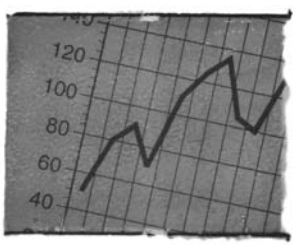

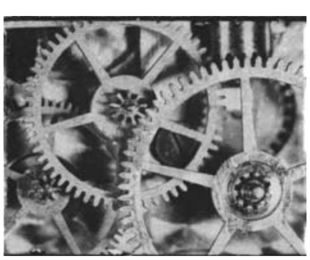

ANALYSIS OF THE NEW JERSEY BUDGET

TAX AND REVENUE OUTLOOK

FISCAL YEAR 2012 - 2013

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MARCH 2012

NEW JERSEY STATE LEGISLATURE

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This report was prepared by the Revenue, Finance and Appropriations Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Martin Poethke with additional contributions by Thomas Koenig.

Questions or comments may be directed to the OLS Revenue, Finance and Appropriations Section (609-984-6798) or the Legislative Budget and Finance Office (609-292-8030).

The FY 2012 and FY 2013 Tax and Revenue Outlook

Introduction

The Office of Legislative Services (OLS) has prepared this report to assist the Senate Budget and Appropriations Committee and the Assembly Budget Committee as they develop the FY 2013 appropriations bill. The OLS revenue estimates rely on a review of current State revenue collections, enacted and proposed revisions to statutory law, historical revenue collection patterns, a variety of economic data and forecasts, and professional judgment.

The OLS projects that FY 2012 and FY 2013 revenues will be $536.9 million less than the estimates in the FY 2013 Governor's Budget Recommendation. Specifically:

- For FY 2012, the OLS revenue estimates are $144.9 million, or 0.5%, below the Executive budget estimates (page 2).
- For FY 2013, the OLS revenue estimates are $392 million, or 1.2%, below the Executive budget estimates (page 3).

Contents **Page**

Fiscal Year 2012 Revenue Estimates

Figure 1
Fiscal Year 2012 Revenue Estimates
($ millions)

	Governor's Budget Message				
	Appropriations Act Certified	Revised Amount	Change	OLS Est. Amount	OLS vs. GBM Difference
Gross Income Tax (GIT)	$11,132.0	$11,132.0	$0.0	$10,975.0	-$157.0
Sales Tax*	8,153.0	8,071.0	-82.0	8,085.0	14.0
Corporation Business Tax*	2,261.0	2,314.0	53.0	2,314.0	0.0
CBT - Banks and Financials	201.9	118.0	-83.9	100.0	-18.0
Realty Transfer Fee	191.1	200.0	8.9	193.0	-7.0
Petroleum Products Tax	222.8	225.0	2.2	225.0	0.0
Inheritance Taxes	666.9	666.9	0.0	675.0	8.1
Insurance Premiums Tax	499.2	502.0	2.8	515.0	13.0
Alcoholic Beverage Excise Tax	93.4	98.0	4.6	100.0	2.0
Casino Revenue Fund	248.1	247.5	-0.6	247.5	0.0
Other Revenues*	5,971.3	6,116.6	145.3	6,116.6	0.0
Grand Total, All Funds	**$29,640.7**	**$29,691.0**	**$50.3**	**$29,546.1**	**-$144.9**

See Appendix for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 1 presents the FY 2012 revenue certification from the Appropriations Act (June 2011), the Executive's revisions as presented in the February 2012 Governor's Budget Message, and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are up by $50.3 million from the level certified in the FY 2012 Appropriations Act.
- The estimate for the gross income tax is unchanged.
- The estimate for the sales tax is down $82 million.
- The estimate for the corporation business tax is up $53 million.
- The estimates for all remaining revenues are up by a net $79.3 million.

Office of Legislative Services

- The total revenue estimate for FY 2012 is **$144.9 million below** the Executive's revised projection.
- The estimate for the gross income tax is $157 million below the Executive's.
- The estimate for the sales tax is $14 million above the Executive's.
- The estimate for the corporation business tax is the same as the Executive's.
- The estimates for all remaining revenues are $1.9 million below the Executive's.

Fiscal Year 2013 Revenue Estimates

Figure 2
Fiscal Year 2013 Revenue Estimates
($ millions)

	Governor's Budget Message		OLS Estimates		
	Amount	Annual Growth	Amount	Annual Growth	OLS vs. GBM Difference
Gross Income Tax (GIT)	$11,836.7	6.3%	$11,529.0	5.0%	-$307.7
Sales Tax*	8,449.3	4.7%	8,467.0	4.7%	17.7
Corporation Business Tax*	2,566.0	10.9%	2,490.0	7.6%	-76.0
CBT - Banks and Financials	165.0	39.8%	150.0	50.0%	-15.0
Realty Transfer Fee	240.0	20.0%	222.0	15.0%	-18.0
Petroleum Products Tax	228.0	1.3%	233.0	3.6%	5.0
Inheritance Taxes	713.0	6.9%	725.0	7.4%	12.0
Insurance Premiums Tax	515.0	2.6%	525.0	1.9%	10.0
Alcoholic Beverage Excise Tax	108.0	10.2%	108.0	8.0%	0.0
Casino Revenue Fund	287.0	16.0%	267.0	7.9%	-20.0
Other Revenues*	6,749.5	10.3%	6,749.5	10.3%	0.0
Grand Total, All Funds	**$31,857.5**	**7.3%**	**$31,465.5**	**6.5%**	**-$392.0**

See Appendix for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 2 displays the Executive FY 2013 revenue estimates as presented in the February 2012 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

