947
Missouri to Arizona	0.43%	0.37%	0.44%	557
Wisconsin to Arizona	0.53%	0.44%	0.53%	-60
Region Total to Arizona	0.62%	0.52%	0.62%	\$-1,046

*The percentages represent the seven-year total for out-migration returns divided by the 2000 total returns for the state.

In the seven years, Iowa lost 0.69% of tax returns and 0.64% of AGI to Arizona. Like the outflow to Texas, this was a slightly more negative result than the region as a whole. The result for South Dakota out migration to Arizona however was not the same as Texas, as the Arizona draw from South Dakota was well above both the Iowa result and the region average. This is particularly damaging to a tax avoidance migration theory, as people from South Dakota get no income tax break when they move to Texas, but must start paying state income taxes when they move to Arizona.

For the region, Missouri fairs best and South Dakota the poorest. Iowa, high income tax Minnesota, and low income tax Illinois all perform basically the same. Proximity to Arizona does not seem to

⁶ Arizona migration information is provided in **Attachment B**.

influence the out-migration results. However, since Arizona is not as big a draw for Iowa or the whole region, this suggests proximity may enter into movements to Texas but not Arizona. Since Arizona taxes income and Texas does not, this also may influence taxpayer movements.

Table 5 provides information on the migration of taxpayers from Arizona to Iowa and surrounding states. In seven years, Iowa gained 0.41% of statewide returns and 0.33% of AGI from Arizona. This result is above average for the region. No income tax state South Dakota performed better than Iowa, and Iowa outperformed high income tax states Minnesota and Wisconsin. Low income tax state Illinois performed the poorest of the region states.

	Returns*	Exemptions*	Adjusted Gross Income*	In-Migrating AGI Minus State Average AGI
Arizona to Iowa	0.41%	0.36%	0.33%	\$-7,191
Arizona to South Dakota	0.61%	0.54%	0.56%	-2,930
Arizona to Minnesota	0.37%	0.33%	0.33%	-5,981
Arizona to Illinois	0.28%	0.23%	0.21%	-12,262
Arizona to Nebraska	0.45%	0.41%	0.36%	-8,677
Arizona to Missouri	0.33%	0.31%	0.28%	-6,930
Arizona to Wisconsin	0.28%	0.25%	0.22%	-10,712
Arizona to Region	0.33%	0.29%	0.26%	\$-7,812

*The percentages represent the seven-year total for in-migration returns divided by the 2000 total returns for the state.

Arizona – Net Basis and Summary

On a net basis, Iowa lost 0.28% of tax returns and 0.30% of AGI to Arizona over the seven-year period. This result is less negative than the region as a whole. All states had a net loss of returns, exemptions, and AGI to Arizona. Overall, the Arizona net draw is most significant for Nebraska, and least significant for Missouri. Iowa fared better than all states in the region except Missouri. The data show that out-migration to Arizona is a smaller problem for Iowa than migration to Texas, but out-migration is an even bigger problem for no income tax state South Dakota and low income tax, no retirement tax Illinois.

BUDGET IMPACT

Over the seven-year period, 13,335 tax returns representing 26,000 people (exemptions) and \$509.5 million of AGI left Iowa for Texas. If every taxpayer who left Iowa had been enticed to stay during that period and the workforce expanded to employ them, General Fund revenues would have been \$44.7 million higher annually.⁷ However, since the information for Iowa's surrounding states is very similar, it is difficult to assume any policy change, tax or otherwise, could significantly reduce the number of taxpayers migrating to Texas. It is likely that there are Iowans that move to Texas substantially due to income tax benefits, and it is also likely former Iowans maintain

⁷ The fiscal impact of Texas out-migration was calculated by dividing the FY 2000 Iowa General Fund net revenue (excluding transfers) by the number of federal tax returns filed by Iowans in tax year 2000, and by dividing the FY 2000 General Fund net revenue by the tax year 2000 federal AGI for Iowans. The result provides a per-income taxpayer and per dollar of AGI average for Iowa. Those averages are then applied to the AGI and number of returns that migrated to Texas. The listed result is the average of the two methods.

residences in both states and choose to declare Texas their state of residence for tax purposes. However, since Texas is a no-income tax state, the Iowa income tax burden would have to be zero for this second group to choose to declare Iowa their residence, and even at that, the decision would be a financial toss-up as to the state chosen for tax residency.

