

How relevant are State Taxes in the location
Decision of the Rich Elderly?

Article Review

Manuel del Valle
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This NBER article responds to the question: What role to taxes play in the decision of the rich elderly to relocate in a state?

The authors used a massive numbers of observations--more than 230,000--so the results are very robust.

They propose three Conditional Logit models, and the table below shows the results in terms of elasticities. The Table should be read as follows: If the Estate and Inheritance (EI) Tax Rate increases by 10% then the number of rich and elderly in your state will decrease by 6% according to Model 1, by 19% according to Model 2, and by 14% according to Model 3.

If the Income tax in one state is increased by 10% it is expected that the number of rich elderly in the state will decrease by 24% according to Model 1, 27% according to model 2, and 15% according to model 3.

Likewise, if sales taxes increase by 10%, the number of rich elderly in your state will decrease by 4% according to Model 1, **33%** according to Model 2, and 27% according to Model 3.

Looking at the whole Table, all taxes matter for the relocation: Estate and Inheritance, Income and Sales, but not so much Property. In fact Model 1 says that in-migration to the state will increase if Property Taxes increase. But Models 2 and 3 have a negative sign, as expected. With respect to Amenities provided by the Government, the sings are positive, but the magnitudes are weak and the statistical significance low.

The results also give a ranking, and the taxes can be ordered, according to their importance in the decision of the rich elderly to relocate. For example, in Model 3 the Sales Tax Rate is almost twice as important as the EI Tax Rate.

Results of the Conditional Logit models

	Model 1	Model 2	Model 3
Estate and Inheritance Tax Rate	-0.6	-1.9	-1.4
Income Tax Rate	-2.4	-2.7	-1.5
Sales Tax Rate	-0.4	-3.3	-2.7
Property Tax Rate	14.3	-0.4	-3.3
Amenities Provided by the Government	0.4	0.4	0.1

(Bold means statistically significant)

Other strong points in the paper

Progressivity of the Tax System is not the Role of State Government

“The public finance literature holds that state governments should refrain from redistributive tax and transfer policies, and they should be instead the responsibility of the central government. Out-migration of high-income people and in-migration of low income people may offset the effort to achieve redistribution.”

Estate Tax

There are many insights to the Estate Tax, because it has just stopped being a “soak-up tax” because the Federal Government has eliminated the credit, which allowed the tax payer to be neutral. New Mexico has an Estate Tax, and it collects about \$25 million, but the stream has been decreasing significantly, as it was predicted quantitatively in the paper.

A soak-up tax was established by many states, including New Mexico. This tax would absorb the maximum available federal credit with no incremental burden on the residents of the state. Between 2002 and 2004 this credit will be eliminated and states will have to face decisions that will ultimately bear upon different estate taxes in each state.

Caveats

The study uses federal estate tax return data as a proxy of the number of wealthy people and their locations. But these data do not trace the movement of people, only the place where they die.

Control variables: income concentration, political concentration, political economy, demographic variables, death rate, disamenities such as crime rate and unemployment rate, house prices Index, state per capita income, and weather.