

# **Exodus on the Parkway: Are Taxes Driving Wealthy Residents out of New Jersey?**

## **The Impact that Incentives and Taxes Have on Choice of Domicile**

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## Acknowledgements

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**Brendan T. Byrne**, governor of New Jersey from 1974 to 1982 and currently a senior partner at Carella, Byrne, Bain, Gilfillan, Cecchi, Stewart & Olstein, discussed the challenges of establishing the income tax and shared his beliefs about the current fiscal condition of New Jersey. The former governor was very kind in recommending additional government officials and public policy leaders who helped contribute to this research.

**William T. Knox, IV\***, former partner of RegentAtlantic and trust and estate attorney with the law firms of Lowenstein and Sandler as well as Herold Law, helped support and guide RegentAtlantic's interns through the paper writing process and also assisted in helping them navigate income and estate tax laws.

**Christine Todd Whitman**, governor of New Jersey from 1994 to 2001, provided her views and insights on tax migration and its interplay with businesses. She also shared her beliefs on the impact of lowering taxes and other long-term concerns for the state. Governor Whitman was administrator of the Environmental Protection Agency (EPA) during the George W. Bush administration.

**Daniel Kahneman, Ph.D.**, is the winner of the 2002 Nobel Prize in Economic Sciences. He is currently a senior scholar and faculty member emeritus at Princeton University's Department of Psychology and Woodrow Wilson School of Public and International Affairs. Professor Kahneman is best known for his work on behavioral economics and the psychology of judgment and decision-making. He helped us understand the biases individuals display when interpreting surveys.

**Joseph Seneca, Ph.D.**, is the University Professor of Economics at the Edward J. Bloustein School of Planning and Public Policy at Rutgers University and for several years served as chair of the New Jersey Council of Economic Advisors. Professor Seneca served as the chief academic officer and vice president for academic affairs at Rutgers University. His extensive research regarding state and local economic growth, as well as the data he provided regarding migration trends, were of significant importance in writing the paper.

**Daniel Gilbert, Ph.D.**, is a social psychologist and professor of psychology at Harvard University. He is the author of the international bestseller *Stumbling on Happiness*, which won the 2007 Royal Society Prizes for Science Books. Professor Gilbert discussed the psychology related to New Jersey being a very high-tax state. Professor Gilbert has earned numerous awards for both his research and teaching, including the Phi Beta Kappa Teaching Prize and the American Psychological Association's Distinguished Scientific Award for an Early Career Contribution to Psychology.

**Jonathan Gross\*** is an attorney with the law firm of Berkowitz, Lichstein, Kuritsky, Giasullo, & Gross. Jon, who specializes in estate planning matters, discussed how and why many of his clients made the decision to move from New Jersey.

**Samuel Weiner** is the co-managing shareholder of Cole, Schotz, Meisel, Forman, & Leonard and co-chair of the firm's Tax, Trusts & Estate Department. Sam discussed the migration of many of the firm's clients to Florida and the thinking behind his firm's decision to publish their pamphlet, "On the Road to Florida."

**David Hardin** is an attorney at Lindabury, McCormick, Estabrook & Cooper, and since 2010 has served as a member of the New Jersey Division of Taxation Tax Director's Advisory Council. David discussed the value of New Jersey attorneys becoming licensed in Florida in order to retain clients.

**Michael Grohman\*** is a partner with the law firm of Duane Morris and chair of the Wealth Planning Practice Group. Michael practices in the areas of tax and estate planning administration, with particular emphasis on estate planning for owners of closely held businesses. Michael discussed the factors that contribute to a client moving from New Jersey.

**Rob Kautz\*** is a shareholder and head of the tax team at the law firm of Wilentz, Goldman & Spitzer. He concentrates his practice on all phases of federal and state tax planning for corporations, partnerships, and individuals. Rob provided valuable information regarding the New Jersey budget and discussed techniques to improve efficiency. He also helped us understand the state's need to balance the interests of constituents and the quality-of-life benefits related to living in New Jersey.

**Brian J. DeBoer**, a partner with the law firm Stern & Kilcullen and former editor of the *Rutgers Law Review*, discussed the importance of New Jersey law firms establishing offices in Florida.

**Jon Hanson**, chairman and founder of the Hampshire Real Estate Companies, former chairman of the New Jersey Sports and Exposition Authority, and a member of Governor Chris Christie's transition team, expanded on the economic ramifications of tax migration. Jon has more than 45 years of real estate investment management experience and sits on the boards of Prudential Financial, HealthSouth Corp., the National Football Foundation and College Hall of Fame, and Yankee Entertainment and Sports Network.

**Cliff Goldman**, Ph.D., treasurer of New Jersey from 1976 to 1982, described the significant underfunding of the state pension system and how the state government's growing bureaucracy represents a significant challenge to delivering services in a responsive manner. Cliff is chairman of Goldman, Beale Associates, a financial advisory firm that plans and arranges financing for public-sector projects, mainly in New Jersey.

**Hans Dekker\*** is president of the Community Foundation of New Jersey (CFNJ), which supports charitable giving targeted at strengthening communities. In 2012, the CFNJ made charitable grants in excess of \$32 million. Hans shared the results of in-depth research documented in the Boston College Study, "Migration of Wealth in New Jersey and the Impact on Wealth and

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Philanthropy.” He also suggested other leaders we should interview and provided a valuable perspective on the political and economic challenges New Jersey faces from a charitable giving viewpoint.

**Kenneth Meskin\*** is a member of the firm Norris McLaughlin & Marcus, and he focuses his practice on estate planning and administration, taxation, and business law. Mr. Meskin was instrumental in providing education on New Jersey’s estate tax system with specific emphasis on the differences between New Jersey’s inheritance, gift, and estate tax.

**Jon Shure** is director of state fiscal strategies at the Center on Budget and Policy Priorities, and visiting associate at the Eagleton Institute of Politics at Rutgers University. Previously, Jon served as president of New Jersey Policy Perspective and was the director of communications for Governor Jim Florio. As one of the authors of “Tax Flight is a Myth,” Jon sensitized us to the importance of many non-tax factors in migration decisions. Jon stressed that higher taxes are not a primary motivation for migration.

**Gordon MacInnes** is president of New Jersey Policy Perspective, a nonpartisan, nonprofit organization that researches and analyzes economic issues. He has served in the state assembly, as assistant commissioner in the New Jersey Department of Education, and is a former executive director of the New Jersey Network. The reports and analysis prepared by the New Jersey Policy Perspective are well-balanced and aided us in understanding the complex issues New Jersey’s leaders confront.

**Mark Magyar** has been a veteran New Jersey statehouse reporter, a lecturer with the School of Management and Labor Relations at Rutgers University, managing director of the Independent Center, and Deputy Chief of Policy and Senior Policy Advisor to Governor Whitman. Mark provided valuable commentary regarding New Jersey’s property tax and how it impacts economic development and migration.

**John Clyne\***, an attorney and CPA, is the principal partner with Clyne Eagan and Associates. He explained the economic impact on the legal and accounting professions when clients migrate from New Jersey.

**Sandra Sherman** is a partner and estate tax attorney with Riker Danzig Scherer Hyland Perretti. Sandy sensitized us to the complex and costly compliance work that is associated with settling even modest estates in New Jersey.

**Mike Wade, CPA\***, an accountant at Caristia, Kulsar & Wade, shared his thoughts on why a substantial majority of his high-net-worth clients has moved from New Jersey.

**Morris Pinkowitz, CPA**, is a partner with the accounting firm of CohnReznick and is the firm’s Central Jersey Estate and Trust practice leader. Morris provided essential background information regarding the history of taxation in New Jersey and the rationale for significant changes.

**Joe Lemond, Esq.\***, is an attorney and partner with Herold Law who counsels clients regarding state and federal tax matters. Joe discussed the complex procedures that are required to establish a domicile in a new state.