Executive

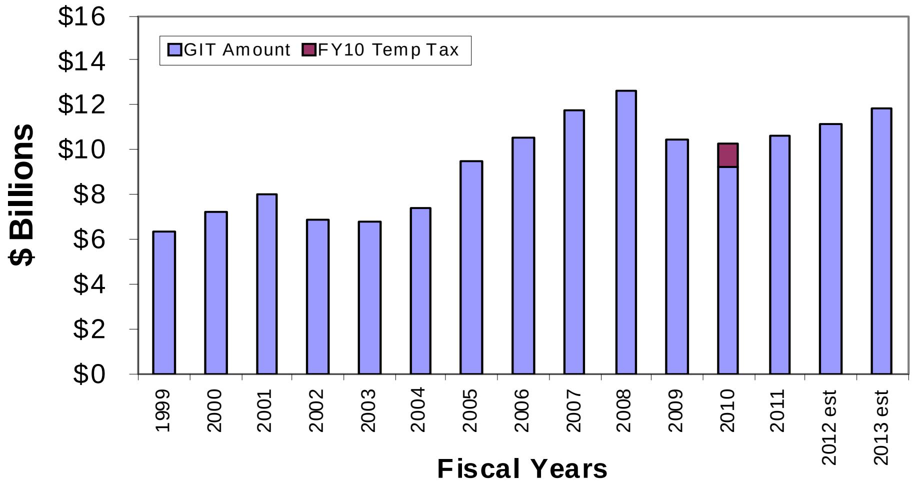
- Total revenue estimate is $2.167 billion above FY 2012, a 7.3% increase.
- The gross income tax estimate is up $704.7 million, or 6.3%.
- The sales tax estimate is up $378.3 million, or 4.7%.
- The corporation business tax estimate is up $252 million, or 10.9%.
- All remaining revenue estimates are up by $831.5 million over FY 2012.

Office of Legislative Services

- Total revenue estimate for FY 2013 is **$392 million below** the Executive's projection, 6.5% growth from a lower base.
- The gross income tax estimate is $307.7 million below the Executive's.
- The sales tax estimate is $17.7 million above the Executive's.
- The corporation business tax estimate is $76 million below the Executive's.
- The OLS estimates for all remaining revenues are $26 million below the Executive's.

The Gross Income Tax

Figure 3: Annual Gross Income Tax Revenue



The Gross Income Tax (GIT) reached its historic collections peak in FY 2008, yielding $12.6 billion. The Great Recession and the stock market crash drove collections down a stunning $2.24 billion (17.8%) in FY 2009 (**Figure 3**). To put this collapse in perspective, $2.24 billion was greater than the combined revenues from the Motor Fuels Tax, Petroleum Products Tax, Motor Vehicle Fees, Transfer Inheritance Tax, and Insurance Premiums Tax. It was as if five of the State's seven next largest major revenues had disappeared.

In FY 2011 collections began to grow once again, as the economy slowly improved and the stock market has rebounded. FY 2013 GIT receipts may top the FY 2007 level, but are not expected to reach the FY 2008 peak.

The Executive is forecasting $11.132 billion in GIT collections in FY 2012, unchanged from the certified forecast made in June of 2011, and requiring 4.9% growth for the year. For FY 2013, the Executive is forecasting $11.837 billion, an increase of 6.3% over FY 2012. However, reaching this target, while accounting for $250.3 million in anticipated tax reductions,[1] requires an underlying growth rate of 8.4% (Figure 4).

In each year, the OLS projects lower GIT revenues than does the Executive. In FY 2012, the OLS projects $10.975 billion, or 3.4% net growth over the prior year. In FY 2013, the OLS projects $11.529 billion after including the tax changes, effectively 5.0% growth over FY 2012. The OLS forecast is $157 million less than the Executive's in FY 2012 and $307.7 million less in FY 2013 (Figure 4).

[1] The tax reductions include part of the first step of a proposed three-year, phased-in rate reduction of 10% ($183.3 million), and the second step of a reform in the treatment of certain business income ($67 million). For purposes of this report, the OLS assumes the proposed change is in effect, but the OLS estimates a slightly smaller $174 million impact from the initial step of the phased-in rate reduction.

Figure 4
Gross Income Tax Estimates
Millions of Dollars

	Actual	Executive Estimates		OLS Estimates		Differences	
	FY2011	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013
Total Collections, Baseline	**$10,617.0**	**$11,155.0**	**$12,087.0**	**$10,998.0**	**$11,770.0**	**-$157.0**	**-$317.0**
Base % Change		***5.1%***	***8.4%***	***3.6%***	***7.0%***		
Less, Business Income Tax Change		-23.0	-67.0	-23.0	-67.0	0.0	0.0
Less, Proposed 10% Rate Change		0.0	-183.3	0.0	-174.0	0.0	9.3
Total Collections, Net Budgeted	**$10,617.0**	**$11,132.0**	**$11,836.7**	**$10,975.0**	**$11,529.0**	**-$157.0**	**-$307.7**
Budgeted % Change	***1.8%***	***4.9%***	***6.3%***	***3.4%***	***5.0%***		

In general, the OLS is projecting slow growth for the remainder of FY 2012 followed by accelerating growth in FY 2013. However, those growth rates are not as high as the Executive's projected growth rates.

The OLS GIT forecast is constructed from an analysis of the four separate components of the GIT cash flow:

- **Withholding**: Paid throughout the year by employers from amounts deducted from workers' paychecks (including bonuses and some stock options);
- **Estimated Payments**: Generally paid quarterly in April, June, September, and December/January by taxpayers with significant non-wage income, such as capital gains, dividends, and partnership income;
- **Final Year-End Payments**: Due each April, reconciling the prior tax year liability. Also generally paid by taxpayers with significant non-wage income;
- **Refund Payments**: Paid by the State to taxpayers whose April tax filings show tax payments exceeding tax liability.

