Statement to the D.C. Tax Revision Commission

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Thank you for the opportunity to submit this testimony to the D.C. Tax Revision Commission. We are economists who focus on the important issue of how differences in tax policies between states affect resident migration -- that is, the extent to which residents move from one jurisdiction to another (or at least change their official residence) to seek lower taxes. In particular, our research focuses on elderly migration.

We would like to highlight our most recently published article and also summarize briefly other research, including that by colleagues in our field, which we believe is relevant to the deliberations of the Tax Revision Commission regarding issues related to the estate tax. We have not included a summary of the research by Bakija and Slemrod, although we consider it relevant, because we understand that Jon Bakija will be submitting a separate statement on that research.

Conway and Rork, "No Country for Old Men (or Women): Do State Tax Policies Drive Away the Elderly?," *National Tax Journal*, June 2012, pp 313-356.

This article reports on research on the impact of state income tax breaks targeting the elderly, such as special tax provisions for private pension income, as well as state estate, inheritance, and gift taxes. This research included decennial census data for four periods, 1970 through 2000, supplemented by census-based public-use micro-data (IPUMS). The broad time span allowed this analysis to measure the impact of numerous state-level changes to both income taxes and estate taxes. During this period, a number of states adopted new preferential tax treatment for income typically received by the elderly. In addition, a number of states had estate taxes that levied taxes beyond a “pick-up tax” tied to federal estate tax, meaning that there was substantial variation among states in combined state and federal estate taxes. Several states modified their estate taxes during this period.

This research focused on migration trends among all elderly households. It found that state tax policies toward the elderly changed substantially, but elderly migration patterns did not. As such, we found no credible effect of state income tax breaks on elderly migration.

Brief summary of our other research and that by others

The above article confirms the conclusions of our earlier work (Conway and Rork 2006) that also finds no credible effect of state estate taxes on elderly migration during the 1970-2000 period. In contrast to our most recent article, this earlier work used less rich migration data and focused primarily on estate taxes – but arrived at essentially the same conclusion. All of our published work uses data that ends with the 2000 census. The replacement of the Census long form with the American Community Survey after the 2000 census makes comparisons between more recent data and that from 2000 difficult. Nonetheless, in a newly completed paper (Conway and Rork 2013) we find evidence that geographic patterns of elderly migration have been fairly stable between 2000 and 2010. This finding combined with the numerous changes in state income and estate tax policies over the decade yields additional evidence that such policies are not dramatically affecting elderly migration.

Other researchers have addressed this general research question as well, the closest being Bakija and Slemrod (2004), a careful piece of research that uses very different data (estate tax returns). We defer a discussion of that work to its author, Jon Bakija. Varner and Young (2011) provide complementary evidence for the US by focusing on the effects of the 'millionaire tax' in New Jersey, whereby the top income tax rate was increased for incomes above $500,000. Specifically, the article compared migration patterns of households affected by the new tax rate with migration patterns of households with incomes just below the threshold to be affected by the new rate, and they found no statistically significant difference. When the authors assessed migration changes for high-income elderly residents separately, they found stronger although still modest effects. Brulhart and Parchet (2010) provide complementary evidence on estate taxes from another country – Switzerland – whose cantons (small sub-national political jurisdictions similar to US states) impose different inheritance tax policies. The research examined changes in these canton-level inheritance tax changes in Switzerland on the number of high-income elderly households over two decades. The researchers found no relationship between inheritance tax rates and the number of high-income elderly households.

Implications for the District of Columbia

No research is perfect, in part due to data limitations, and research of this kind cannot automatically be applied to any one jurisdiction. Our published research measures migration through 2000 and aggregates the experiences of many states over a period of many years. It is possible that the characteristics of the District of Columbia, such as being part of a metropolitan area that includes two other states, would lead to somewhat different results from the studies cited above.

At the same time, the studies cited here represent a substantial improvement over prior studies. Rather than looking at a cross section of data, using just one year, these studies examine the impacts of numerous changes in state tax policies across the nation over a number of years. This method creates a robust set of data that allows researchers to isolate the impact of policy changes on migration, distinct from general migration trends, such as the movement toward warmer climates.

We believe the available research is likely to provide some valuable lessons for D.C. The research suggests that some high-income households are sensitive to differences in income taxes and estate taxes, meaning that they move or otherwise change their primary residence to seek lower taxes. Yet, these effects appear modest. This means that it is likely that eliminating or scaling back taxes sharply for these households will lose more revenue than the amount of revenues gained by keeping a small number of households from moving.

References

Bakija and Slemrod, "Do The Rich Flee From High State Taxes? Evidence from Federal Estate Tax Returns," *National Bureau of Economic Research Working Paper Series, Paper 10645,* July 2004.

Brulhart and Parchet, “Alleged Tax Competition: The Mysterious Death of Inheritance Taxes in Switzerland,” working paper, June 2010

Conway and Rork, “State ‘Death’ Taxes and Elderly Migration–the Chicken or the Egg?” *National Tax Journal*, March 2006, Vol. LIX, No. 1, pp. 97-128.

Conway and Rork, “How Has Elderly Migration Changed in the 21st Century? What the Data Can – *and Can’t* – Tell Us,” working paper, revised November 2013.

Varner and Young, “Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment,” *National Tax Journal*, June 2011, pp. 255-284.