**John Tassillo, Jr., Esq., CPA, LL.M.**, is a sole-practitioner CPA and attorney, as well as an adjunct professor with Fairleigh Dickinson University's Master of Science in Taxation Program. John shared his extensive experience with issues of tax migration.

**Anthony Grillo** is managing director of American Securities and vice chairman of the Rutgers University Board of Overseers. Anthony explained how low income tax rates in Pennsylvania are an incentive to encourage high-income New Jersey residents to move to Pennsylvania.

**Anita Siegel** is a founding member of the law firm of Siegel & Bergman and a fellow with the American College of Trust and Estate Counsel. Anita shared an informed perspective on tax migration.

**John Berger** is a partner in the Business Tax Counseling and Structuring Practice Group with the law firm of Lowenstein Sandler. John has extensive experience with state and federal income taxation and discussed factors impacting a client's decision to migrate to another state.

**Jane Ulaki, CPA, and Paul Archbold, CPA •**, are partners in the accounting firm of Clyne Eagan and Associates. With substantial expertise regarding state income tax issues, they provided insights into how their clients have responded to changes in New Jersey's tax structure.

**Frank Brunetti±** is a tax attorney with Scarinci & Hollenbeck, and a professor of taxation and law at Fairleigh Dickinson University. Frank's insights were helpful in understanding how financial incentives impact a person's choice of domicile during retirement.

**Gary Botwinick, Esq.**, is an attorney with Einhorn, Harris, Archer, Barbarito & Frost. Gary chairs the firm's Taxation/Trusts & Estates Department, and is an adjunct professor at Fairleigh Dickinson University. Gary discussed the pros and cons of deciding to move from New Jersey.

**Mark Shemtob±** is the owner of Abar Pension Services, an adjunct professor in the Rutgers University Business School, and an associate of the Society of Actuaries. Mark enabled us to obtain an understanding of the state's pension system and how increasing life expectancies impact future state obligations to retirees.

**Andy Wolfe, Esq.**, is a partner in the law firm of Hartman and Winnicki. Andy helped us understand that each state has unique estate and inheritance taxes that can impact one's choice of domicile during retirement.

**Alan Preis, CPA, P.C.**, is an independent accountant specializing in New Jersey and multi-state taxation. Alan has chaired the New Jersey Society of CPA's State Taxation and Multi-State Taxation Committees. Alan helped profile individuals who decide to declare domiciles in states outside New Jersey.

**Linda Engleby** is a trust and estate attorney serving "of counsel" with Coughlin Duffy. Her views and experience related to tax migration issues were

particularly thought-provoking.

**Dick Kahn\***, a retired estate tax attorney formerly with Day Pitney, provided information regarding charitable giving. During his career, Dick focused on planning for large estates and has written many articles on trusts and estates.

**John Skarbnik** is an attorney and tax counsel to the firm of Walder, Hayden & Brogan. John is also a professor of taxation in the Master of Science in Taxation Program at Fairleigh Dickinson University. John helped us better understand the complexity of New Jersey's tax regulations.

**Gary Young**, a partner and chair of the Employee Benefits Group and **James McDough, Jr.**, who serves "of counsel" at Scarinci & Hollenbeck, provided excellent insights into taxation of employee benefits related to tax migration from New Jersey.

**Steven Loeb, Esq.**, is an attorney with Fein, Such, Kahn & Shepard. Steve shared his thoughts that income and estate tax rates create incentives that may impact a person's decision to move from New Jersey.

There are also many clients we received help from and we are tremendously grateful for their time and assistance. They generously participated in surveys and interviews, and shared their experiences and insights reflecting tax migration. Furthermore, we'd like to specially acknowledge the hard work of four RegentAtlantic interns. Our interns spent significant amounts of time conducting interviews as well as gathering and analyzing tax return and migration data. This paper was made possible by their hard work and dedication. The individuals are: Holly Goodman from Princeton University, Tony Buxton from Harvard University, Samantha Meskin from the University of Pennsylvania, and Evan Brewer from Rutgers University.

Finally, each of the aforementioned individuals played key roles in the development of this study, providing ideas and insights that we would not have otherwise had. However, the responsibility for any of this paper's shortcomings is solely our own.

\*denotes a current client of RegentAtlantic  
±denote a former client of RegentAtlantic  
•denotes the accountant of RegentAtlantic

## **Introduction**

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During the last fifteen years clients of RegentAtlantic frequently asked if there are economic advantages to establishing their domicile in another state. In meetings with attorneys, accountants, and other financial professionals we learned that their clients were raising similar questions. As a result, we commenced a study to understand the impact the taxation may have on migration from New Jersey.

This paper differs from previous studies which were more analytical, academic, and quantitative in nature. Careful analyses by different scholars have come to different conclusions as to the impact of taxes on the out-migration of high income and wealthy New Jersey residents. This paper includes anecdotal evidence from many hundreds of personal interviews and a web-based survey as well as the review of the research related to migration trends. The paper examines the potential impact of existing tax laws. It does not provide proof or hard evidence that high income and/or high net worth residents are leaving New Jersey because of high taxes.

While most of the research and interviews were conducted in 2012 and 2013, the paper was held until 2014. This was intentional, as 2014 is not an election year for state legislators which can hopefully encourage a serious and objective dialogue aimed at addressing and solving the challenges that New Jersey currently faces.

## Executive Summary

The increase in the loss of tax revenue from New Jersey has plagued the state since 2004, when state legislators imposed the infamous “millionaire’s tax.” The inception of this tax, coupled with New Jersey’s already high property and estate taxes, leaves no mystery about why the term “tax migration” has become a buzzword among state residents and financial, legal, and political professionals. The statistics below show where tax revenue is being generated and allows one to infer what may happen to businesses and residents if the sources of this revenue leave the state:

- New Jersey raises 39%, or \$10 billion, of its total revenues from personal income taxes<sup>1</sup>.
- Households with incomes greater than \$500,000/year (approximately 1% of the population), herein referred to as high-income households, pay more than \$4.2 billion in state income taxes<sup>2</sup>.
- One-tenth of high income households, or one-tenth of 1% of the entire population pay more than \$2.12 billion of all income tax<sup>1,2</sup>.

**Tax migration is the act of wealthy New Jersey tax payers abandoning the state to reduce their cost of living.**

Tax migration is the act of wealthy New Jersey taxpayers abandoning the state’s geographical diversity, school systems, public services, and jobs to reside in states that are less draining on their wallets. These wealthy residents face taxes on their residential property, personal income, and estates that are relatively high compared to residents of most of the other 49 states. Moreover, this heavy tax burden doesn’t solely impact the state’s working residents; it also affects retired dwellers, the heirs to estates of individuals that reside in New Jersey, and residents of all income levels.

**New Jersey’s tax burden affects all New Jerseyans and their beneficiaries.**

New Jersey taxpayers looking to reduce their tax bills during their working years often consider residences in peripheral states, such as Pennsylvania and Connecticut. During their retirement years, residents look to states that offer warmer climates and more favorable tax treatment, such as Florida, Texas, or Arizona. It should also be noted that the per-capita burden of New Jersey taxes is not solely an affliction of an individual. Taxes on corporations are also relatively high.

Between 2004 and 2008, \$70 billion of wealth left the state of New Jersey. That’s departed wealth, not diminished wealth because of the financial crisis. Wealth departed predominantly to four states – Florida, North Carolina, Virginia, and Pennsylvania. What do all four of those states have in common? They all have lower taxes than New Jersey. All of them. – ***New Jersey Governor Chris Christie***

When it comes to tax migration, one’s political affiliation is less of a concern than the reality that if the trend continues, accountants, attorneys, financial advisors, and government officials face major obstacles going forward. Professionals within the state could see their businesses contract as they try to maintain relationships with clients across many states with varying tax laws. Residents who maintain a New Jersey home (in addition to another home they are making their primary residence for tax reasons) may hire professionals in the state in which they’re domiciled in order to be considered a resident of their new lower-tax state.

