Outmigration and Tax Rates: Will the Wealthy Leave?

Abstract
Governments should increase taxes for those in higher-income brackets and on high-end property during the global virus-related crisis according to the IMF’s World Economic Outlook in October 2020. The idea of taxing the wealthy is becoming popular. Will the wealthy migrate if property tax rates rise?

I show that differences in real estate tax rates between two counties influence the migration of people at different income levels. I exploit variation in outmigration and real estate tax rates at the county-level from the IRS’s Statistics of Income (SOI) and Zillow’s Home Value Index. I find that real estate tax rates matter for migration except for the wealthy upper 25%.

Research Questions
1. Do differences in real estate tax rates matter for outmigration?
2. Do the wealthy migrate because of differences in real estate tax rates?

Empirical Strategy
The empirical specification follows Moretti and Wilson (2017); however, I estimate the migration of people at the county-level and from counties at all income levels rather than only migrants at the state-level who are high-earning, star scientists.

The empirical model accounts for unexplained differences between counties using fixed-effects OLS. I follow Moretti and Wilson (2017) and show results with origin and destination fixed-effects and yearly fixed effects (although not by region).

Baseline model

\[
\log\left(\frac{P_{odt}}{P_{oct}}\right) = \alpha + \beta_1 [\log(1 - \tau_{dt}) - \log(1 - \tau_{ot})] + \beta_2 l + \gamma_d + \gamma_o + \gamma_{od} + \epsilon_{odt}
\]

Variable descriptions

\[
\log\left(\frac{P_{odt}}{P_{oct}}\right) : \text{ log odds ratio of migrants to non-migrants.}
\]

\[
\log(1 - \tau_{dt}) - \log(1 - \tau_{ot}) : \text{ log difference between destination and origin net-of-tax rates.}
\]

Table: Outmigration and real estate tax rate differences by income quartile.

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
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</thead>
<tbody>
<tr>
<td>Log-differenced real estate tax rates</td>
<td>6.985***</td>
<td>6.889***</td>
<td>7.026***</td>
<td>6.945***</td>
</tr>
<tr>
<td></td>
<td>[0.421]</td>
<td>[0.423]</td>
<td>[0.422]</td>
<td>[0.422]</td>
</tr>
<tr>
<td>Log-differenced real estate tax rates × 1st quartile (&lt;25%) income dummy</td>
<td>0.921**</td>
<td>[0.365]</td>
<td></td>
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<tr>
<td>2nd quartile (25%-50%) income dummy</td>
<td>-0.508**</td>
<td>[0.219]</td>
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<tr>
<td>3rd quartile (50%-75%) income dummy</td>
<td>0.292*</td>
<td>[0.175]</td>
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<tr>
<td>4th quartile (&gt;75%) income dummy</td>
<td>-0.157</td>
<td>[0.166]</td>
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Observations: 339101

Fixed-effects: O x D, Year

R-squared: 0.990

Notes: The dependent variable is the log odds ratio of county-to-county outmigrants to non-migrants in the United States from 2012 to 2018. The independent variables at the county level are the log differences in real estate tax rates by income quintile between destination and origin counties from 2012 to 2018. Country-specific fixed-effects for (destination x origin) and years are estimated and a time indicator is included in regressions, but coefficients are not shown in the table to save space.