



April 13, 2018

The Honorable Phil Murphy
Governor, State of New Jersey
225 West State Street
Trenton, NJ 08625

Dear Governor Murphy:

On behalf of National Taxpayers Union (NTU) and our members across New Jersey, I write in opposition to your proposed budget for the upcoming fiscal year that begins on July 1. The budget in its current form appropriates over \$37 billion for spending and raises \$1.6 billion in revenue through tax hikes on a myriad of sources. Despite the previous administration's attempts to ensure a prosperous and fiscally responsible future for New Jersey, it is clear that this proposal does little to ensure either of those goals. The tax-and-spend budget will leave the state worse off, and continue a pattern of slow economic growth and outbound migration.

The bulk of the increased revenue comes from a reinstatement of New Jersey's "millionaire's tax," which taxes earned income above \$1 million at 10.75 percent, a sharp jump from the current top marginal rate of 8.97 percent. Adopting this rate, according to the Governor's Office, would generate \$765 million. A millionaire's tax is a poorly designed tax policy. A high tax rate that narrowly targets a select few taxpayers (about 16,000 taxpayers in New Jersey) will have serious consequences for individuals and small businesses. Since two-thirds of New Jersey businesses file as individuals, many small businesses would be exposed to a higher rate. As taxes act as an added cost, businesses are likely to pass on new costs onto consumers, many of whom would be lower and middle-income, in the form of stagnant wages and increased prices for goods and services.

A top marginal rate of 10.75 would be the third-highest marginal rate in the country and considerably higher than neighboring states. Such a rate could incentivize high-income residents to migrate to lower-tax jurisdictions like Florida, North Carolina, or Georgia. Lawmakers should be sensitive to the potential budgetary impacts, as the top 1 percent of New Jerseyans account for 40 percent of the state's total income tax revenue. To put the negative scenario in perspective, a [report](#) commissioned by former Governor Christie found the tax loss from losing a single \$1 million earner is equal to 59 taxpayers earning \$50,000, and if one single filer earning \$1 billion emigrates, it takes 70,618 single taxpayers earning \$50,000 to replace the lost revenue. Driving

these taxpayers out of state will leave less money for services that many lower and middle-income residents rely on.

Unfortunately, this budget also targets lower and middle-income taxpayers. The budget reverses years of scheduled reductions to the state's retail sales tax which became law as part of a compromise between the Democratic Legislature and Republican Governor. Over the past two years New Jersey's 7 percent sales tax decreased to 6.625 percent, but a reinstatement of the 7 percent rate is estimated to net an additional \$546 million in revenue. Since lower-income consumers spend a greater share of their income than high-income households do, the burden of a higher retail sales tax falls heavier on lower-income taxpayers.

This budget broadens the tax base, not through a rate reduction, as is customary, but rather by expanding retail taxation to services like Uber, Lyft, Airbnb, and electronic cigarettes. It also permits the collection of taxes from online retailers with no physical presence in New Jersey, in conflict with precedent established by the U.S. Supreme Court. The Governor's office estimates these additions to the sales tax will generate \$67 million annually. In reality, this estimate might be too high as a higher sales tax encourages buyers to shop outside of New Jersey, and Pennsylvania, Delaware, and Connecticut all have a lower sales tax than the Garden State.

The aforementioned taxes, along with \$200 million in revenue from changes to the carried interest tax provision and new marijuana taxes, will be used to finance \$2.7 billion in new spending, a 4.1 percent increase. The budget calls for boosting spending to public schools, creating a tuition-free community college initiative, and making the largest payment to the state's pension system. While it is important to adequately fund New Jersey's pension system to prevent a future crisis, it should be done in a manner that does not increase the load taxpayers are obligated to carry.

New Jerseyans are already burdened enough by high taxes and an uncompetitive regulatory regime that hurts economic growth. Taxpayers in the state are among the most burdened in the entire country. According to the Tax Foundation, New Jersey has the [worst state business tax climate](#) of the 50 states, the [highest property taxes](#), and the [sixth-highest](#) top rate for personal income taxes. Relying on more taxes will drive away investment capital and personal wealth from taxpayers seeking a more fair tax system elsewhere.

During the budget process, lawmakers should consider the major changes to the State and Local Tax (SALT) deduction which was included in the recent reform of the federal Tax Code. The SALT deduction, which is used by many New Jerseyans, previously allowed taxpayers to fully deduct their state and local tax payments on their federal tax return; however, this deduction is now capped at \$10,000 for all filers. Instead of having the federal government cover part of the cost of state tax increases, taxpayers will now feel the full effect of state and property tax hikes. This cap should make it more painful for politicians to raise taxes on their constituents

Rather than embark on positive reforms that make the state's Code more competitive and fair, as many other states are doing, this budget will leave New Jersey worse off. New Jersey desperately needs to make meaningful progress on its tax system or else the flow of outbound of wealth and productivity of its residents will only grow larger. NTU looks forward to working with you to ensure a prosperous future for New Jersey and its taxpayers.

Sincerely,

Thomas Aiello
Policy and Government Affairs Associate