Fiscal Year 2012

The OLS believes the reported GIT growth rate of 5% through the end of February is overstated (see Appendix page A4). After adjusting for a payment timing shift due to Leap Year, **withholding receipts** are up only 2.3% and the overall GIT is up only 2.2% on a comparable year-to-year basis. The OLS estimates that withholding will improve as employment rises, growing by about 4% for the remainder of this fiscal year, similar to the Executive's forecast for withholding.

Most of the $157 million GIT difference between the Executive and the OLS in FY 2012 is due to marginally different projections for payments from taxpayers with significant sources of non-wage income. **Estimated payments** are down 2.5% so far in FY 2012, much weaker than the growth OLS had previously assumed would occur. Moreover, total Tax Year 2011 estimated payments between last April and this January were flat with the same months of the prior year.

Historically, these estimated tax payments have a powerful correlation with the subsequent **final tax payments** (**Figure 5**). Accordingly, the OLS projects that final payments received this April and May will remain flat with last year. The Executive assumes growth of 2.8% for this most volatile aspect of the GIT picture.

The OLS also expects the two initial quarterly estimated payments for Tax Year 2012, due in April and June, to rebound and grow modestly by 5%. The Executive is assuming somewhat higher 7.3% growth for these payments.

Lastly, the OLS anticipates that Spring **refund payments** will be flat with those payments during the same period last year. The Executive projects a decline in refund payments of about 3.7%.

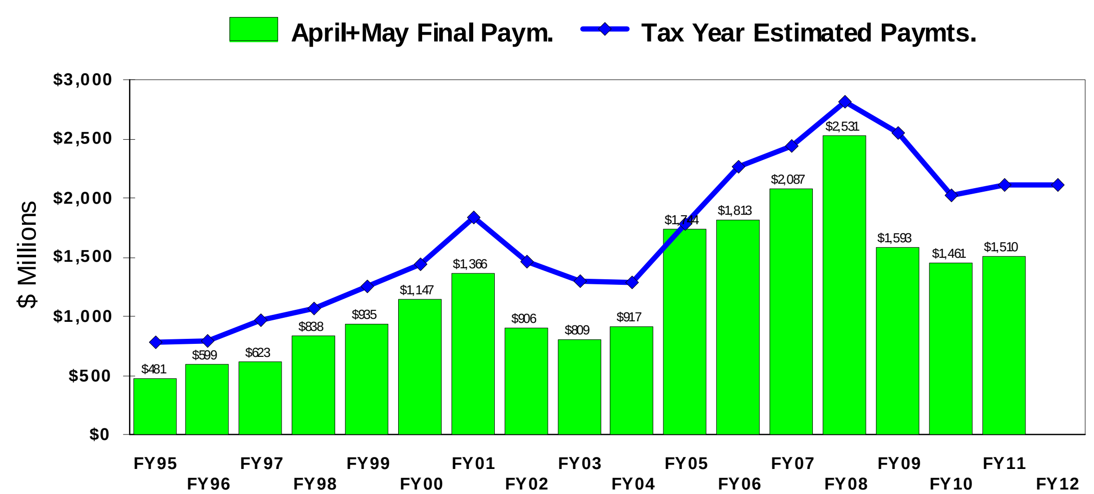
Fiscal Year 2013

For FY 2013, the OLS believes the improving economy will increase withholding collections growth to 5% by the middle of FY 2013. In addition, higher-income taxpayers should see the benefits of strong stock market performance and rising business-related income, further boosting total GIT collections via the quarterly estimated tax payments and the year-end final tax payments in the Spring of 2013. **Overall, the OLS projects underlying GIT growth will nearly double from 3.6% in FY 2012 to 7% in FY 2013.** However, the effective growth rate will be moderated to 5% due to the impact of the existing and proposed tax changes (Figure 4).

The Executive is forecasting underlying growth of 8.4% for FY 2013, or 1.4% points higher than the OLS forecast. These are not fundamentally contrary growth assumptions, but rather somewhat differing views of how strong the GIT revenue recovery will be. **The more conservative 7% OLS growth assumption is still above the 6.2% average growth of the GIT over the last 15 years.** Of the $307.7 million FY 2013 forecasting difference, about half reflects these differing growth rates, and half is due to the dissimilar baseline amounts in FY 2012.