Over the seven-year period, 9,281 tax returns representing 15,886 people (exemptions) and \$343.9 million of AGI left Iowa for Arizona. If every taxpayer who left Iowa had been enticed to stay during that period and the workforce expanded to employ them, General Fund revenues would have been \$30.6 million higher annually.⁸ However, Iowa's out-migration to Arizona results are similar or better than most states in the region, including high income tax Minnesota and no income tax South Dakota. Given this result, it is difficult to imagine a tax policy choice that would have substantially improved the situation.

The ability of Iowa to impact out-migration to Arizona is different than Iowa's ability in regard to Texas in one manner. Since Arizona does have an income tax and does tax retirement income, lowering Iowa's overall income tax burden marginally may cause taxpayers who maintain residence in both states to benefit from declaring Iowa their residence for tax purposes.

CONCLUSION

While Iowa loses taxpayers and taxable income to both Texas and Arizona, Internal Revenue Service state-to-state migration data indicate that differences in state income tax policy do not explain Iowa's out-migration to those states, as both higher and lower income tax states around Iowa have similar or even greater relative losses than Iowa.⁹

If Iowa had somehow retained every taxpayer that left Iowa for Arizona and Texas from 1996 through 2002, it is estimated that State General Fund revenue could have been a maximum of \$75.3 million higher annually (Texas = \$44.7 million, Arizona = \$30.6 million.)

Since the IRS data do not include information as to the age of the people moving, it is not possible to draw specific conclusions about the movement of retirees. However, retirees are within the numbers reported by the IRS, and likely make up a significant portion of migrating taxpayers.

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Taxpayer Migration – Iowa to Texas and Arizona
<http://www.staffweb.legis.state.ia.us/lfb/ireview/irview.htm>
LSA/FSD: IRJWR000.Doc/02/10/05/1:30 pm

⁸ The fiscal impact of out-migration to Arizona was calculated with the same method as Texas.

⁹ Some of the result may be explained by total tax burden, as opposed to just income tax burden. See <http://moneycentral.msn.com/articles/retire/basics/9838.asp> for a state-by-state study of total tax burden on retired persons. This research shows the overall tax burden for a retired person living in Iowa, Texas, and South Dakota to be essentially equal, while the burden in Arizona is about \$700 per year lower.

State Migration Data for Texas

Iowa/Texas Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-13,335	-26,000	-\$509,499,000	\$38,208
In Migration	10,033	21,776	343,004,000	34,188
Net Migration	-3,302	-4,224	-166,495,000	-4,020
From 2000 Federal Returns	1,351,126	2,688,914	54,015,960,000	39,978

South Dakota/Texas Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-3,558	-7,115	-\$110,639,000	\$31,096
In Migration	2,917	6,057	111,165,000	38,109
Net Migration	-641	-1,058	526,000	7,014
From 2000 Federal Returns	355,168	699,328	13,232,757,000	37,258

Minnesota/Texas Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-18,133	-38,208	-\$789,066,000	\$43,515
In Migration	16,751	37,153	669,705,000	39,980
Net Migration	-1,382	-1,055	-119,361,000	-3,535
From 2000 Federal Returns	2,386,078	4,662,130	120,028,441,000	50,304

Illinois/Texas Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-52,773	-112,282	-\$2,695,352,000	\$51,074
In Migration	39,186	79,943	1,829,887,000	46,697
Net Migration	-13,587	-32,339	-865,465,000	-4,377
From 2000 Federal Returns	5,786,972	11,498,557	302,994,176,000	52,358

