



Taxpayer Migration

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 taxpayer migration associated with Iowa, to and from all states, to and from surrounding states, and to and from states with no broad-based individual income tax.

BACKGROUND

The data provided by the IRS include number of returns, number of exemptions, and amount of adjusted gross income (AGI). This *Issue Review* analysis is based on the tax return migration counts. In the document text and tables, the terms “taxpayer” and “taxpayers” are used in place of the term “tax return.” Tax returns filed by married taxpayers will represent more than one taxpayer per tax return.

The time period of study includes tax returns filed for years 2004 through 2013 (10 years).

ANALYSIS

Over the 10-year timeframe of 2004 through 2013, an annual average of 29,120 taxpayers moved from another state to Iowa, while an average of 31,030 taxpayers moved from Iowa to another state. This resulted in a net migration of taxpayers from Iowa to other states of 1,910 per year, and 19,098 taxpayers over the 10 years.¹ **Table 1** provides the annual data. Net migration from Iowa exceeded 1,000 taxpayers in seven of the 10 years, with a much lower net migration shown during the three years immediately after the start of the last U.S. economic recession (beginning in December 2007). The Iowa economy performed much better than the overall U.S. economy during those three years (2008 through 2010), and this likely resulted in Iowa being a better employment option than much of the rest of the country.

¹ While the tax return outflow averaged an annual 1,910 over 10 years, the exemption outflow (taxpayers plus dependents) was more modest at 184 exemptions per year. The average annual aggregate AGI net outflow was \$128.2 million.

<u>Year Filed</u>	<u>Taxpayers Moved to Iowa</u>	<u>Taxpayers Moved out of Iowa</u>	<u>Net Migration</u>
2004	26,366	-30,097	-3,731
2005	26,929	-30,420	-3,491
2006	28,152	-31,035	-2,883
2007	28,094	-30,979	-2,885
2008	31,788	-31,879	-91
2009	31,487	-31,955	-468
2010	28,762	-29,173	-411
2011	28,198	-30,417	-2,219
2012	30,151	-31,984	-1,833
2013	31,276	-32,362	-1,086
Total			-19,098
Average	29,120	-31,030	-1,910

During the 10-year period, Iowa experienced a net taxpayer migration loss to 33 states and the District of Columbia, and experienced a net migration gain from 15 states.² Those 15 states and the net migration gain are listed in **Table 2**.

<u>State</u>	<u>Taxpayer Gain</u>	<u>State</u>	<u>Taxpayer Gain</u>
California	1,464	New Jersey	534
Connecticut	279	North Dakota	135
Delaware	32	Ohio	74
Illinois	6,760	Pennsylvania	361
Indiana	326	Rhode Island	33
Michigan	1,189	Utah	261
Mississippi	6	Wisconsin	243
New Hampshire	72		

Eleven of the 15 net-gain states are located east and/or north of Iowa.

² The net migration between the states of Maine and Iowa equaled zero over the 10 years.

Iowa experienced a net migration loss of more than 2,000 taxpayers to seven states, including Colorado (3,056), the retirement states of Arizona (2,949), Florida (2,889), and Texas (4,123), and the neighboring states of Minnesota (3,037), Missouri (2,871), and South Dakota (2,343).

Over the 10 years and across all states, Michigan lost taxpayers to all 49 other states and the District of Columbia. New Jersey, Rhode Island, and Connecticut lost taxpayer numbers to all but three to six other states.

Looking only at the states that surround Iowa (Illinois, Missouri, Kansas, Nebraska, South Dakota, North Dakota, Minnesota, and Wisconsin), Iowa lost a net total of 2,791 taxpayers over the 10 years. **Table 3** provides the annual change across the eight surrounding states.

Tax Year	Taxpayers Moved to Iowa	Taxpayers Moved out of Iowa	Net Migration
2004	13,491	-14,614	-1,123
2005	14,033	-14,857	-824
2006	14,468	-15,222	-754
2007	14,291	-15,337	-1,046
2008	15,889	-15,660	229
2009	15,298	-15,596	-298
2010	14,378	-13,686	692
2011	14,451	-14,190	261
2012	14,710	-14,810	-100
2013	15,435	-15,263	172
Total			-2,791
Average	14,644	-14,924	-279

Comparing the annual out and in migration averages from **Table 1** and **Table 3** shows that about one-half of total taxpayer migration occurs with the eight states that surround Iowa. The numbers also show significant Iowa taxpayer gains from Illinois (6,760) and lesser gains from North Dakota (135) and Wisconsin (243).

Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) have no state income tax, and New Hampshire and Tennessee tax only some forms of investment income. Over the 10 years, the net migration between these 10 states and Iowa was 11,050 taxpayers, more than half of the Iowa total net migration loss for the period. **Table 4** provides the migration amounts by year.

Tax Year	Taxpayers Moved to Iowa	Taxpayers Moved out of Iowa	Net Migration
2004	4,098	-5,583	-1,485
2005	4,286	-5,724	-1,438
2006	4,546	-5,752	-1,206
2007	4,494	-5,489	-995
2008	5,188	-5,840	-652
2009	5,166	-5,927	-761
2010	4,719	-5,637	-918
2011	4,500	-6,090	-1,590
2012	5,441	-6,497	-1,056
2013	5,642	-6,596	-954
Total			-11,055
Average	4,808	-5,914	-1,106

While an annual average of 1,106 net tax returns lost to these nine states is high and represents more than one-half of Iowa's net loss to all states, the annual net outflow represents just under one-tenth of one percent of all tax returns (1.0% over 10 years) attributable to Iowa through the IRS taxpayer migration database.³

SUMMARY AND ANALYSIS

This analysis has shown that over the 10 years that include tax returns filed in 2004 through 2013, IRS federal individual income tax statistics indicate that Iowa was a net loser of migrating taxpayers, as measured by the number of tax returns filed, to all but 15 states and the states Iowa did gain taxpayers from tended to be eastern and northern states, but also included California.

The analysis also shows that Iowa lost taxpayers to surrounding states, with an overall net taxpayer loss of 2,791 for the 10 years. However, looking at the individual years shows that

³ For the latest year, the IRS database lists 1,119,331 "non-migration" Iowa tax returns, meaning tax returns filed by the same taxpayers as Iowa residents for both 2012 and 2013, and the dataset lists 32,362 tax returns that moved out of Iowa between 2012 and 2013. This provides a migration database of 1,151,693 for 2012. The 0.96% figure is calculated by dividing the 1,106 net migration number by the 2012 database figure of 1,151,693 Iowa tax returns.

Iowa has gained from the surrounding states in four of the past six years, with a net gain of 956 for that period. While the surrounding states' analysis indicates that over 50.0% of taxpayer movement to and from Iowa occurs between Iowa and the surrounding states, the overall net change is small and in recent years, to Iowa's favor.

Of more potential importance is the interaction between Iowa and the nine states that do not have a broad-based individual income tax, including neighboring South Dakota. The IRS data indicate that, while the overall interaction is low (5,500 to 6,500 tax returns in and out each year), the 10-year net migration loss for Iowa was 11,055 tax returns, a number that represents more than half of the overall 19,098 Iowa net loss to all states for the time period.

Over the past 10 years Iowa has lost an annual average of just under 0.10% of its tax return base to states without a broad-based state income tax, and lost another 0.07% per year to the remaining states.

The presence of a state income tax does not explain the entire migration of taxpayers and it may not explain even a significant portion of the movement. Iowa loses taxpayers to South Dakota, a neighboring state without an income tax, but Iowa loses even more taxpayers to Minnesota. Minnesota has a top state income tax rate of 9.85% and no ability to deduct federal income tax from state income. By comparison, Iowa has a top tax rate of 8.98% and Iowa taxpayers deduct any federal income taxes paid from their income, an action that lowers the overall Iowa effective tax rate on any income subject to federal income tax.

An analysis of South Dakota tax returns shows that the state also loses tax returns to the other eight states that do not have a state income tax and as a percent of its tax base, a greater share of the South Dakota tax base moves to Texas (a state without a state income tax) than the share of the Iowa tax base that moves to Texas.⁴

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⁴ Over the 10 years, 19,092 taxpayers migrated from Iowa to Texas. Based on the Iowa 2012 migration tax base of 1,151,693 returns, this number represents 1.7% of Iowa's tax base. For South Dakota, 6,055 taxpayers migrated to Texas. With a South Dakota 2012 migration tax base of 318,569 returns, this number yields an out-migration of 1.9% of that state's tax base.