Figure 5

Tax Year Estimated Payments and April+May Final Payments



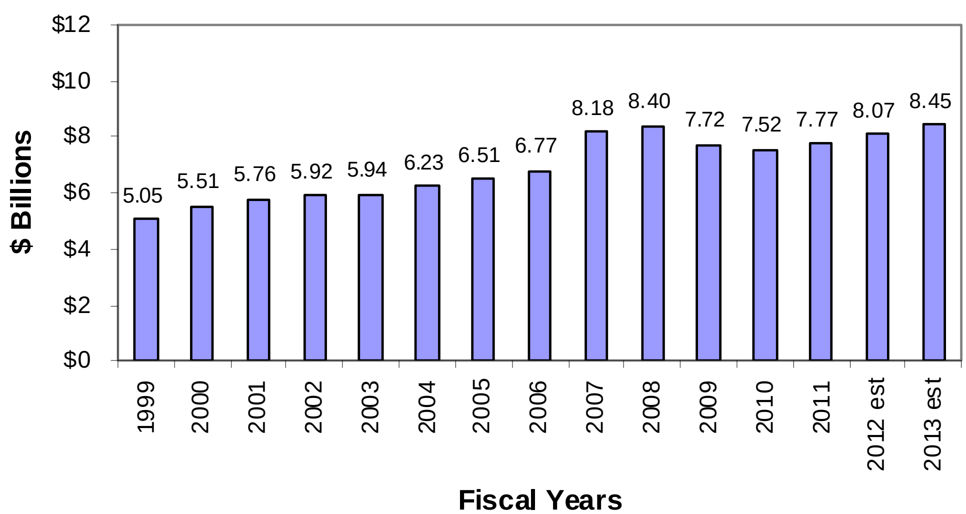
The Sales Tax

After an unprecedented two consecutive years of decline in FY 2009 and FY 2010, the sales tax resumed growth in FY 2011. With economic activity and consumer spending improving slowly, **the Executive is projecting steady, if modest, improvement for FY 2012 and FY 2013. Sales tax revenues for FY 2012 are estimated at $8.071 billion, up 3.9% from the prior year. FY 2013 revenues are estimated at $8.449 billion, an increase of 4.7% from FY 2012.** There are no tax changes assumed in these forecasts.

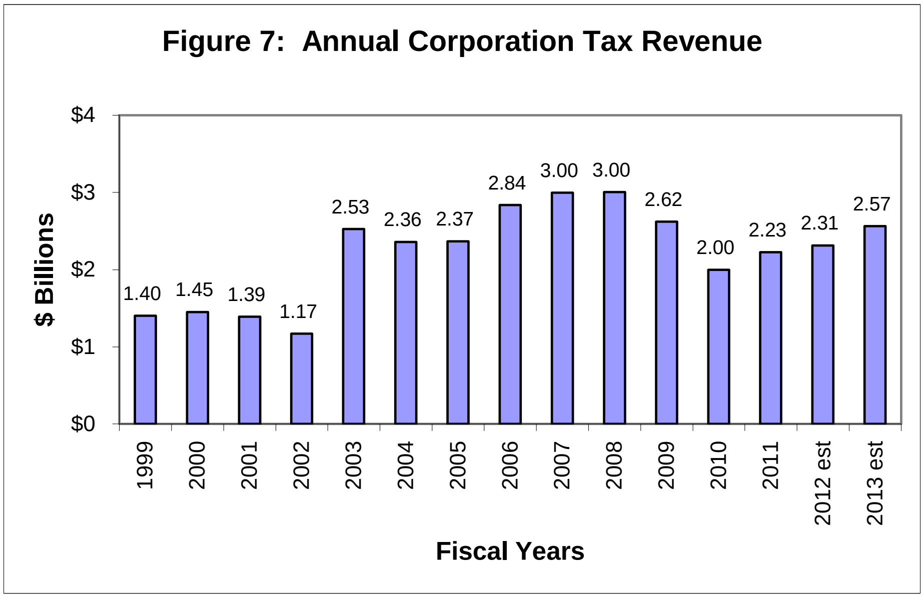
The OLS forecasts are slightly higher than the Executive forecasts for both fiscal years. Sales tax revenues are up by 3.9% through the end of February, and have exceeded that level in recent months. The Executive's full year target assumes growth of 3.9% in the remaining months. **The OLS believes a slightly higher 4.5% growth rate is likely during the final five months of receipts, yielding $8.085 billion, or $14.0 million above the Executive's projection.**

The OLS believes that the Executive's estimated growth rate of 4.7% in FY 2013, close to the long-run average growth for the sales tax, is reasonable. **While the OLS assumes the same growth rate, our slightly higher base yields $8.467 billion, or $17.7 million more than the Executive's forecast.**

Figure 6: Annual Sales Tax Revenue



Corporation Business Tax



The Great Recession not only caused the Gross Income Tax and the sales tax to decline sharply, but it also drove corporation business tax (CBT) revenues down by a staggering 33%, plummeting from $3 billion in FY 2008 to $2 billion in FY 2010. CBT revenues are growing again, but the Executive projects that FY 2012 and FY 2013 will remain well below the prior peak (**Figure 7**).

The Executive's forecasts are based on rising corporate profits and the assumption that tax liabilities will rise as well. **For FY 2012 the Executive projects $2.314 billion, or 3.9% more than the prior year. Growth is expected to accelerate to 10.9% in FY 2013, yielding total receipts of $2.566 billion.** The FY 2012 forecast includes an estimated reduction of $70 million due to several CBT tax decreases and credits.[2] The impact of those tax changes rises to $127.5 million in FY 2013, and an additional $25 million reduction is included for anticipated claims of certain Urban Transit Hub tax credits. Largely offsetting the increased impact of these tax changes and incentives, the Executive is assuming a $66 million boost from accelerating the resolution of administrative disputes in FY 2013.

The OLS agrees with the Executive forecast for FY 2012. Through the end of February, CBT revenues are up by 2.9%. Modest improvement for the remainder of the fiscal year to a year-end target of 3.9% growth is likely.

However, the OLS forecasts a somewhat lower 7.6% growth rate for FY 2013, about the average growth for the CBT over the last two decades. This forecast of $2.490 billion is $76 million less than the Executive's target. At this point in a recovery cycle, this more modest growth rate seems prudent.

[2] The phase-in of the single sales factor, a 25% reduction in the S-corporation minimum tax and an increased application of the R&D tax credit.

