



Fiscal Fact

June 12, 2012

No. 315

Lawmakers Weigh Tax Schemes in the Garden State

By

Scott Drenkard and Elizabeth Malm

New Jersey doesn't have the best reputation when it comes to taxes. Not only did the Garden State rank 50th in the 2012 State Business Tax Climate Index,¹ its citizens also have the highest total tax burden in the country.² Further, the state had the highest per capita property tax collection in 2009³ and has been ranked as one of the top five states with the worst individual tax burden since 1977. The desire for tax relief in the state has grown in recent years, with Governor Chris Christie (R) pledging, "I'm not going to increase taxes on the state that the Tax Foundation has said is the highest burdened tax state in America."⁴ As the June 30 deadline to pass the state budget looms, Democrats in the legislature have also weighed in on reform ideas. Three plans have emerged in recent weeks:

Governor Christie's Across-the-Board Income Tax Cuts

Governor Christie has pushed for 10 percent across-the-board individual income tax cuts for all tax brackets.⁵ Under this plan, the cuts would be phased in over four years, while the Earned Income Tax Credit would be increased from its current rate of 20 percent of the federal earned income credit⁶ to a new rate of 25 percent. Table 1 shows income tax rates under this proposal.

¹ Mark Robyn, *2012 State Business Tax Climate Index*, TAX FOUNDATION BACKGROUND PAPER NO. 62 (Jan. 25, 2012), <http://taxfoundation.org/article/2012-state-business-tax-climate-index>.

² Gerald Prante and Mark Robyn. *State-Local Tax Burdens Fall in 2009 as Tax Revenues Shrink Faster than Income*, TAX FOUNDATION SPECIAL REPORT NO. 189 (Feb. 23 2011), <http://taxfoundation.org/article/state-local-tax-burdens-fall-2009-tax-revenues-shrink-faster-income>.

³ Tax Foundation, *State and Local Property Tax Collections Per Capita by State, Fiscal Year 2009*, <http://taxfoundation.org/article/state-and-local-property-tax-collections-capita-state-fiscal-year-2009>.

⁴ Richard Morrison, *Chris Christie Cites Tax Foundation on "Meet the Press,"* TAX FOUNDATION TAX POLICY BLOG (Nov. 8 2010), <http://taxfoundation.org/blog/chris-christie-cites-tax-foundation-meet-press>.

⁵ Joseph Henschman, *New Jersey Governor Urges Income Tax Reductions, Cites Tax Foundation's Burdens Report*, TAX FOUNDATION TAX POLICY BLOG (Jan. 19, 2012), <http://taxfoundation.org/blog/new-jersey-governor-urges-income-tax-reductions-cites-tax-foundations-burdens-report>.

⁶ State of New Jersey, Department of the Treasury, *2011 NJ Earned Income Tax Credit (2011)*, <http://www.state.nj.us/treasury/taxation/eitcinfo.shtml>.

Table I: Individual Income Tax Rates Under Governor Christie's Plan

Bracket	Current Rates	Proposed Rates (with 10% cut)
>\$0	1.40%	1.26%
>\$20,000	1.75%	1.58%
>\$35,000	3.50%	3.15%
>\$40,000	5.53%	4.98%
>\$75,000	6.37%	5.73%
>\$500,000	8.97%	8.07%

The New Jersey Senate Income Tax Credit Plan

Senate Bill S. 10, sponsored by Senate President Stephen Sweeney, has proposed a homeowner income tax credit of 10 percent of property tax bills up to \$10,000.⁷ This bill would also have a phase-in period of four years and would be limited to annual incomes of \$250,000 and under. Senate Democrats claim that:

“...a family earning \$50,000 a year would save, on average \$600, and a family earning \$100,000 a year would save an average of \$800; millionaires would get absolutely zero. Under the governor's proposed income tax scheme, a family earning \$50,000 a year would only save \$80.50, and a family earning \$100,000 annually would only save \$275, while a millionaire would get a \$7,265.75 tax break...”⁸

This bill also provides tax relief for renters in the form of a “renter’s credit.” This credit was formerly only \$50 but will reach \$200 after a three year phase-in period.⁹

The New Jersey Assembly Income Tax Credit and Millionaires Tax Plan

The General Assembly is considering a plan similar to that of the Senate, but the income tax credit would instead be 20 percent. The credit would be funded by a “millionaires’ tax”—a new tax bracket for those earning more than \$1,000,000. These filers currently pay the top marginal rate of 8.97 percent but they would be subject to an escalated 10.75 percent under the Assembly bill.¹⁰

Don't Tax Me, Tax Someone Else

U.S. Senator Russell B. Long (D-LA) famously quipped that the idea of tax reform was merely “Don’t tax you, don’t tax me, tax that fellow behind the tree!” The Assembly proposal aims to do just that: shift the cost of government to “someone else.”

⁷ New Jersey Senate Bill S. 10, http://www.njleg.state.nj.us/2012/Bills/S0500/10_I1.HTM.

⁸ New Jersey Senate Democrats, *Sweeney Announces Plan to Give Middle-Class New Jersey a Real Tax Cut*, <http://www.njsendems.com/release.asp?rid=4396>.

⁹ New Jersey Senate Bill S. 10, at 8, http://www.njleg.state.nj.us/2012/Bills/S0500/10_I1.HTM.

