

## **The Effects of Income Tax Cuts on Emigration from Israel**

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### **ABSTRACT**

Both the theoretical and empirical literatures indicate that income tax cuts may have a significant impact on migration flows. Nonetheless, there is a paucity of empirical studies that systematically examine the effect of a general (as opposed to an ad-hoc) and permanent income tax reduction on migration patterns. During the period 2004-2010 Israel implemented a substantial income tax cut that was partially offset two years later, while statutory tax rates remained in a permanent lower level. In this paper we build a framework for analyzing the effect of permanent income tax reductions on emigration and we perform an empirical analysis of their impact. Our analysis considers the alternative net wage that these potential migrants may earn in destinations countries. We find that permanent tax reductions reduce the emigration flows from Israel. According to our findings, this effect is stronger for workers in the low tech sector than for their high tech counterparts, as the former are more sensitive to changes in net wages.

**Key Words:** Permanent Tax Cut, Emigration.

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