Other Selected Revenues

CBT for Banks and Financial Institutions

The CBT for Banks and Financial Institutions is a notoriously volatile and unpredictable tax revenue. **The Executive has significantly reduced its forecast for FY 2012 from the certified level of $201.9 million down to $118 million, essentially flat with last year. For FY 2013 the Executive assumes 40% growth to $165 million.** However, collections through the end of February in FY 2012 are down 41.0% compared to the same period in FY 2011. **Assuming the current decline moderates in the coming months, the OLS estimates $100 million in FY 2012, $18 million less than the Executive. The OLS also assumes a rebound next year, to $150 million in FY 2013, though still $15 million below the Executive's target.**

Realty Transfer Fees

Perhaps no tax sources are more emblematic of the State's economic downturn and multiyear revenue collapse than the realty transfer fee. The transfer fee peaked in FY 2008 at $459.7 million and then tumbled by 62% through FY 2011. The housing market remains in a historic slump but appears to have traversed the trough. Realty transfer fee collections mirror this trend. On a modest upward trajectory in FY 2012 to date, the revenue source is on track to post its first annual increase in six years.

The Executive estimates $200 million in FY 2012 realty transfer fee revenue, or 14% over FY 2011, and $240 million in FY 2013, or 20% growth. Although the OLS shares the Executive's perspective that fee collections will grow in FY 2012 and FY 2013, it remains somewhat more cautious. FY 2012 year-to-date collections are up 9.9%, but it would take an additional bounce to reach the Executive's projected FY 2012 annual growth rate. **The OLS thus estimates $193 million in FY 2012 fee revenue and $222 million in FY 2013.** The FY 2012 estimate reflects a 10% growth rate over FY 2011 and the FY 2013 estimate reflects a 15% growth rate over FY 2012.

On the other hand, the OLS shares the Executive's optimism about the separate one percent assessment on properties valued over $1 million. **The Executive and the OLS both estimate $80 million in FY 2012 collections and $100 million in FY 2013 collections.** While sales of high-priced homes have increased, it is the commercial property market that is picking up steam. Through the first seven months of FY 2012, collections from the assessment on commercial properties have already surpassed the FY 2011 twelve-month total.

Inheritance Taxes

The two Inheritance Taxes (Estate and Transfer Inheritance) combine to be the State's fourth largest major tax revenue, after the GIT, sales tax, and CBT. **The Executive projects $666.9 million for FY 2012 (3.8% growth) and $713 million for FY 2013 (6.9% growth).** However, current collections through the end of February are up 6%. Accordingly, **the OLS is estimating higher amounts in each year: $675 million in FY 2012 and $725 million in FY 2013.** Those amounts are $8.1 million and $12 million greater than the Executive's estimates, respectively.

Insurance Premiums Tax

The Insurance Premiums Tax is difficult for the Executive to project when releasing its budget in February because the first payments for this tax are not due until March 1 of each year. For FY 2012, the **Executive estimates $502 million, an increase of 9.6% over FY 2011. In FY 2013 the Executive estimates $515 million, an increase of 2.6% over FY 2012.**

The initial Insurance Premiums payments from the March 1 date appear to be up by almost 22% overall (booked across the months of February and March). Encouraged by this initial collections data, but cautious about second payment date on June 1, **the OLS is estimating $515 million in FY 2012 and $525 million in FY 2013, $13 million and $10 million above the Executive's estimates for the respective fiscal years.**

Casino Revenue Fund

The Executive estimates $247.5 million for the Casino Revenue Fund in FY 2012 and assumes strong growth of 16% to $287 million in FY 2013. This FY 2013 estimate is based on the expectation that a growing economy and the opening of the Revel Resort and Casino in the coming months will improve overall Atlantic City casino performance.

The OLS agrees with the Executive's FY 2012 forecast, but is more cautious about the potential growth in FY 2013. Casino Revenue Fund amounts have declined significantly each year since FY 2006, buffeted by both the increasingly competitive gambling marketplace and the Great Recession. Between FY 2006 and FY 2011, casino tax revenues fell by 39%. Current FY 2012 revenues continue that pattern, down 14.1% through the end of February. **While the OLS assumes a return to growth in FY 2013, we project a more modest 8%, which leads to a total of $267 million, or $20 million less than the Executive's forecast.**

Alcoholic Beverage Excise Tax

The Executive estimates $98 million in FY 2012 and $108 million in FY 2013 for the Alcoholic Beverage Excise Tax. Actual collections in recent months have improved, so the OLS estimates a slightly higher amount of $100 million in FY 2012, but the same $108 million in FY 2013 as the Executive.

Other Non-Tax Revenues

There are many non-tax revenues that have important impacts on the annual revenue estimates, but for which the OLS generally accepts the Executive's projections, unless there is specific information that warrants a differing outlook. One such important revenue is the **State Lottery**. The Executive projects $967 million in FY 2012, a $63 million reduction from the amount certified last June. For FY 2013, the Executive projects a significant increase to $1.095 billion. The Treasury explains that the reduced estimate for FY 2012, and the sharply increasing estimate for FY 2013, are due to changes in the Lottery that were initially anticipated to take effect in FY 2012, but are now expected to impact FY 2013 instead. The OLS has no independent means to evaluate these Lottery changes, and for the purposes of this report the OLS accepts the Executive's projections.

The Budget proposal assumes the use of the following revenue sources. For the purposes of this report, the OLS also assumes these funds will be included in the adopted Budget.

- In FY 2013 the Executive is anticipating a one-time $200 million increase in the interfund transfer to the General Fund from the **Clean Energy Fund**.

- In FY 2013 the Executive is anticipating a $200 million increase of funds for **Affordable Housing and Neighborhood Preservation (Fair Housing)**, due to a one-time transfer of municipal affordable housing trust fund balances to the General Fund.
- In FY 2013 the Executive is anticipating a $75 million interfund transfer from the **Mortgage Services Settlement Fund**.
- In FY 2012, the Executive is increasing the amount of funds transferred from the **Unclaimed Personal Property Trust Fund** to the General Fund by $45 million.