Government officials face future problems if the liability side of the balance sheet and expense side of income statements don't shrink. As residents leave the state, New Jersey will still need to raise funds to pay its expenses, keep municipalities afloat, and provide pension and healthcare benefits for former employees. The issue of providing pension benefits to former employees is amplified when the original assumptions that went into pension calculations—mainly life expectancy—stop representing reality. For example, it is estimated that in the 1950s the average retiree received a pension for 14 years. Today, retirees receive pension payments for an average of 20 years<sup>7</sup>. If a retiree receives a \$30,000 pension for an additional six years, that equates to an additional \$180,000 in obligations per pension recipient.

**Long life expectancies have increased state pension obligations by over 40%.**

New Jersey also has other non-tax related fiscal burdens that need to be addressed. When addressing tax-revenue issues, New Jersey needs to be mindful of (a) an aging population with increasing Medicaid costs, (b) declining aid from the federal government, (c) the abundance of municipalities and compensation packages of public officials, (d) a public pension system that has remained underfunded for multiple decades, and (e) a declining competitive advantage as a business domicile.

This paper reviews and analyzes data obtained from trust and estate attorneys, certified public accountants (CPAs), high-net-worth individuals and families, two former New Jersey governors, a former New Jersey treasurer, a Nobel Prize winner, a renowned Harvard professor, and professionals in public policy. For New Jersey residents, this paper highlights potential planning opportunities to discuss with legal and financial professionals. New Jersey-based professionals may use the information in this paper to deal with difficulties establishing continuity within their client relationships, as New Jersey residents migrate out of the state. For public policy leaders, it's hoped that this paper will encourage a serious dialogue aimed at addressing and solving the challenges New Jersey currently faces.

## **Domicile Versus Residence**

**Domicile is the location of one's primary home and the jurisdiction that will tax the individual.**

New Jersey residents may have relationships with a lawyer, CPA, and financial advisor based in the state. John M. Clyne, Jr., a tax attorney and CPA with the firm Clyne Eagen Associates, notes: "What happens is people of wealth go to cocktail parties and they get 'button-holed' by people who happen to be registered investment advisors, tax attorneys, and CPAs in other states. And next thing you know they're saying, 'Well you shouldn't be using New Jersey advisors because that may create a presumption of New Jersey linkages. This could make you subject to New Jersey tax.' Hence, there is a secondary round of suppression which is the suppression of income earned by professionals who service the wealthy people that migrate from New Jersey." In other words, when people move out of New Jersey, the state not only loses the tax revenue from that person, it may also lose revenue because the income of other New Jersey professionals is likely impacted.

When referring to state personal income taxes, the terms "domicile" and "residence" are not used interchangeably. Domicile refers to the location of one's primary home, and that location dictates the jurisdiction that will tax the individual. A common misconception is that all a taxpayer needs to do to establish a domicile in a low-tax state is own a home in that state and spend more than half of their time there. However, many other factors are considered for the purposes of establishing a taxpayer's domicile, including:

- Domiciled homes are owned, not rented.
- How does the domiciled residence compare to the other home? Is it larger or smaller than the secondary home? Which home holds most of the owner's belongings?
- Where are the taxpayer's physicians and other healthcare professionals located?
- Has the taxpayer established a will or trust in the state of domicile?
- What professionals does the taxpayer use in the state of domicile?
- Has the taxpayer changed his/her voter registration to match his/her state of domicile?
- In which state are the taxpayer's cars registered?

**New Jersey lost taxable income of \$5.5 billion in 2010 due to change in domicile.**

An analysis of income tax returns filed in New Jersey shows that taxpayers are changing their domiciles to lower-tax states. In 2010, there were 87,630 federal tax returns filed in states other than New Jersey by people who filed their 2009 tax returns in New Jersey. These 87,630 tax returns accounted for a loss of \$5.5 billion in taxable income for New Jersey<sup>3</sup>.

This begs the question: To where are New Jersey taxpayers relocating? In 2009-10, 41% of the net adjusted gross income (AGI) migration out of New Jersey went to Florida and 20% went to Pennsylvania. This data supports the experience of Mike Wade, a CPA with Caristia, Kulsar & Wade, LLC, regarding his clients' relocations: "Of the high-net-worth clients that I have had, I would say that 95% have left the state of New Jersey." Many of those people leaving

**The average income coming into New Jersey is approximately 50% less than the income that is leaving.**

New Jersey moved to lower-tax havens. The average AGI of a person leaving New Jersey for Florida was \$74,000, while the average AGI of a Florida resident moving to New Jersey was only \$39,000. New Jersey is losing our higher-income taxpayers. In turn, they are being replaced by lower-wage earners.

The table below shows the net number of tax returns and the total AGI lost to the five states accounting for 86% of the net AGI outflow from New Jersey<sup>4</sup>:

State of Relocation	Resulting Loss of New Jersey Tax Returns	Reduction in New Jersey AGI
Florida	-3,746	-\$514,579,000
Pennsylvania	-2,856	-\$256,177,000
North Carolina	-1,874	-\$122,379,000
Maryland	-1,307	-\$108,432,000
Virginia	-1,384	-\$91,909,000

The following graphic shows the gross AGI flow between New Jersey and Pennsylvania and New Jersey and Florida from 2009 to 2010:



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**New Jersey is losing 70% of it's relocating income to Florida and Pennsylvania.**

Based on the table and graphic on the previous page, it's clear that a majority of New Jersey's relocating income is to Florida and Pennsylvania. The other interesting point from the table is the growing popularity of other states being considered as retirement locations. The combined lost New Jersey AGI flowing to North Carolina, Virginia, and Maryland equates to 60% of the AGI New Jersey has lost to Florida.

Professionals are beginning to react to the trend. The law firm Cole Schotz released a pamphlet, "On the Road to Florida: Cole Schotz's Practical Guide to Changing Your Residence from New Jersey or New York." This publication is a practical guide the firm uses to advise their clients on changing their state of domicile. Another professional responding to this trend is attorney David Hardin of Lindabury, McCormick, Estabrook & Cooper. David Hardin is one of many attorneys now licensed to practice law in Florida as well as New Jersey. He obtained his Florida license to be both proactive and reactive: He noted that a number of his clients were changing their domicile to Florida and believed the trend would continue. Many of his clients maintain two homes—one in New Jersey and one in Florida.

**Professional firms are establishing satellite offices in other states.**

In other cases, law firms are opening satellite offices in states to which New Jersey residents migrate. The law firm of Stern & Kilcullen, LLC, opened a Florida office several years ago, when they saw the migration trend beginning. Brian DeBoer, a partner with Stern & Kilcullen, observes, "Over the past decade, we have seen a significant increase in wealth leaving the state of New Jersey, and for our clients who haven't left, it is a common point of discussion with respect to their tax planning. When high-net-worth individuals come to see us, the ones who are no longer anchored to the region by a family or business frequently want to speak about the advantages of permanently relocating to another state. Since many of them already own property elsewhere, spending a few extra months at the vacation home isn't as much of a transition as they initially think. Many of the residents relocate to Florida, where we can continue to serve them through our satellite office."

**Tax migrants evaluate income, estate, and property taxes when contemplating relocation.**

## **Financial Motivations for Individuals to Seek Cheaper Pastures**

Before New Jersey residents create their checklist of things to do to change their domicile, they first need to evaluate the benefits of doing so. New Jersey's income tax, property tax, carry-forward losses, estate tax, and charitable gift statutes are generally much more onerous than other states. While some of the monetary benefits of leaving New Jersey don't add up to significant sums, it is easier for a resident to choose to take advantage of every penny when he/she no longer has family or professional ties to New Jersey.