¹⁰ New Jersey Assembly Bill A. 2744, http://www.njleg.state.nj.us/2012/Bills/A3000/2744_I1.PDF.

In his February budget address, Governor Christie asserted that he was “proud to have twice vetoed the effort to reintroduce [higher marginal tax rates]” and “will veto any tax increase again.”¹¹ Assuming that the governor upholds his promise, the Assembly proposal featuring a millionaire’s tax is not likely to be implemented through traditional legislative procedure.

However, in an effort to bypass the governor’s threatened veto, Democrats have threatened to put the measure on the ballot as a constitutional amendment. A January 2012 poll reported that 58 percent of New Jerseyans supported a millionaire tax for budget-balancing purposes, a decrease from 64 percent in late 2011.¹² Despite the slight decrease in support, this is still enough to pass the measure if it were to reach voters—the state constitution only requires a majority of voters for a constitutional amendment to be adopted.¹³

Regardless of their popularity, attempts to increase the tax burden on high-income individuals would be damaging to long run growth in New Jersey. Economic research indicates that progressive tax rates disincentivize developing job skills and career advancement, and reduce the number of hours people are willing to work.¹⁴ Furthermore, taxes on high income filers include business income, and raising taxes on this group would have negative effects on long term economic growth.¹⁵

Progressive tax rates create practical problems for funding government services because they tend to be more volatile than other ways of collecting revenue. Because most of the burden falls on capital gains, the revenue stream is linked to the economic expansions and contractions associated with business cycles.¹⁶ As states battle with budget shortfalls, moving away from progressive taxes will help provide more stable revenue streams.

Finally, as a long term strategy for crafting good public policy, tilting the tax code toward high income earners creates what Nobel laureate economist James Buchanan calls “fiscal illusion,” an economic problem where citizens demand more in government services because they do not bear the full cost of them.¹⁷

¹¹ Governor Chris Christie’s Fiscal Year 2013 Budget Address As Prepared for Delivery, <http://www.state.nj.us/governor/news/addresses/2010s/approved/20120221.html>.

¹² Quinnipiac University, *New Jersey Support for Same-Sex Marriage at New High, Quinnipiac University Poll Finds; Big Gender Gap as Voters Oppose Online Gambling* (January 19, 2012), <http://www.quinnipiac.edu/institutes-and-centers/polling-institute/new-jersey/release-detail?ReleaseID=1693>.

¹³ New Jersey State Constitution, art. IX, para. 6, <http://www.njleg.state.nj.us/lawsconstitution/constitution.asp>.

¹⁴ Edward C. Prescott, *Why Do Americans Work So Much More than Europeans?*, 28 FEDERAL RESERVE BANK OF MINNEAPOLIS QUARTERLY REVIEW 2-13 (2004), <http://www.minneapolisfed.org/research/QR/QR2811.pdf>.

¹⁵ Scott Hodge and Alex Raut, *Individual Tax Rates Also Impact Business Activity Due to High Number of Pass-Throughs*, TAX FOUNDATION FISCAL FACT NO. 314 (June 6 2012), <http://taxfoundation.org/article/individual-tax-rates-also-impact-business-activity-due-high-number-pass-throughs>.

¹⁶ R. Alison Felix, *The Growth and Volatility of State Tax Revenue Sources in the Tenth District*, FEDERAL RESERVE BANK OF KANSAS CITY ECONOMIC REVIEW (2008), <http://www.kansascityfed.org/Publicat/Econrev/PDF/3q08Felix.pdf>.

¹⁷ James M. Buchanan, *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice*, <http://www.econlib.org/library/Buchanan/buchCv4c10.html>.

Proportionate Means Proportionate

Proponents of the Assembly and Senate plans argue that in comparison with Governor Christie's proposal, they give more aid (in the form of dollars saved per year) to low and middle income individuals. Critics of the governor's plan contend that it saves more money for the wealthiest residents, and have even called the plan "disproportionate."

Of course, by definition, an "across-the-board" cut reduces each tax bracket's rate exactly proportionately, by an equal percentage. While high-income earners benefit by greater dollar amounts, in a relative sense, the tax cut is actually equal.

Conclusion

Ultimately, New Jersey lawmakers will have to address problems on the spending side in addition to cutting taxes, particularly in light of reports from both the Office of Legislative Services and the State Treasurer that indicate state revenue projections overestimated income for the current and upcoming fiscal years.¹⁸ By addressing some of its tax deficiencies, the Garden State can move toward a tax code that collects a stable, neutral revenue stream.

©2012 Tax Foundation
National Press Building
529 14th Street, N.W., Suite 420
Washington, DC 20045

202.464.6200
www.TaxFoundation.org

About the Tax Foundation

The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., our economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.

¹⁸ Martin Poethke, Office of Legislative Services, *Analysis of the New Jersey Budget: Tax and Revenue Outlook, Fiscal Year 2011-2012*, http://www.njleg.state.nj.us/legislativepub/budget_2012/tax_revenue_outlook_2012.pdf

Andrew Sidamon-Eristoff, New Jersey State Treasurer, *Opening Statement before the New Jersey Senate Budget and Appropriations Committee* (May 24, 2012), <http://www.state.nj.us/treasury/news/2012/p052312a.pdf>.