The Truth About the 2009 Income Tax Increase

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Tax On Small Businesses and Job Creators Yields Less Income Than Expected & Negatively Impacts Middle Class Families.

Reinstating the Income Tax Increases Fails to Raise Significant Revenue

- According to the Office of Legislative Services, using information provided by the Division of Taxation, the revenue that could be anticipated to be generated from an increase in income tax rates back to the 2009 levels is approximately $300 million less than what was originally anticipated to be generated during the current year.
- When the changes to the income tax were approved by the Legislature, it was anticipated that $ 1 billion in additional revenues would be generated. Subsequent to the enactment of the 2009 income tax changes, the Division of Taxation estimated the impact on tax collections of New York's income tax rate increases. New Jersey residents are permitted to credit the amount of taxes paid to New York against the income tax owed to New Jersey.
- The higher level of taxation imposed by New York caused the Division of Taxation to revise downward by $300 million the anticipated revenue.

Office of Legislative Services, March 25, 2010

The 2009 Income Tax Increases Limited or Eliminated the Deductibility of Property Taxes For Middle Income Families

- Of the $700 million anticipated to be generated by the income tax increases, $600 million is attributable to the rate increases for taxpayers earning $400,000 and above.
- The remaining $100 million in additional taxes comes from reducing by half the deductibility of property taxes for non-senior taxpayers earning between $150,000 and $250,000 and eliminating completely the property tax deduction for non-senior taxpayers earning $250,000 or more. Of the $700 million anticipated to be generated by the income tax increases, $600 million is attributable to the rate increases for taxpayers earning $400,000 and above.

Office of Legislative Services, March 25, 2010

Tax Increases on High Income Taxpayers Is a Tax on Small Businesses

- For the top reported income category (income over $500,000) business income represents about 32.5% of total income. Business income includes four categories - S Corporation income, Partnership & LLC income, Sole Proprietorships or Business Income and Rental income. [Division of Taxation]
- 75% of all S Corporation income and over 79% of all partnership/LLC income is earned by these individuals, demonstrating that small business owners are a significant majority of this group. [Division of Taxation]
- According to information provided by the Office of Revenue and Economic Analysis in the Department of Treasury "In 2008 there were 4.6 million New Jersey income-tax returns filed, and 63,480 had income of $400,000 and more. Of those, an estimated 35,921 or 56.1% had some small-business income, according to the Treasury department." [Office of Revenue and Economic Analysis, April 20, 2009]

'If You Tax Them, They Will Leave"

- Nine states levy no income tax. Of the nine, all but one saw more people migrating in than out during the period from 2000 to 2008, according to research by the Empire Center for New York State Policy. By contrast, eight states with higher than average taxes, including New Jersey saw significant outward migration - an amount equal to 4% or more of their population during the same time. [Christian Science Monitor, Tax day 101: Are some states driving people out with high state taxes?" Mark Trumball, April 14, 2010.]
- The Empire Center for New York State Policy ranks New Jersey 47 out of the 50 states and the District of Columbia when calculating net domestic migration. During the period 2000-2008, New Jersey had a net loss of 430,250 residents. [Empire Center for NY State Policy]
- For each year since 1977, United Van Lines has conducted a migration study based on data from its operations. New Jersey ranked third in outbound states behind Michigan and North Dakota. One of the few Northeastern states that gained interstate migrants in 2007 was New Hampshire, the one state in New England without an income tax. [2009 United Van Lines Migration Study]
- According to the Center on Wealth and Philanthropy, Boston College, in its study entitled "Migration of Wealth in New Jersey and the Impact on Wealth and Philanthropy," New Jersey experienced a large decline in the number of wealthy households entering the State between 2004 and 2008 and a modest increase in the outflow of wealthy households leaving New Jersey. The inflow of wealth dropped from $300 billion to $117 billion. The outflow grew from $187 billion to $202 billion. [Center on Wealth and Philanthropy, Boston College, January 22, 2010]
- One impact of the higher income tax rates that is harder to quantify is the number of decisions made by business (or the wealthy) not to locate or expand in New Jersey based on the state's high income tax. The Boston College study did find that, comparing the period of 1999 to 2003 with 2004 through 2008, the decline in households, in wealth, is

mostly due to a decline of in-migration of households. [Center on Wealth and Philanthropy, Boston College, January 22, 2010]

- During the period from 2004 to 2008 Florida was the destination of 17% of households and 20% of the wealth leaving New Jersey. Florida does not have an income tax. [Center on Wealth and Philanthropy, Boston College, January 22, 2010]
- A recent analysis by Bank of America/Merrill Lynch indicates states that "the average adjusted gross income going into California, New Jersey and New York is between 13% and 21% smaller than those coming out." The net outflow of income for New Jersey is estimated at $2.126 billion for 2007. The only states with a greater loss of income are California and New York. [Money Walks, Bank of America/Merrill Lynch, July 31, 2009]

High Income Taxpayers Contribute a Large Proportion of Income Tax Revenues

- In 2008, filers with income in excess of $400,000 represented 1.7% of the total filers and paid 43% of the gross income tax. [Office of Revenue and Economic Analysis, April, 2010]
- Approximately 20% of all income tax receipts, or nearly $2 billion, come from the top one-tenth of one percent, or about 3,900 households.

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