### **Income Tax**

A hypothetical married couple living in New Jersey has a combined pre-tax income of \$650,000 and is contemplating moving to Pennsylvania. If they remain in New Jersey, the couple will reach the top marginal state income bracket of 8.97%. If they move to Pennsylvania, they will pay a flat income tax rate of 3.07%.

New Jersey		Pennsylvania	
<b>Tax Bracket:</b> 8.97%	<b>Tax Payment:</b> ~\$41,000	<b>Tax Bracket:</b> 3.07%	<b>Tax Payment:</b> ~\$20,000

**Pennsylvania Savings: ~\$21,000 per year**

If this couple moves to Pennsylvania, maintains their \$650,000 income, and invests their income tax savings at a net return of 8.5% a year, they will have an additional ~\$1.65 million<sup>6</sup> when they retire, assuming the money is left to grow for 25 years.

**Total Savings: ~\$1.65 million**

**New Jersey's top tax bracket is almost 3 times higher than Pennsylvania's top bracket.**

**Pennsylvania residents working in New Jersey do not pay New Jersey income tax.**

In most states, an individual pays taxes to the state in which the income is earned. An exception to this rule exists in Pennsylvania as a result of the Reciprocal Income Tax Agreement between New Jersey and Pennsylvania. When this agreement was enacted, Pennsylvania had a flat income tax of 2.2%. New Jersey, at the time, had two income tax brackets of 2 % for income under \$20,000 and 2.5% for income over \$20,000. Alan J. Preis, a CPA, explains that the law "was signed at a time when the tax rates in New Jersey and Pennsylvania were similar. It has clearly outlived its utility. It's a ridiculous provision because it enables Pennsylvania residents to save New Jersey taxes when, by any logic, they shouldn't save New Jersey taxes."

A real example of the hypothetical situation described above: A former CEO of a large pharmaceutical company in New Jersey realized the possible tax advantages of living in PA versus possible gains and retained residency there while commuting to New Jersey. With an annual income of approximately \$22 million,<sup>5</sup> this CEO likely paid more than \$700,000 in income tax to Pennsylvania

instead of approximately \$2 million to New Jersey. Over the 10 years this individual served as CEO, New Jersey lost a potential \$20 million in income tax revenue. It is easy to see why the CEO chose Pennsylvania, though: If the executive invested the annual \$1.3 million tax savings at a net return of 8.5%/year, he could have accumulated an additional \$19 million during his tenure.

### Property Tax

A hypothetical hedge fund manager who lives in New York City is looking to move his residence to either New Jersey or Connecticut, as the commute from either location is similar. The manager plans to purchase a house for his family that is valued at \$1 million. If the manager moves to Summit, New Jersey, the family will pay a property tax rate of 3.8%. If he moves to Greenwich, Conn., they will pay a property tax rate of 1.01%.

New Jersey		Connecticut	
<b>Tax Bracket:</b> 3.8%	<b>Tax Payment:</b> ~\$38,000	<b>Tax Bracket:</b> 1.01%	<b>Tax Payment:</b> ~\$10,000

**Connecticut Savings: ~\$28,000 per year**

For similarly valued homes, Connecticut's property taxes are considerably lower.

If this couple moves to Connecticut, lives there for 30 years, and invests their property tax savings at a net return of 8.5% a year, they will have an additional ~\$3.8 million<sup>6</sup> at the end of that 30-year period.

**Total Savings: \$3.8 Million**

### Carrying Forward of Losses

At the beginning of 2008, a hypothetical married couple invests \$1 million in an S&P 500 index fund. At the end of the year, the couple sells that position at a \$370,000 loss.<sup>7</sup> At the beginning of 2009, the couple invests another \$1 million in the S&P 500 index fund, making sure to avoid any wash-sale rules. At the end of the year, they sell the position for a \$265,000 gain.<sup>8</sup> If this couple lived in New Jersey, they would have paid nearly \$23,800 in capital gains taxes for 2009. However, if they lived in New York they would have owed no capital gains tax because their 2009 gain would have been offset by their 2008 loss.

New Jersey		New York	
<b>Tax Bracket:</b> 8.97% <sup>1</sup>	<b>Tax Payment:</b> ~\$23,800	<b>Tax Bracket:</b> 6.65%	<b>Tax Payment:</b> \$0

**New York Savings: ~\$23,800**

Unlike the federal government and most other states, New Jersey doesn't allow its residents to carry forward previously realized capital losses to offset future gains. A RegentAtlantic client and former New Jersey resident recalls his experience with this provision, explaining: "While the federal return permitted me to carry forward the losses from the financial meltdown, New Jersey did not, and as a result of that, my New Jersey taxes were larger than the federal. That's what broke my back and I said, 'That's it. I'm getting out of the state.'"

Although the carrying forward of losses may be easily overlooked, when it comes to an individual's attention, it can be another factor that helps them decide to leave the state. According to another client of RegentAtlantic: "The first thing that made me start to think about leaving New Jersey was paying more to the state of New Jersey than to the federal government, because of the inability to carry my losses forward....If that had not happened, we would not have considered moving out of New Jersey."

### **Estate Tax**

A hypothetical retired couple living in New Jersey with a net worth of \$5 million has the option to stay in New Jersey or move to Florida. If this couple dies in New Jersey, they will pay no federal estate tax. However, their New Jersey state estate tax will be nearly \$400,000.<sup>9</sup> If the couple moves to Florida before dying, they will owe no federal or Florida estate tax.

**Florida does not have a state estate tax which makes it an attractive destination for New Jerseyans.**

New Jersey		Florida	
<b>Effective Estate Tax Rate: 7.83%</b>	<b>Tax Payment: ~\$400,000</b>	<b>Effective Estate Tax Rate: 0%</b>	<b>Tax Payment: \$0</b>

**Florida Savings: ~\$400,000**

New Jersey is one of two states in the country with both an inheritance and estate tax, and residents pay the higher of the two taxes. President of the New Jersey Policy Perspective Gordon MacInnes says: "The estate tax is a problem for New Jersey." The exemption for the estate tax in New Jersey is only \$675,000, while the exemption for the federal estate tax is more than \$5 million. As noted by Sandra Sherman, a partner at Riker Danzig Scherer Hyland Perretti, LLP, that \$675,000 "means that if you have a small pension and you have a house in Morris County you are very likely over that limit. And because of how the tax is set up—even with a completely non-taxable estate situation where everything is going to a spouse, so there are no taxes to be paid—there is significant compliance work that has to be done that can easily cost \$10,000 to \$20,000 to just basically make an estate tax filing with the state that's not even generating revenue for New Jersey."

### **Charitable Gifts**

Charities in New Jersey offer numerous resources to residents, including health services, educational assistance, and housing. The main source of funding for these charities and nonprofit organizations is donations from wealthy New Jersey residents. When determining who makes these charitable donations, Hans Dekker, president of the Community Foundation of New

Jersey in Morristown, found that people with sizeable wealth (not necessarily sizeable incomes) make the greatest percentage of donations. After the 2004 millionaire's tax went into effect, aggregate charitable contributions decreased, possibly as a result of wealth leaving the state.

Aggregate Net Worth <sup>8</sup>			
	Into New Jersey	Out of New Jersey	Net
<b>1999-2003</b>	\$299.9 billion	\$201.6 billion	+\$98.3 billion
<b>2004-2008</b>	\$117 billion	\$187 billion	-\$70 billion

Prior to the millionaire's tax, more wealth was coming into the state than was leaving. Over a four-year period the aggregate net worth increased by \$98 billion. However, the 2004-2008 post-millionaire's-tax period shows more wealth leaving the state than coming in. The net outflow during this period reversed 70% of the wealth gained in the prior four years.