The first three of those items provide the proposed FY 2013 Budget with $475 million in resources, more than 20% of the projected revenue growth between FY 2012 and FY 2013.

Budgetary Impact of OLS Revenue Estimates

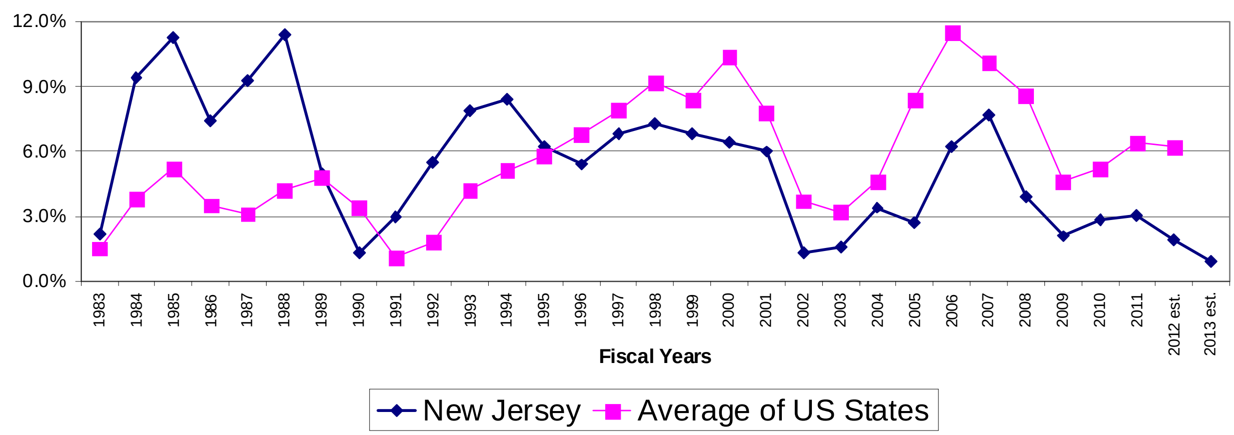
Combined over the two-year period, the OLS revenue estimates are $536.9 million less than the Executive's -- $144.9 million less in FY 2012 and $392 million less in FY 2013.

The Executive projects an FY 2013 year-end balance of $300 million, or about 0.9% of budgeted expenditures. As part of its annual analysis, the OLS recalculates the State's year-end budgeted balance based solely on the revenue forecast differences between the Executive and the OLS. **All other things being equal, the lower OLS revenue estimates would produce a year-end deficit of $236.9 million.**

As the State Constitution requires a balanced budget, the actual year-end balance will be determined by numerous spending decisions as well as revenue collections. Decisions on these and other matters will be made by the Executive, both budget committees and the full Legislature during the next three months and throughout the next fiscal year.

The Executive's *projected* 0.9% surplus is low by historical standards for New Jersey. As is shown in **Figure 8**, over the last 30 years the State's *actual* surplus has exceeded 2% of expenditures in all but three completed fiscal years since 1983. Two of those three years were during economic recessions (1990 and 2002). Moreover, the national average of all states' surpluses has exceeded New Jersey's level every year since FY 1996, based on survey data compiled by the National Association of State Budget Officers.

Figure 8: Year-End Budget Surplus as a Percent of Expenditures



Appendices Contents Page

Detailed Fiscal Year 2012 Revenue Estimates

Millions of $

Revenue Source	Appropriations Act (June 2011)	Executive Revised	OLS	Diff: OLS - Executive
Major Taxes:				
Sales Tax, Total	**$7,893.4**	**$7,811.0**	**$7,825.0**	**$14.0**
Sales Tax, Base	*8,153.0*	*8,071.0*	*8,085.0*	*14.0*
Dedicated Transfer to PTRF	*-628.0*	*-620.0*	*-620.0*	*0.0*
Sales Tax, Energy	*368.4*	*360.0*	*360.0*	*0.0*
Corporation Business Tax, Total	**$2,340.7**	**$2,393.7**	**$2,393.7**	**$0.0**
Corporation Business Tax, Base	*2,261.0*	*2,314.0*	*2,314.0*	*0.0*
Corporation Business Tax, Energy	*79.7*	*79.7*	*79.7*	*0.0*
Inheritance Taxes	666.9	666.9	675.0	8.1
Motor Fuels Tax	535.0	545.0	545.0	0.0
Insurance Premiums Tax	499.2	502.0	515.0	13.0
Realty Transfer Fee	191.1	200.0	193.0	-7.0
Motor Vehicle Fees	492.7	479.0	479.0	0.0
Cigarette Tax	205.5	286.0	286.0	0.0
Petroleum Products Gross Receipts Tax	222.8	225.0	225.0	0.0
Corporation Business - Banks and Financial	201.9	118.0	100.0	-18.0
Alcoholic Beverage Excise Tax	93.4	98.0	100.0	2.0
Tobacco Products Wholesale Tax	20.4	20.4	20.4	0.0
Public Utilities Excise Tax	13.5	13.8	13.8	0.0
Subtotal, Major Taxes	**$13,376.5**	**$13,358.8**	**$13,370.9**	**$12.1**
Misc. Taxes, Fees and Revenues				
Assessment on Property Sold Over $1 Million	64.3	80.0	80.0	0.0
Transitional Energy Facility Assessment	178.7	176.0	176.0	0.0
Public Utility Taxes (State Retention)	105.0	105.0	105.0	0.0
Medicaid Uncomp. Care Reimbursement	441.5	434.2	434.2	0.0
Telephone Assessment	126.0	125.5	125.5	0.0
Hotel Occupancy Tax	75.0	86.0	86.0	0.0
Affordable Housing (Fair Housing)	28.1	28.2	28.2	0.0
Interdepartmental Accounts	524.3	567.4	567.4	0.0
Other	1,001.7	1,016.5	1,016.5	0.0
Subtotal, Misc. Revenues	**$2,544.6**	**$2,618.8**	**$2,618.8**	**$0.0**
Interfund Transfers				
State Lottery Fund	1,030.0	967.0	967.0	0.0
Unclaimed Personal Property Trust Fund	192.0	237.0	237.0	0.0
State Disability Benefit Fund	37.9	38.2	38.2	0.0
Tobacco Settlement/Securitization	54.6	53.8	53.8	0.0
Enterprise Zone Assistance Fund	88.6	98.2	98.2	0.0
Mortgage Servicing Settlement Fund	0.0	0.0	0.0	0.0
Clean Energy Fund	10.0	10.0	10.0	0.0
Other	227.1	238.4	238.4	0.0
Subtotal, Interfund Transfers	**$1,640.2**	**$1,642.6**	**$1,642.6**	**$0.0**
TOTAL GENERAL FUND	**$17,561.2**	**$17,620.2**	**$17,632.3**	**$12.1**
Property Tax Relief Fund (Income Tax)	**$11,132.0**	**$11,132.0**	**$10,975.0**	**-$157.0**
PTRF Transfer from GF (Sales Tax)	***$645.5***	***$637.5***	***$637.5***	***$0.0***
Casino Revenue Fund	**$248.1**	**$247.5**	**$247.5**	**$0.0**
Casino Control Fund	**$53.1**	**$53.1**	**$53.1**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**$0.7**	**$0.7**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$29,640.7**	**$29,691.0**	**$29,546.1**	**-$144.9**