Nebraska/Texas Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-11,678	-24,520	-\$483,282,000	\$41,384
In Migration	9,121	20,427	320,734,000	35,164
Net Migration	-2,557	-4,093	-162,548,000	-6,220
From 2000 Federal Returns	808,912	1,610,110	33,605,214,000	41,544

Missouri/Texas Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-34,625	-70,333	-\$1,496,592,000	\$43,223
In Migration	31,177	66,058	1,231,443,000	39,498
Net Migration	-3,448	-4,275	-265,149,000	-3,724
From 2000 Federal Returns	2,564,873	5,077,680	108,518,673,000	42,310

Wisconsin/Texas Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-14,406	-28,667	-\$595,834,000	\$41,360
In Migration	12,132	26,026	454,414,000	37,456
Net Migration	-2,274	-2,641	-141,420,000	-3,904
From 2000 Federal Returns	2,596,868	5,043,158	116,346,242,000	44,803

Region Total/Texas Taxpayer Migration 1996 through 2002

Region Total	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-148,508	-307,125	-\$6,680,264,000	\$41,409
In Migration	121,317	257,440	4,960,352,000	38,728
Net Migration	-27,191	-49,685	-1,719,912,000	-2,681
From 2000 Federal Returns	15,849,997	31,279,877	748,741,463,000	44,079

State Migration Data for Arizona

Iowa/Arizona Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-9,281	-15,886	-\$343,939,000	\$37,058
In Migration	5,476	10,504	179,543,000	32,787
Net Migration	-3,805	-5,382	-164,396,000	-4,271
From 2000 Federal Returns	1,351,126	2,926,324	54,015,960,000	39,978

South Dakota/Arizona Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-3,697	-6,556	-\$117,620,000	\$31,815
In Migration	2,154	4,061	73,943,000	34,328
Net Migration	-1,543	-2,495	-43,677,000	2,513
From 2000 Federal Returns	355,168	754,844	13,232,757,000	37,258

Minnesota/Arizona Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-15,474	-26,748	-\$846,335,000	\$54,694
In Migration	8,865	16,112	392,920,000	44,323
Net Migration	-6,609	-10,636	-453,415,000	-10,371
From 2000 Federal Returns	2,386,078	4,919,479	120,028,441,000	50,304

Illinois/Arizona Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-37,548	-68,958	-\$1,932,168,000	\$51,459
In Migration	16,116	28,572	646,181,000	40,096
Net Migration	-21,432	-40,386	-1,285,987,000	-11,363
From 2000 Federal Returns	5,786,972	12,419,293	302,994,176,000	52,358

Nebraska/Arizona Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-7,300	-13,265	-\$281,757,000	\$38,597
In Migration	3,633	7,085	119,404,000	32,867
Net Migration	-3,667	-6,180	-162,353,000	-5,730
From 2000 Federal Returns	808,912	1,711,263	33,605,214,000	41,544

Missouri/Arizona Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-11,144	-20,732	-\$477,705,000	\$42,867
In Migration	8,503	17,192	300,835,000	35,380
Net Migration	-2,641	-3,540	-176,870,000	-7,487
From 2000 Federal Returns	2,564,873	5,595,211	108,518,673,000	42,310

Wisconsin/Arizona Taxpayer Migration 1996 through 2002

	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-13,727	-23,433	-\$614,184,000	\$44,743
In Migration	7,367	13,391	251,146,000	34,091
Net Migration	-6,360	-10,042	-363,038,000	-10,652
From 2000 Federal Returns	2,596,868	5,363,675	116,346,242,000	44,803

Region Total/Arizona Taxpayer Migration 1996 through 2002

Region Total	Returns	Exemptions	Adjusted Gross Income	AGI Per Return
Out Migration	-98,171	-175,578	-\$4,613,708,000	\$43,033
In Migration	52,114	96,917	1,963,972,000	36,267
Net Migration	-46,057	-78,661	-2,649,736,000	-6,766
From 2000 Federal Returns	15,849,997	33,690,089	748,741,463,000	44,079