Byrne: Are taxes driving dollars away from New Jersey?

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BY TOM BYRNE
The Record
Tom Byrne is a former chairman of the state Democratic Party and is currently chairman of the New Jersey Tax and Fiscal Policy Study Commission. He is president of Byrne Asset Management LLC in Princeton. The views expressed are solely his own.
Send comments about this column to Op-Ed Page Editor Peter Grad at grad@northjersey.com.

THERE HAVE been three recent studies of out-migration from New Jersey and the overall effect on state revenues, which were spurred in part by the state’s “millionaires tax.” The studies were conducted at Rutgers, Princeton and, most recently, Boston College.

Although there is much common ground among the reports, much focus has been placed on where these reports differ. The three studies, each of which examines slightly different time periods and relies on different databases, all note that people are leaving New Jersey, but differ as to how many and why.

These studies are particularly important because we need to understand how tax policy affects our economy and funds available for needed government services.

More acutely, we need to better understand why income tax revenues fell by 19 percent in the past year. Clearly, the major factor behind the drop is the recession and the resulting decline in employment and earned income.

But no one has isolated how much of the decline is due to our state’s abnormally heavy reliance on taxing capital gains. Nor is it clear how much revenue has been lost due to people leaving the state and to a slowdown in new people coming to New Jersey.

Dispersal of tax burden

It is important to understand the dispersion of the income tax burden. One percent of New Jerseyans pay about 40 percent of the state’s income taxes. About 20 percent of all income tax receipts, or nearly $2 billion, come from the top 0.1 percent, or about 3,900 households.

Even if this is the fairest way to tax, it is not optimal if too many of our biggest taxpayers change their domicile. Some would have headed south eventually anyhow, but we have a problem if tax considerations are prompting people to leave a decade or more earlier than they would have.
The Rutgers study looks at the period between 2000 and 2005 and uses Internal Revenue Service data. Its conclusion: “Since the start of the decade, New Jersey’s 2005 aggregate adjusted gross income was reduced by $7.9 billion. The total annual state tax loss to New Jersey in 2005 approached $539 million.”

However, this figure encompasses all income groups and all potential causes of out-migration. The millionaires tax did not take effect until 2004. Rutgers notes an acceleration in out-migration in 2005 and 2006, but does not explore how closely that might be tied to the single variable of the millionaire tax.

Indeed, Rutgers explicitly cites other potential variables, such as the high cost of living, high property taxes and stronger employment growth elsewhere.

An additional loss

The Rutgers authors point out that Merrill Lynch, using updated IRS data, in a recent report “Money walks” estimated that there was an additional net loss of $2.1 billion in adjusted gross income due to out-migration from New Jersey in 2007.

The Princeton study began by looking more narrowly at the millionaires tax. It found that the then-new 8.97 percent tax bracket generated an average of $895 million per year in new tax revenue in its early years, 2004 through 2006. The study also estimated that the net out-migration of taxpayers who would have otherwise been taxed at the millionaires marginal bracket increased by 350 taxpayers per year from 2004-2006.

However, the study’s authors have since done additional research suggesting that almost all of this increase in tax revenue may have resulted from broader forces. The original study also estimated foregone revenue at $38 million from the incremental annual loss of 350 taxpayers per year. That estimate implies an average foregone tax of $108,571 per person per year from these migrants.

The unanswered question is: What if those who left the state were super-rich rather than merely wealthy? The tax loss would be far larger.

There is enough anecdotal chatter that we have indeed lost a significant number of super-rich people who are not tied down here by a salary. The Princeton study says that the super-rich were the most likely to leave even before the imposition of the millionaires tax.
While the Princeton authors seem reasonably sanguine about the overall impact of the millionaires tax, they acknowledge that there could be a time-lag effect; people who don’t leave immediately might nonetheless be planning an exit strategy.

The authors also noted that taxes other than the millionaires tax may play a greater role in out-migration decisions. In particular, they suggest that more research be done on the impact of estate taxes and capital gains taxes.

Making ends meet

The Princeton report also notes that most migrants from New Jersey are lower-income people who find it difficult to make ends meet here. It seems clear that further discussion should distinguish more sharply between the number of people who leave and the tax impact of people who leave.

The most recent study is from Boston College. It focuses much more on wealth as distinct from annual taxable income.

A principal conclusion of the Boston study is that the natural replacement of wealthy households by new arrivals has slowed dramatically in recent years. It concludes that from 2004 through 2008, a net of about $70 billion in wealth left New Jersey and that this marked a reversal of trend from the previous five-year period.

It further noted that the average wealth of out-migrating households as a proportion of the average wealth of in-migrating households is much larger for New Jersey than for either New York or Connecticut.

The report also mentions the high correlation between wealth and ownership of private businesses and the implications of that for job growth and New Jersey’s economic future.

The Boston study does not attempt to correlate these patterns to any one variable such as the millionaires tax or any other isolated factor, but it does state that “idiosyncratic factors” altered New Jersey’s migration pattern in ways that differed from those affecting New York and Connecticut.

It is also true that Bureau of Labor Statistics data show that New Jersey has had a sharper percentage decline in non-farm payrolls since 2004 than New York, Connecticut and Pennsylvania. A worrisome possibility is that the very wealthy have the most mobility and their own businesses and take jobs with them.

The bottom line? Two independent studies have found substantial out-migration and the Princeton study acknowledges at least some increase in out-migration. The Princeton
study has found short-term revenue gain and only incremental losses from the millionaires tax, but its assumptions about average income of those moving may be way off.

From any of these studies, we can conclude that the prospect of continued out-migration is worrisome.

**A short-term fix**

Raising taxes on the rich is definitely a short-term fix. Wealthy families are not likely to move within a couple of months if the state raises their taxes, so such a tax may work for only a short period of time.

It is possible that the state’s tax burden will be spread over fewer and fewer people at the top of the income spectrum, which could spur a broader exodus. New Jersey may well lead the nation in determining whether and where a tipping point exists.

The risk is that once you tip, you sink.

One way to avoid that outcome is to focus as much on the spending side of the ledger; address both the cost per unit of service in government and a sustainable level of services. Such efforts would sharpen the focus on property taxes.

Our costs for many public services are markedly higher than in surrounding states. That is why property taxes, inescapable for most, are so high.

For our ship of state to remain afloat, we should neither tip it with taxes nor overload it with spending.

Send comments about this article to Peter Grad, Op-Ed Page Editor.