**New Jersey is one of only ten states that do not permit deductions on charitable gifts.**

Aggregate Charitable Contributions <sup>8</sup>			
	Into New Jersey	Out of New Jersey	Net
<b>1999-2003</b>	\$2.4 billion	\$1.5 billion	+\$900 million
<b>2004-2008</b>	\$961 million	\$2.09 billion	-\$1.13 billion

Net charitable contributions also followed as the amount coming into New Jersey increased almost \$900 million between 1999 and 2003. The difference in aggregate charitable contributions between those moving in and those leaving changed from a positive \$900 million to a negative \$1.13 billion which is a net swing of more than \$2 billion. Joe Lemond, an attorney with Herold Law, indicates that charitable contributions are decreasing as people change their domiciles because "when they [are] counseled by their lawyers, certainly when they talk to me, I say you want to have as few ties to New Jersey as possible. And that means, no, you don't give to your local charity anymore. You make your favorite charity in Florida or Wyoming or wherever." One RegentAtlantic client who left the state of New Jersey told us, "I have left those wonderful charities and groups in New Jersey behind."

On June 27, 2013, Governor Chris Christie signed into law a bill that prohibits the state from taking into account any tax-deductible charitable contributions when determining whether an individual is a state resident for income-tax purposes. That said, New Jersey still does not allow residents to deduct their charitable gifts on their state income tax return, unlike the majority of other states.

## The Slowdown of Wealth Creation

### RegentAtlantic New Jersey Wealth Index

In June 2013, RegentAtlantic began tracking an index (retroactively to June 1995) that measures the health of New Jersey's wealth. This index looks at the rates of change over the past five years for four economic components that influence wealth in the state. The four components are: Employment, Home Values, Personal Income, and Stock Performance. Each component can range in value from 0 to 25. The sum of all four components creates the values for the index. A reading above 50 indicates that New Jersey has experienced an above-average environment for wealth creation by its residents.

The index value was 28 in June 2013, indicating that the environment in New Jersey has not been conducive to wealth creation. On a positive note, the score increased by 16 points since December 2012, marking the second-largest increase for the index over any six-month period since its inception.

New Jersey's environment for wealth creation is low but improving.

New Jersey Wealth Index

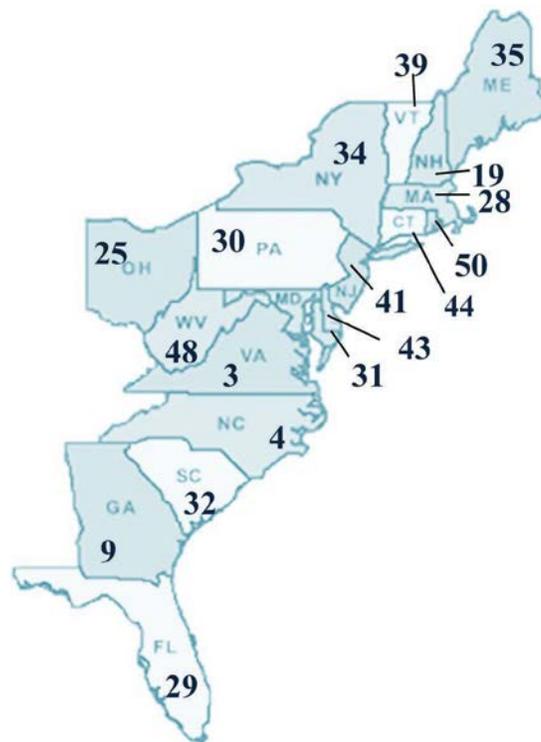


### New Jersey is an Unfavorable Place to Start a Business

Every year CNBC evaluates which states are the best places to start a business. The review uses 10 categories when considering the overall ranking for each state. The rankings for New Jersey, comparable states, and states attracting residents of New Jersey are shown on the next page.<sup>13</sup> The lower the number, the more attractive the state is for starting a business.

**CNBC ranks  
New Jersey as  
an unattractive  
state to start a  
business.**

	NJ	NY	PA	FL
Cost of Business	43	47	41	39
Workforce	28	41	48	3
Quality of Life	20	28	33	30
Economy	39	22	26	47
Infrastructure & Transportation	41	39	35	11
Technology and Innovation	13	1	5	11
Education	4	1	7	42
Business Friendliness	48	50	30	27
Access to Capital	11	5	6	24
Cost of Living	45	47	32	25
<b>Overall</b>	<b>41</b>	<b>34</b>	<b>30</b>	<b>29</b>



**High housing costs and high property taxes are not conducive for attracting new business.**

New Jersey ranked poorly in the Cost of Doing Business, Cost of Living, and Economy categories. The Cost of Doing Business category was evaluated based on individual income, property, and business taxes, as they apply to new investments. A high-numbered ranking in these categories indicates that taxes are high, which implies difficulty creating new investments. The high taxes in New Jersey contribute to the state's unattractiveness as a place to start or run a business. As a consequence, businesses may leave the state or opt to start new businesses in other locations.

The Cost of Living category is based on the prices of a wide range of items, including housing, food, and energy. When the cost of living is lower, a taxpayer's income can purchase more goods and services. On the other hand, a higher cost of living will encourage fewer people to operate businesses in New Jersey. According to Mark Magyar, a writer for *New Jersey Spotlight*: "One of the principal drawbacks for a company to locate in New Jersey is the housing costs: A combination of the cost of homes and property taxes, so they [companies] would have to pay workers that much more when they come in." A solid, diverse economy with access to a variety of industries is crucial to the success of a business. The inception of new businesses will act as the underpinning of New Jersey's growing economy.

As evidenced by the graphic on page 18, New Jersey ranks lower overall than its neighboring states. The state's high taxes may discourage new businesses, since the cost of conducting and operating a business is higher than it is in peripheral states. Business owners have good reason to look to Pennsylvania or Connecticut when starting a new venture.

Furthermore, New Jersey ranked 48<sup>th</sup> in the category of Business Friendliness. Jon Hansen, chairman of Hampshire Real Estate Companies and a member of Governor Chris Christie's 2009 transition team, adds an interesting dimension to the issue of business friendliness: "If the red tape is the deterrent to a corporation coming here, it is really a form of a tax."

Unfortunately, New Jersey is not improving. In 2011, the Garden State was ranked 30<sup>th</sup> overall on CNBC's "Top States for Doing Business" survey, and in 2012 the state dropped 11 spots to 41<sup>st</sup>, making it one of the top 10 *least* attractive states to start a business.

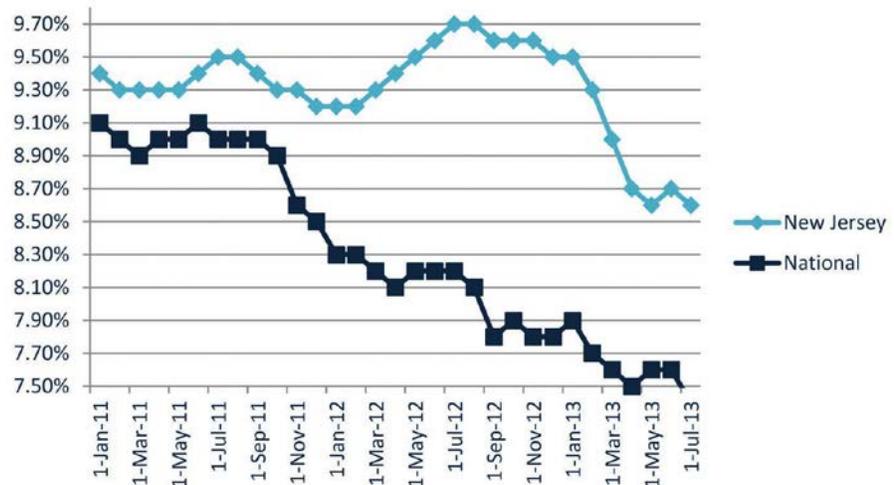
### ***New Jersey's Job Market Continues to Suffer***

The recovering unemployment rate of the country has not yet translated to an improving employment situation in New Jersey. New Jersey is rebounding more slowly than the rest of the nation and has historically underperformed when compared to the national average for unemployment trends. The figure on page 20 shows how New Jersey compared to the national unemployment picture as of July 2013.

