JUST THE FACTS

ARE THE RICH LEAVING CALIFORNIA?

JULY 2009

- **RICHER HOUSEHOLDS ARE LEAVING CALIFORNIA—BUT SO ARE POORER HOUSEHOLDS, AND MORE OF THEM.**
  More poor households than higher-income households leave California for other states. When we compare households that left the state with those that arrived from 2004 to 2007, those in the bottom fifth (with annual incomes of about $22,000 and less) are most likely to leave: 1.73 of the poorest households leave for every one that arrives. This ratio declines as income rises—so that among the top fifth (with annual incomes of about $110,000 and up), only 1.16 households leave for each one arriving. Among the highest-income households, with annual incomes above $200,000, only 1.09 leave the state for every arrival.

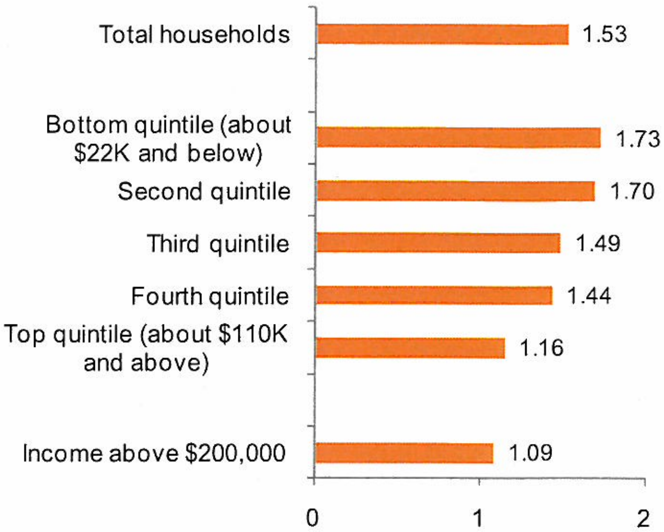
- **POOR HOUSEHOLDS ARE MORE LIKELY TO MOVE—INTO AND OUT OF CALIFORNIA.**
  Households in the poorest fifth are twice as likely to leave as those in the richest fifth. The poorest group is also 50% more likely to migrate to California from other states as the top group. The tendency toward greater mobility among lower-income households stems from the fact that younger adults move more frequently and have lower incomes than older adults.

- **CALIFORNIANS OF ALL INCOMES DEPART FOR—AND ARRIVE FROM—STATES WITHOUT INCOME TAXES.**
  California does have high income taxes: a top marginal tax rate of 9.3%, plus an additional 1% for millionaires. Three states with no personal income taxes—Nevada, Texas, and Washington—are among the top five destinations for the highest-income fifth of California households. However, these three states are also among the top five destinations for the *poorest* fifth of California households, who face lower income tax rates in California than wealthier households do. Texas and Washington are also among the states that send the most high-income migrants into California, and Oregon, with high income taxes, is a top destination for lower-income Californians. Proximity, not tax rates, seems to explain which states Californians come from and move to.

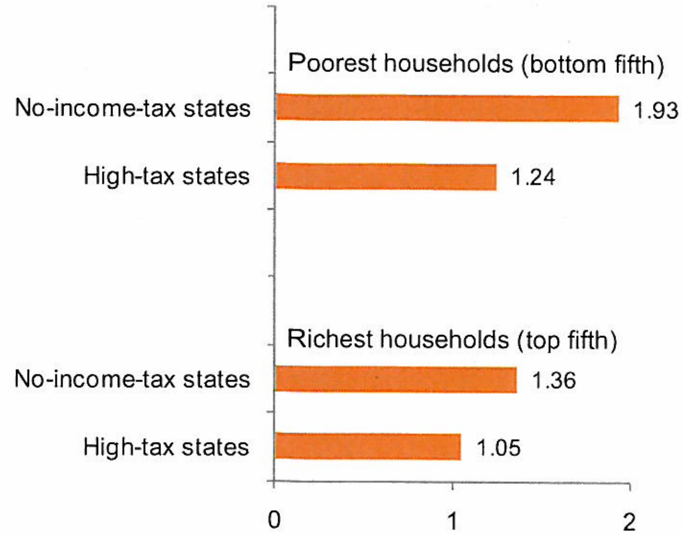
- **THE POOR, MORE THAN OTHERS, ARE MOVING TO STATES WITHOUT INCOME TAXES.**
  Among the poorest fifth, for every household that comes to California, 1.93 move to states without income taxes. On balance, California loses far fewer high-income households to states without income taxes. This looks like a puzzle: the poor have less reason than richer households do to move to states without income taxes. California's progressive income tax means that lower-income households in California actually face tax rates that are similar to those of many states and well below those of others.

- **INCOME TAXES AREN'T DRIVING AWAY THE HIGHEST-INCOME HOUSEHOLDS.**
  If high income taxes were chasing away rich Californians, high-income households would be more likely than low-income households to move to states without income taxes—but they aren't. How come? States without income taxes are cheaper than California in other ways—housing costs, for example—that matter to all types of households, not only to those with the highest incomes. In other words, California does lose people to lower-tax states—but not just because of income taxes.

California Loses Few High-Income Households to Other States



States Without Income Taxes Attract the Poor



Ratio of households leaving to households arriving, 2004–2007

Top Origin and Destination States of Domestic Migrants, 2001–2007

Origin of arrivals, top states		Destination of departures, top states	
Poorest quintile	**Richest quintile**	**Poorest quintile**	**Richest quintile**
Texas	Texas	Arizona	Arizona
Arizona	New York	Nevada	Texas
Washington	Washington	Texas	Washington
Nevada	Illinois	Oregon	Nevada
Florida	Colorado	Washington	Virginia

Sources: U.S. Census. American Community Survey (ACS).

Note: California's Department of Finance (DoF) and the U.S. Census estimate domestic migration differently. During 2004–2007, both DoF and Census reported negative domestic migration in California, but Census estimated a larger outflow. ACS data are closer to Census than DoF estimates. Only ACS data can be used for assessing migration for different income levels, and ACS does not have a large enough sample size to look at even-higher income cutoffs. All results are very similar using personal income instead of household income. No-tax states are those that do not tax personal wage or salary income (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming). According to the Tax Foundation, high-tax states are those that had top marginal (state plus local) rates of at least 8% in 2007 (District of Columbia, Hawaii, Iowa, Maine, Maryland, New Jersey, New York, North Carolina, Oregon, and Vermont). In individual state rankings, differences may not be statistically significant.

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