Detailed Fiscal Year 2013 Revenue Estimates

Millions of $

Revenue Source	February 2012 Gov's Budget	GBM % Change	March 2012 OLS Original	OLS % Change	Diff: OLS - Executive
Major Taxes:					
Sales Tax, Total	**$8,182.3**	**4.8%**	**$8,200.0**	**4.8%**	**$17.7**
Sales Tax, Base	*8,449.3*	4.7%	*8,467.0*	4.7%	*17.7*
Dedicated Transfer to PTRF	*-647.0*		*-647.0*		
Sales Tax, Energy	*380.0*	5.6%	*380.0*	5.6%	*0.0*
Corporation Business Tax, Total	**$2,666.0**	**11.4%**	**$2,590.0**	**8.2%**	**-$76.0**
Corporation Business Tax, Base	*2,566.0*	10.9%	*2,490.0*	7.6%	*-76.0*
Corporation Business Tax, Energy	*100.0*	25.5%	*100.0*	25.5%	*0.0*
Inheritance Taxes	713.0	6.9%	725.0	7.4%	12.0
Motor Fuels Tax	565.0	3.7%	565.0	3.7%	0.0
Insurance Premiums Tax	515.0	2.6%	525.0	1.9%	10.0
Realty Transfer Fee	240.0	20.0%	222.0	15.0%	-18.0
Motor Vehicle Fees	466.4	-2.6%	466.4	-2.6%	0.0
Cigarette Tax	274.3	-4.1%	274.3	-4.1%	0.0
Petroleum Products Gross Receipts Tax	228.0	1.3%	233.0	3.6%	5.0
Corporation Business - Banks and Financial	165.0	39.8%	150.0	50.0%	-15.0
Alcoholic Beverage Excise Tax	108.0	10.2%	108.0	8.0%	0.0
Tobacco Products Wholesale Tax	20.4	0.0%	20.4	0.0%	0.0
Public Utilities Excise Tax	14.0	1.4%	14.0	1.4%	0.0
Subtotal, Major Taxes	**$14,157.4**	**6.0%**	**$14,093.1**	**5.4%**	**-$64.3**
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over $1 Million	100.0	25.0%	100.0	25.0%	0.0
Transitional Energy Facility Assessment	121.5	-31.0%	121.5	-31.0%	0.0
Public Utility Taxes (State Retention)	105.0	0.0%	105.0	0.0%	0.0
Medicaid Uncomp. Care Reimbursement	409.4	-5.7%	409.4	-5.7%	0.0
Telephone Assessment	125.0	-0.4%	125.0	-0.4%	0.0
Hotel Occupancy Tax	95.0	10.5%	95.0	10.5%	0.0
Affordable Housing (Fair Housing)	228.2	710.3%	228.2	710.3%	0.0
Interdepartmental Accounts	633.6	11.7%	633.6	11.7%	0.0
Other	1,051.2	3.4%	1,051.2	3.4%	0.0
Subtotal, Misc. Revenues	**$2,868.8**	**9.5%**	**$2,868.8**	**9.5%**	**$0.0**
Interfund Transfers					
State Lottery Fund	1,095.0	13.2%	1,095.0	13.2%	0.0
Unclaimed Personal Property Trust Fund	193.0	-18.6%	193.0	-18.6%	0.0
State Disability Benefit Fund	38.2	0.0%	38.2	0.0%	0.0
Tobacco Settlement/Securitization	53.3	-1.1%	53.3	-1.1%	0.0
Enterprise Zone Assistance Fund	102.8	4.7%	102.8	4.7%	0.0
Mortgage Servicing Settlement Fund	75.0		75.0		0.0
Clean Energy Fund	210.0	2000.0%	210.0	2000.0%	0.0
Other	220.0	-7.7%	220.0	-7.7%	0.0
Subtotal, Interfund Transfers	**$1,987.3**	**21.0%**	**$1,987.3**	**21.0%**	**$0.0**
TOTAL GENERAL FUND	**$19,013.4**	**7.9%**	**$18,949.1**	**7.5%**	**-$64.3**
Property Tax Relief Fund (Income Tax), Total	**$11,836.7**	**6.3%**	**$11,529.0**	**5.0%**	**-$307.7**
PTRF Transfer from GF (Sales Tax)	***$664.5***		***$664.5***		
Casino Revenue Fund	**$287.0**	**16.0%**	**$267.0**	**7.9%**	**-$20.0**
Casino Control Fund	**$55.1**	**3.7%**	**$55.1**	**3.7%**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**0.0%**	**$0.7**	**0.0%**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$31,857.5**	**7.3%**	**$31,465.5**	**6.5%**	**-$392.0**