**New Jersey's unemployment rate continues to be higher than the national average.**

- The New Jersey Technology Council cites the difficulty of finding qualified talent as one of the biggest employment-related obstacles facing companies today.<sup>14</sup>
- As of July 2013, New Jersey had the 9<sup>th</sup> highest unemployment rate in the U.S. at 8.6%. This is much higher than New York, with a rate of 7.5%, and Pennsylvania, which also faced a rate of 7.5%.<sup>15</sup>

**Unemployment Rate from January 2011 to July 2013**



**The Housing Crisis Affected New Jersey More Heavily Than Other States**

- Nationally, the 15-year-low rate for homeownership rate is 65.4%, versus a high of 69.2% in 2004. The decline in New Jersey was even steeper. Homeownership rates for the Garden State declined to 64.5% in the first quarter of 2012, after a high of 71.3% in early 2005.<sup>16</sup>
- Foreclosure activity in New Jersey increased by 65.91% from the second quarter of 2011 to the second quarter of 2012. Nationally, foreclosure activity decreased by 8.21% for the same period.<sup>17</sup>
- The commercial property vacancy rate in New Jersey has remained at about 18% since 2002,<sup>18</sup> and the occupancy rate for owner-occupied housing units hovered at 66.9%<sup>19</sup> from 2006-2010, according to Census data. Therefore, 33.1% of housing units typically are not occupied full time by the owner. This means lower levels of housing consumption and impeded growth in the state economy. These high rates have diminished housing construction and significantly impacted the income of construction workers.

**Summary**

In addition to the lack of tax incentives to remain in New Jersey, several other factors encourage people to leave the state, or avoid moving to New Jersey.

- New Jersey is the 10<sup>th</sup> worst place in the country to start a business.
- With an unemployment rate of 8.6% relative to the national average of 7.4%, New Jersey continued to have a high unemployment rate as of July 2013.

- The housing crisis in New Jersey is still worse than it is in the rest of the country.

It is important to note that these factors are not the only reasons for an individual to move. There are very few decisions in life that are based on a single factor. Other common factors include lifestyle, cost of living, job opportunities, weather, family, health, and safety.

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## What Makes New Jersey so Expensive?

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There are many explanations for the comparatively high taxes in New Jersey. A few include:

### **Municipalities**

- New Jersey has 566 municipalities, each with average land size of 15 square miles.
- New Jersey leads the nation in the number of police officers per capita. Those officers are also the highest paid in the country, with median salaries in 2009 of \$90,672. In Rochelle Park, the median annual salary for a police officer is more than \$134,000, the highest in the state.<sup>20</sup>
- New Jersey has a total of 603 school districts, encompassing 2,500 schools. In the 2010-11 school year, the median annual salary of a New Jersey district superintendent was \$168,000. Aggregating all district superintendent salaries yields an expense item of approximately \$101.3 million. The principals of those 2,500 schools were paid an additional \$296 million.<sup>21</sup>
- Morris Pinkowitz, a CPA and partner with CohnReznik, says: “Every town in New Jersey has its own police force. If it has its own volunteer fire department, it has its own volunteer firehouse and its own fire engines. You have duplications and triplications of services within small geographic areas.”
- Former Governor Christine Todd Whitman states: “High property taxes can be tied to the multiple levels of local government that we have: i.e., municipalities, school districts, water districts, fire districts, etc.”
- New Jersey has long been the most densely populated state, with approximately 1,200 people per square mile, according to the 2010 Census. (Rhode Island was second in the nation, with 1,018 people/sq. mile, and Massachusetts third at 839 people/sq. mile.)

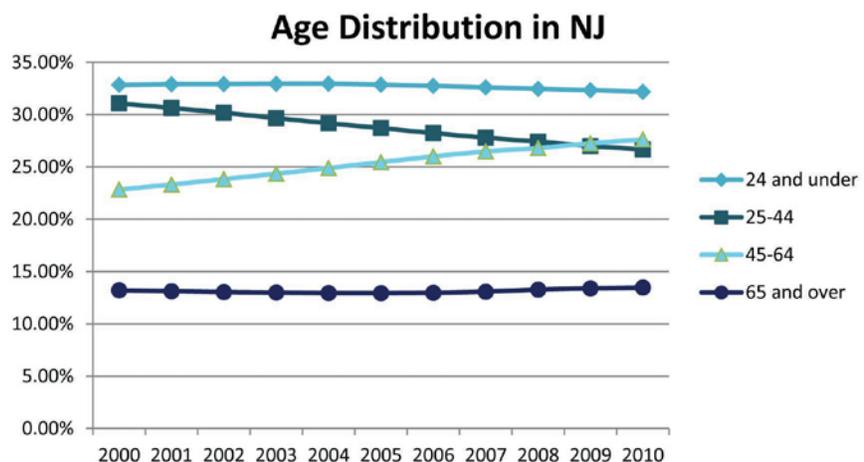
### **Pension System**

- When the New Jersey Department of Treasury established the Division of Pensions and Benefits in the 1950s, the average life expectancy was 78.9<sup>24</sup> years and the average retirement age was 65.<sup>23</sup> Today the average retirement age has dropped to 62.6 while the average life expectancy in the U.S. has risen to 84.2<sup>22</sup>. Our interviews and research indicate that New Jersey public employees follow these general trends but often retire earlier than the national average. As a result, the New Jersey pension system for public employees needs significantly greater funding in order to cover the longer duration of retirement. As of 2012, the pension system was underfunded by \$42.6 billion, or \$4,800 per capita<sup>25</sup>.

Since New Jersey raises revenue by collecting taxes, one way to reduce the underfunding of pensions is to raise taxes. As a result, the pension system may be an indirect cause of the high New Jersey taxes that encourage residents to leave the state.

**Trends project that the number of retirees receiving pensions may exceed the number of workers contributing to the pension system.**

- Cliff Goldman, former New Jersey State Treasurer under Governor Brendan Byrne, explains: “The pension (system) is underfunded by \$3 billion each year. It has not been funded properly since 1994 and that’s why there is a pension problem. It’s not because the pension is too high, it’s because the deficit in the pension fund is too big.”
- Since 2006, New Jersey has only managed to pay a small portion (\$2.8 billion) of the required \$16.5 billion for the pension system<sup>26</sup>. This shows that not only is the pension system underfunded, but the state continually comes up short in its yearly requirement to pay back the debt.
- The following graph shows the breakdown of the four age groups in New Jersey from 2000-2010. Two lines upon which to focus on are the line with squares and the line with triangles. The line with squares represents the percentage of the population ages 25-44, which is the bulk of the state’s workforce. The line with triangles represents the population aged 45-64. People in this age group will soon retire and begin collecting pensions. This age group has been growing in every New Jersey county over the past decade. While the absolute causes of the increase in this population sector are unclear, it is likely impacted by the fact that the people in this age bracket are Baby Boomers. A decrease in the percentage of the age 25-44 population—most of the workforce—accompanied by an increase in the percentage of the age 45-64 population means more money will be going out of the New Jersey pension system and less will be coming in.



### **Depth of Government**

- New Jersey has 72 agencies funded by state residents' tax dollars.
- Cliff Goldman, Deputy State Treasurer of New Jersey when the income tax was enacted in 1976, stated on June 22, 2012: "When I was Treasurer, I had three people between me and the division directors. Now, I have no idea, but I'm guessing its 50 people. I think that top-heavy government is all over."
- John Hanson, former chairman of the New Jersey Sports and Exposition Authority and a member of Governor Chris Christie's transition team, shared his belief that "the cost of government is a tax!"

