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# Monday Minute



*Note: This Monday Minute corrects the MM of 03-01-10. It includes missing information on Pennsylvania's taxes*

March 2, 2010

## New Jersey Income Taxes: Misconceptions Corrected

This Monday Minute will be about state [income taxes](#); March 8-sales taxes; and March 15-corporate business taxes. On March 16 Governor Christie is supposed to introduce his Fiscal Year 2011 budget. From that time on, we will focus on the budget process and on spending.

### OVERVIEW

The income tax, sales tax and corporate business tax account for approximately 75 percent of New Jersey's state-level revenues. Unlike many states, **New Jersey has no local income, sales or corporate business taxes**; property taxes, therefore, are the only source of local revenue available to schools, municipalities and counties. Property tax collections in New Jersey are roughly equal to the amount collected from the other three state-level taxes combined.

**State and Local Revenue Collections**

	FY 2008 Actual	FY 2009 Estimated	FY 2010 Estimated
<b>State-Level Taxes</b>			
Income Tax	\$12,605,545,000	\$11,249,000,000	\$11,288,000,000
Sales Tax	8,915,515,000	8,448,300,000	8,712,200,000
Corporate Business Tax	3,062,447,000	2,442,300,000	2,141,500,000
<b>Total: 3 Major Taxes</b>	<b>\$24,583,507,000</b>	<b>\$22,139,600,000</b>	<b>\$22,141,700,000</b>
<b>Local-Level Taxes</b>			
<b>Property Tax</b>	<b>\$22,130,902,055</b>	<b>\$23,213,741,007</b>	<b>\$24,048,643,407</b>

Note: Property taxes are actual collections, reported on a calendar year basis. Other tax numbers are from the Governor's FY 2010 budget. They are currently accurate only for FY 2008.

### INCOME TAXES

Today, all but seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) have income taxes. Two others-New Hampshire and Tennessee-levy taxes only on dividend and interest income. When New Jersey enacted its tax in 1976, it became one of the last states to do so. Every income tax dollar raised in New Jersey is constitutionally dedicated to property tax relief.

New Jersey and most other states have graduated or progressive income tax structures where

tax rates rise with incomes. New Jersey rates range from 1.4 percent to 8.97 percent. Married couples pay no income tax in New Jersey if their taxable income is under \$20,000 (singles if their income is under \$10,000). New Jersey's top tax rate of 8.97 percent starts at \$500,000 for both married and single filers. New Jersey levies a gross income tax, meaning that very few deductions can be taken against income. This is significant because in New Jersey both income and wealth are taxed, which some would say makes for a fairer system.

#### MANY PAY LESS INCOME TAX IN NJ THAN IN PA BECAUSE OF LOCAL INCOME TAXES

Married taxpayers who earn \$55,000 in New Jersey pay \$927.50 in state taxes or 1.7 percent of their income to the state. In Pennsylvania, they would pay \$2,535; in Philadelphia they would pay \$4,196.50. Why? New Jersey does not levy local income taxes; Pennsylvania does.

Twelve states-including Pennsylvania and New York-levy local income taxes to support schools and municipal services.

Over 2,400 municipalities and 460 school districts in Pennsylvania levy a local income tax up to one percent in addition to the state's flat 3.07 percent tax rate. In Philadelphia, the local wage tax adds another 3.98 percent to residents' tax bills and 3.5 percent to non residents' bills.

The New York City income tax adds between 2.907 percent and 3.648 percent depending on income to New York State residents' tax bills.

#### MARGINAL TAX RATES MEAN NEW YORKERS PAY MORE INCOME TAX

New Jersey and New York both now have top tax rates of 8.97 percent on incomes over \$500,000. Married taxpayers earning \$550,000 in New Jersey would pay \$32,292.50 in state taxes or 5.9 percent of their income to the state. In New York, they would pay \$39,941 or 7.3 percent of their income to the state. Why? Marginal tax rates are higher in New York.

Income taxes in New Jersey are levied at seven different rates on taxable income. The rate starts at 1.4 percent on income between \$0 and \$20,000 and increases eventually to 8.97 percent on incomes above \$500,000. New York State also levies taxes at seven different rates but its rate starts at four percent and rates are higher at each income level.

**The impact of these marginal rates is to lower taxpayers' effective tax**-something that people who complain about tax rates rarely mention. Taxpayers earning \$500,000 and above are in the 8.97 percent tax bracket, but in New Jersey they pay an effective tax rate of 5.9 percent (NJ: \$32,292.50/\$550,000) and in New York they pay 7.3 percent (NY: \$39,941/\$550,000).

#### NEW JERSEY SUBSIDIZED NEW YORK IN 2006 BY \$1.7 BILLION

In 2006, New Jersey residents filed more than 350,000 tax returns and paid over \$2.2 billion in income taxes to New York State. In contrast, New York residents working in New Jersey paid about \$500 million in taxes to New Jersey. The net effect is that New Jersey subsidized New York by about \$1.7 billion in 2006-and the subsidy to New York continues to grow annually.

This imbalance occurs because states have agreements about who gets to tax incomes when people live and work in different states. The agreement between New Jersey and New York is

that taxpayers pay their taxes to the state where they work and receive a credit in the state where they live. Because more people live in New Jersey and work in New York than the other way around and taxes tend to be higher in New York than in New Jersey, New Jersey loses-in fact, New Jersey loses more tax revenue to New York State than any other state. Connecticut comes in a distant second with a loss of just under \$873,000 from just under 72,000 tax returns.

Arguments that New Jersey's taxes are disproportionately high compared to neighboring states will persist because people don't want to be distracted by the facts. More must be done to explain the reality so that taxpayers understand the big picture.



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