Forsberg: Is wealth really flowing out of NJ?

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The Record
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LAST WEEK the New Jersey Chamber of Commerce and the Community Foundation of New Jersey released a report they commissioned from the Center on Wealth and Philanthropy at Boston College. This report ties the wealth of households and charitable capacity to migration patterns in and out of the state.

Although the report never presumes to say why people may be moving, the business community and various politicians are using this study to make the claim that this exodus of wealth is a reaction to taxes such as New Jersey’s millionaires’ tax. This, in spite of the fact acknowledged in the report that only 6 percent of the wealthy people moving out have incomes over $500,000 (the starting point of New Jersey’s highest tax bracket).

The report looks at wealth (real estate, stocks, bonds, 401ks and vehicles) because it says investable assets are a more important determinant of charitable giving than income. The study found a moderate increase in the number of wealthy households moving out of New Jersey and a decline in the number moving in between 1999 and 2008.

The financial impact, they say, is a loss of $168 billion in wealth in New Jersey. But how did they come up with that number? The report claims wealth increased by $98 billion during the first five years studied, then decreased by $70 billion in the second five years.

The summary of the report adds these numbers together and says the state lost a total of $168 billion during that 10-year period. But wouldn’t the increase in wealth be offset by the decrease? So wouldn’t that actually mean New Jersey gained $28 billion in wealth over the decade rather than lost $168 billion?

And if wealth includes real estate, might the housing bubble at the end of the decade be a factor in the loss of wealth?

While the study is being touted as proof of the rush of wealth and income out of New Jersey, facts don’t necessarily support that. To the contrary, the number of high income households in the state has increased sharply during this period.

Actual tax return data from the New Jersey
Department of the Treasury confirm that the number of tax returns with incomes of $500,000 and above has been growing. The current recession may tell a different story in more recent years, but in 2007 (the most recent data available), 48,500 tax returns were filed with incomes of $500,000 or more. This is nearly twice the number (25,500) filed in 2002.

In each year since 2002, the number of these high income returns has grown. Their collective income in 2007 was $76.9 billion and they paid $4.6 billion in taxes to the state.

Although their income was taxed at a top marginal rate of 8.97 percent, they paid an effective rate of 6 percent.

This report looked at a 10-year period only — and that period just happened to be the decade when New Jersey increased income taxes on the state’s wealthiest residents. But what if the report looked at a 20-year period? My guess is that the data would show the same trend — younger people moving in have higher incomes and less wealth; older people moving out have more wealth and lower annual incomes.

Creating wealthy people

What this study might suggest is that New Jersey doesn’t import wealthy people; it creates them. The report finds that the people moving to New Jersey are younger, earn higher incomes and are more frequently employed than the wealthy people leaving.

It makes perfect sense that younger, mid-career people would have less wealth because their retirement accounts would be small and their houses are probably mortgaged. And these are the very people who 20 years from now will have wealth.

In contrast, the wealthy people leaving tend to be older, are more commonly retired or widowed and have more wealth. It’s likely that these older retired people are taking with them retirement and investment accounts and the cashed out untaxed capital gains from houses that have appreciated in value many times over the original purchase price.

New Jersey is, quite frankly, a rich state. We all know that. In 2007, we had the second highest median household income in the country. We ranked third after the District of Columbia and Connecticut in per-capita personal income. And in the same year, New Jersey and Maryland tied as the states having the highest percentage of households (7.1 percent) with at least $1 million in assets.

These factors are unlikely to change overnight.
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