## Attempts to Change the Incentives to Leave or Stay

To tighten up New Jersey’s fiscal position, attention needs to be paid to either—or both—sides of the equation: Revenue and/or expenses. On the revenue side of the equation, an examination of taxes needs to be closely considered. In Governor Chris Christie’s 2010 budget, he used his line-item veto power to cut \$86 million dollars from a number of programs. Although this appears to be a large sum, it was actually only 0.27% of the overall previous budget (\$31.7 billion),<sup>27</sup> and the cuts were met with severe criticism. While Christie’s vetoes may or may not have been prudent, they had limited impact on resolving the state’s long-term financial concerns.

Political pressure makes it difficult to reduce governmental expenses.

### The vetoes

*Gov. Chris Christie only cut \$86 million from the \$31.7 billion budget Democrats sent him – a tiny fraction of the nearly \$1 billion he removed last year with his line-item veto.*

Program	Democrats Added	Christie Vetoed
Computer tablets for special education	\$4 million	\$4 million
Medical day care services	\$6 million	\$6 million
Nursing for elderly	\$2.174 million	\$2.174 million
Work First NJ child care	\$4 million	\$2 million
Opportunity Program Grants	\$3 million	\$3 million
Legal services for the poor	\$5.5 million	\$4.9 million
Thomas Edison State College	\$2.1 million	\$2.1 million
Transport for seniors and disabled	\$2 million	\$0
Business incubation network	\$500,000	\$500,000
Nursing homes	\$25 million	\$15 million

### Other Changes

Christie said revised figures showed more pension savings than expected for cities, so he adjusted the amount of emergency aid they get accordingly.

Program	
Pension savings.....	\$41.830 million
Transitional aid cuts.....	\$5 million
Total spending reductions.....	\$86.513 million

Source: Christie’s veto message

THE STAR LEDGER

In an interview with Brendan Byrne, former governor of New Jersey, who presided over the enactment of the state’s first income tax, he was asked if he felt that the current high tax rates were necessary. His simple response: “Give me an alternative.” He seems to be correct; many individuals complain about high tax rates, but as soon as anything gets cut, others begin to complain. Rob Kautz, an attorney with Wilentz Goldman & Spitzer, says he will “always have a concern that in any type of tax cut, you’re doing yourself a disservice. You’re literally going to cut the very services that people have come to expect, and by reducing that level of service, you’re affecting

my standard of living and that's what's important to me. I'm one of those people who is happy to pay for it if I'm getting what I paid for."

Many wealthy New Jersey residents express their disdain over current estate taxes. In the article "The Estate Tax is Fair and We Need the Revenue," Wall Street Journal author Michael Graetz argues that cutting the estate tax is impossible because:

Taxing large inheritances serves to back up gaps in other taxes. Yes, spending must be cut, but we must also have enough tax revenue to keep the government running. If we kill the estate tax, the money will have to come from somebody else. (It's simply not plausible to argue, as some do, that we could tax only what people spend and eliminate all taxes on income and wealth. We'd end up shifting the tax burden down to those less able to pay or drive our country deeper into debt.)

While completely eliminating state estate taxes may not be practical, it may be prudent for New Jersey to increase the estate tax exemption to \$1 million to become more competitive with surrounding states. When it comes to estate taxes, New Jersey or any other state does not compete with the federal government. Instead, the competition takes place on a state-by-state level. Those states with the highest exemption, or no estate taxes, tend to be more attractive to high-net-worth households.

**When it comes to state taxes, New Jersey is competing with other states, not the federal government.**

David Hardin of Lindabury, McCormick, Estabrook & Cooper stresses that "New Jersey needs to make some policy choices. As far as income taxes go, New Jersey needs to focus on being competitive with New York, Connecticut, and Pennsylvania to capture its share of the New York Metropolitan area work force." In Hardin's opinion, New Jersey has done an adequate job at being competitive for working residents. Where New Jersey should instead turn its focus is retirees. "As far as retirees go, that is a more difficult problem because retirees can pretty much live anywhere and New Jersey is competing with every state in the country for those residents. Personally, I'd like to see New Jersey raise its estate tax exemption certainly to \$1 million and perhaps to \$2 million. As I see it, New Jersey is a great place to earn a living and not such a great place to be a retiree," says Hardin.

The high tax rates and government spending in New Jersey are two of the biggest issues the state currently faces, but what can be cut? Education-related costs? Rob Kautz, attorney with Wilentz Goldman & Spitzer, explains that "the vast majority of the costs associated with running a school district are fixed costs. They are payroll, healthcare, capital expenditures, and pension. The only part that you have to play with is a tiny slice of that pie...What exactly are you going to cut?" If Rob Kautz is correct, there is only so much that can be cut back. When in office, former Governor Jon Corzine proposed shrinking the size of government to bring government spending closer in line with its revenue. However, his attempts made only a small dent in the state's spending, and received significant criticism.

The question of what can be done remains unanswered. Joseph Lemond, attorney at Herold Law makes one suggestion: "New Jersey has one of the lowest gas taxes in the nation, but our roads are falling apart. I'd feel okay spending 10 or 15 cents more on a gallon of gas if I knew that was going dollar for dollar into roads. Nobody is going to flip out if gas jumps 15 cents per gallon."

Other efforts to reduce spending have included former Governor Corzine's failed attempt to eliminate 26 of the 603<sup>25</sup> school districts in the state. Governor Corzine argued that our neighbor, Pennsylvania, with more people covering far more square miles, has far fewer school districts and seems to function just fine.

## **What This Likely Means for the Future**

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New Jersey may continue to suffer losses in revenue from people migrating out of the state.

### ***The Psychology of Being One of the Highest Taxed States***

When assessing a data sample, there is usually a range of values that can be grouped into three categories: Extremes to the left, extremes to the right, and the “average” values in the middle. This middle category tends to be the largest of the groups, and regardless of where a value falls in this category—whether nearer one end or the other—it is still seen as an “average” value.

This idea can be applied to an analysis of tax rates of different states. There are a few states that stand out as highs or lows, and only those extremes stand out and are easily identified. The rest fall in the large middle category. New Jersey is clearly in the group of extreme highs when it comes to tax rates. Would New Jersey still have such a bad reputation regarding taxes if rates were slightly reduced? Even if New Jersey remained a fairly high tax state, it might not require much to move its perceived position into the middle, or “average,” category, where it might receive less bad press, such as articles titled “Don’t Die in New Jersey.”<sup>29</sup>

**The psychological difference between being a highly taxed state and the highest taxed state can be significant.**

We asked Daniel Gilbert, a Harvard psychology professor and author of the New York Times bestseller “Stumbling On Happiness”: “Would there be a significant difference in an individual’s thought process if New Jersey was considered just a highly taxed state rather than the highest taxed state?” Professor Gilbert replied:

I would think so. Nobel Prize winners [Amos] Tversky and [Daniel] Kahneman showed that when people think of probabilities they think of the lowest, the highest, and the ones between, and fail to sufficiently distinguish that large middle category. So  $p = 1$  is very different than  $p = .9$ , but  $p = .7$  is not so different from  $p = .5$ . I imagine the same thing pertains here. Being the highest or lowest is psychologically much different from being “in the middle,” even when in the middle means 4<sup>th</sup> or 5<sup>th</sup> out of 50.

This principle is termed “diminishing sensitivity.” In the Tversky and Kahneman study referenced, “Advances in Prospect Theory: Cumulative Representation of Uncertainty,”<sup>30</sup> diminishing sensitivity is defined as: “the impact of a given change in probability diminishes with its distance from the boundary. For example, an increase of .1 in the probability of winning a given prize has more impact when it changes the probability of winning from .9 to 1.0 or from 0 to .1, than when it changes the probability of winning from .3 to .4 or from .6 to .7.” This phenomenon can also be applied to the tax rate, in that people do not notice much of a distinction between mid-range tax states, but greatly notice the differences at the top of the list.

