"In New Jersey, our business taxes increase every time we hire a worker. Other states don’t boost our taxes when we create a job. What New Jersey does with taxes is just nuts."

This statement by a senior executive at one of our state’s largest employers could have been spoken by an executive from any New Jersey-headquartered company. Our state’s corporation business tax is based on a company’s New Jersey payroll and property as well as its sales. That means it penalizes employers for creating jobs in the state — hard to believe at a time when our residents suffer near-double digit unemployment rates.

While New York has eliminated, and Pennsylvania is phasing out, this anti-jobs tax policy, joining a number of states that have acted in the past two years, New Jersey has not.
Laws like this are just one example why New Jersey tax policy matters to our workers and their families. Correctly, in his recent budget address, Gov. Chris Christie has made reducing and reforming our tax system the keystone of his plan to revive our economy.

Already, opponents are gearing up in an attempt to block the governor’s tax reduction plans. Some, like the liberal think tank New Jersey Policy Perspective, argue that New Jersey employers are undertaxed, and public sector union leaders want tax increases to prevent cutbacks in spending that could lead to reductions in their members’ benefits and pay.

Directly in the cross hairs of the pro-tax lobbies’ ire is Christie’s refusal to reimpose last year’s temporary income tax hike on taxpayers with over $400,000 of income. Last year’s action put New Jersey’s top tax rate at 10.75 percent, one of the highest in the country. Even former governor Jon Corzine realized the tax increase a mistake and insisted it only live one year.

Reimposing such confiscatory rates would continue a mistaken tax policy that began in 2004 when New Jersey’s top tax rate was raised to a shade under 9 percent. Twice in the last decade income tax rates were raised to balance state budgets. Both times the higher taxes failed to do the trick. State budget deficits remained, while our residents bore the consequence of these high taxes — the loss of thousands of jobs and billions of dollars of wealth.

To get our economy moving, New Jersey needs lower, not higher income taxes.

According to Rutgers University economist Professor James Hughes, New Jersey suffered a net loss of 460,000 residents to other states during the last decade. Who were these relocators? Data from the Internal Revenue Service’s 2008 Statistics of Income is revealing.

In 2008 alone, out-migrating New Jerseyans left with almost $7 billion of gross income, a total equal to over 2.5 percent of the state’s total gross income. To put this into perspective, New Jersey lost more income from out-migration than did the recession-ravaged states of Michigan and Ohio (each state lost just over $5 billion or 2 percent of total state income); we lost more income, on a percentage basis, than even New York State. Worse, in-migrating taxpayers from other states were insufficient to stem New Jersey’s income decline. Accounting for in-migration, our state still saw a net decline of over $1.6 billion in 2008. On a comparative basis, this decline, when expressed as a percent of total income, was greater than losses in California, Massachusetts, Pennsylvania, Illinois and Virginia.

When New Jerseyans relocate, our economy loses not only their immediate incomes and spending capacity, but also their accumulated wealth. Looking over a longer period of years, a study by the Boston College Center on Wealth and Philanthropy found New Jersey experiencing a disturbing pattern of wealth loss. Between the years 2004-2008, New Jersey saw a net outflow of $70 billion of wealth. Compare this to the prior four-year period, when we actually gained a net $98 billion in wealth, and the current exodus from our state appears all the more striking.
Income and wealth matter to an economy. It’s the lifeblood of business investment, consumer spending on houses and cars, job creation and yes, even tax revenues to support our public services. Only the naïve would believe that higher income taxes have not contributed to a virtual exodus of income and wealth from our state. Tax policy does matter after all.

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