## Conclusion and Discussion

New Jersey residents who are already considering moving to another state often solidify their decision when they realize the amount they can save in taxes. Individuals can save money for themselves by paying lower income and property taxes, and save money for their survivors by paying lower estate taxes in another state. If they suffer net capital losses in some years, they will most likely be able to carry forward those losses to offset future capital gains if they live outside New Jersey, further economizing on state income taxes. In addition, individuals are more likely to receive tax deductions for their charitable gifts if they reside outside the Garden State.

**The combination of high income, property, and estate taxes reduces New Jersey’s competitiveness.**

While tax migration may currently be more of a threat than an actual problem, it could represent a growing challenge for New Jersey’s future. Several professionals we interviewed believe it is already a major problem for the state. Sam Weiner, a tax attorney with Cole Schotz, says, “New Jersey income and estate taxes have become such a prominent issue that residency has become a prime topic in every other meeting that I have.” Michael Grohman, a tax attorney with Duane Morris, LLP, claims that his wealthy clients are “leaving [New Jersey] as fast as they can.”

The growing problem of tax migration is impacted by a combination of the estate tax, property tax, and income tax. The low exemption of the estate tax makes New Jersey uncompetitive with other states and causes many retirees to migrate elsewhere. The belief that New Jersey has some of the highest income taxes in the nation adds to the growing desire to move out of the state. The combination of these factors could cause businesses and wealth to leave the state, with New Jersey’s already weak economy continuing to struggle.

It should be noted that New Jersey does provide *some* tax benefits for retirees. These include a tax exemption for Social Security earnings, military pensions, and railroad retirement benefits. There is a \$250 property-tax reduction for veterans. The Property Tax Reimbursement Program may benefit taxpayers who are over age 65 or receiving federal Social Security disability benefits and is designed to “freeze” increases in property taxes. Qualification requirements include having lived in New Jersey continuously for at least the past 10 years, as either a homeowner or a renter; and having owned and lived in your home (or having leased a site in a mobile home park on which you have placed a manufactured or mobile home that you own) for at least the past three years. In addition, there are income limits to qualify.

These benefits are valuable and particularly helpful for many New Jersey residents of modest means. However, they are not a meaningful factor in retaining existing wealthy residents who pay the preponderance of the income and estate taxes, or in attracting additional wealthy residents to our state.

**“[New Jersey] has a lot of good things going for us, taxes aren’t one of them.”  
—John Clyne,  
CPA, JD, LLM**

To improve its fiscal future, New Jersey could reduce the incentives for residents to leave. The state could raise the estate tax exemption to \$1 million, matching the level of many other states. In addition, the state could consolidate its many municipalities to possibly lower property taxes. To change the perception of New Jersey’s income tax, the top bracket could be lowered slightly, to 7.74%. With this change, 10 states would have higher tax brackets than New Jersey. All of these possible strategies would make New Jersey a more competitive state. Although there is no single, clear strategy, something must be done to avoid substantial problems in the future.

Public policy leaders, government officials, and businesses need to work together to resolve these issues. The decisions that are made today will impact the lifestyle and future of New Jersey, our residents, and our businesses for many generations to come.

New Jersey is a great place for many people to live for a myriad of reasons. However, for some individuals, taxes significantly impact their residence decisions. Tax attorney John Tassillo, Jr., with The Law Office of John M. Tassillo, Jr., LLC, says, “A lot of people do love this state, and I do believe that the tax system is making people consider leaving who would not otherwise do so.” John Clyne of Clyne Eagen Associates notes: “What we don’t want to do is sell New Jersey short, because we do have a lot of good things going for us. Taxes aren’t one of them.”

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## Appendix

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There are numerous papers and studies related to the topic of tax migration. These papers take a more academic and quantitative approach to analyzing the data. Summaries of the most prominent papers are presented below.

### Analysis of Previous Migration Studies

A study by Rutgers University<sup>31</sup> showed that net out-migration is accelerating, with serious future consequences for the state. These conclusions were drawn using Census data from 2000 to 2006. While Rutgers could not pinpoint a reason for the net out-migration, they observed that there was a significant out-migration from New Jersey to other states, and the outbound migrants had adjusted gross income greater than the in-bound migrants. Furthermore, not only did the data reveal a trend in this direction, the trend was increasing at an exponential rate. The claimants say that aggregate net out-migration from New Jersey from 2000 through 2006 represented a loss of more than \$10 billion per year in total gross income, and was costing New Jersey approximately \$540,000,000 per year by 2006 in lost income- and sales-tax revenue.

This may be a symptom of larger problems, such as a relative decline in the state's overall attractiveness<sup>32</sup>. Authors of a study conducted at Princeton University do not cite tax migration as a significant problem for New Jersey, but acknowledge that there may be a time lag effect<sup>32</sup>. Among high-income households, the net out-migration was higher in 2004-2007 than in 2000-2003. Additionally, the authors concluded by acknowledging the profit New Jersey made on high-income households, and recommended the state avoid any tax policies that might lead to a significant exodus of high-income households.

The authors of the Princeton study estimated that New Jersey's "millionaire tax" resulted in fewer than 70 high-income households per year leaving the state and fewer than 290 deciding against moving into the state. The result of the migration of these 360 households would account for lost revenue of \$38 million per year versus the extra \$1 billion per year of extra revenue generated when the top tax bracket increased to 8.97%. This estimate does not correlate with the interviews we conducted with professionals and our own anecdotal client evidence. The authors end with an acknowledgement that New Jersey makes a significant fiscal profit from high-income households, and that the state should avoid policy leading to an exodus of high-income households, or retired taxpayers.

Shortly after publication of the Princeton study, the *National Tax Journal* published a study challenging Princeton's results. The authors of the Princeton study explicitly examined the effect of the 2004 enactment of the 8.97% state income tax to determine to what degree migration was attributed to the increase. While the authors found that the propensity of households earning more than \$500,000 annually to leave New Jersey increased by more than 50%, they also found that the propensity of people earning between \$200,000 and \$500,000 per year also increased by more than 50%. These statistics led the authors to conclude that attribution of net out-migration could not be attributed solely to the 2004 increase in tax rates. However, when examining the data further, they did find a high positive correlation between income levels and propensity to leave New Jersey. The increase was related to residents over the age 65 or whose income was primarily derived from investments.

In another study conducted in 2010, researchers at Boston College<sup>33</sup> questioned whether New Jersey was losing wealthy residents who account for most charitable donations. The researchers examined two five-year periods: 1999-2003 and 2004-2008. They found that New Jersey enjoyed a gain of over \$98 billion in household net worth from the first five-year period, and suffered a net loss of \$70 billion in the second period. The Boston researchers' empirical evidence showed that while New Jersey gained about \$28 billion of net worth over the full 10-year cycle, it lost \$251 million in giving capacity because of differences in the demographic makeup between immigrants and emigrants. The Boston College study was inconclusive in determining a connection between the loss of charitable giving and the millionaire's tax enacted in 2004.

**Summary:**

- In recent years, New Jersey has suffered net out-migration of wealthy households: More high-net-worth households emigrated out of New Jersey than immigrated into it.
- New Jersey's high income and death taxes could be driving some of the net out-migration of high-net-worth households, especially among residents without family or employment ties to the state.
- New Jersey has suffered a small out-migration of high-income households. The overall number of high-income households in New Jersey has continued to grow significantly.
- New Jersey raises more revenue from the extra 2.6% tax rate applied to high-income households than it loses from the net out-migration of high-income households.

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The individuals quoted or acknowledged in this paper have not been compensated nor are they endorsing or recommending the services of RegentAtlantic.

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