Fiscal Year 2012 Revenue Through February

With some of the major tax revenues completing seven months of cash collections in FY 2012, and others completing eight months, most are maintaining growth rates close to the Executive's revised year-end targets. **Figure 1**, on the following page, displays FY 2012 cash collections through the end of February.

Gross Income Tax (GIT) cash receipts of $6.3 billion are 5% above the same eight-month period last year. The revised year-end target for FY 2012 requires growth of 4.9% for the entire fiscal year. However, the current 5% growth rate is misleading, due to the timing of certain weekly withholding payments that shifted from March to February this year because of the Leap Year impact of February 29. **Adjusting for this transitory shift brings the year-to-date growth rate for the GIT down from 5% to approximately 2.2% through the end of February.**

The OLS noted a similar payment shift in November's ***Revenue Snapshot***, with the offsetting impact occurring in December. This shifting of payments between months happens several times every year, and is visible in the graph of the GIT displayed in **Figure 2**. The GIT line jumps in both November and February due to the shifted withholding payments, but, as in December, the March GIT revenues will compensate for the payment shift.

Withholding collections are up 5.7% so far this fiscal year, but only up 2.3% after adjusting for the payment timing issue noted above. Quarterly estimated payments are down 2.5% for the fiscal year to date. Refund payments are down 7.8% compared to the same months last year.

Sales Tax receipts through the end of February total $4.7 billion, up 3.9% from the same period last year (February collections reflect January economic activity because this tax is subject to a one month payment lag). The Executive's revised FY 2012 target requires 3.9% growth for the fiscal year as a whole. February cash receipts were up a strong 8.1% compared to last February, the second month in the last three to exceed 8.0% growth.

Corporation Business Tax (CBT) cash collections of $1.08 billion are up 2.9% so far this fiscal year. The revised FY 2012 CBT estimate requires 3.9% growth for the entire fiscal year. The much smaller CBT for banks and financial institutions is running 41.0% below last year at the same time, compared to flat collections assumed by the Executive's revised target.

Realty Transfer Fee revenues continue to rebound from several consecutive difficult years. Revenues are up 9.9% at this time, although that rate lags the Executive's revised year-end target growth rate of 14%.

Casino and **Lottery** revenues are lagging the revised year-end targets, while **Insurance Premiums** and **Transfer Inheritance** revenues are running ahead of their respective targets.

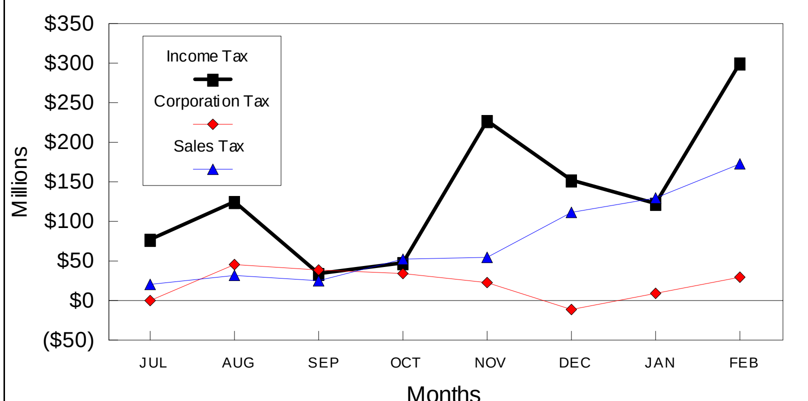
Monthly ***OLS Revenue Snapshots*** are posted at the following Legislative web address: ***http://www.njleg.state.nj.us/legislativepub/snapshot.asp***.

Figure 1
FY 2012 Year-To-Date
Selected Revenue Comparison
Through the End of February 2012 vs. February 2011
($ Millions)

	FY 2011 Actual Through Feb.	FY 2012 Actual Through Feb.	Percent Change	Executive Revised Year-End % Change
Gross Income Tax	$5,996.4	$6,296.7	5.0%	4.9%
Sales Tax *	4,482.4	4,657.3	3.9%	3.9%
Corporation Business Tax	1,053.0	1,083.9	2.9%	3.9%
Lottery	584.5	591.8	1.3%	4.0%
Motor Fuels Tax *	294.3	304.9	3.6%	4.0%
Casino Tax	175.7	150.9	-14.1%	-6.8%
Inheritance Taxes	409.7	434.4	6.0%	3.8%
Insurance Premiums Tax	144.7	167.9	16.0%	9.6%
Petroleum Products *	126.6	131.1	3.6%	4.0%
Alcohol Excise Tax *	51.4	53.4	3.7%	-0.4%
CBT -- Banks & Financials	75.5	44.5	-41.0%	-0.2%
Realty Transfer Fee *	105.4	115.9	9.9%	14.0%

Sources: Year-To-Date revenues are from Treasury's monthly cash reports.
The Executive revised year-end percentage change is based on the February revised revenue estimates for FY 2012 contained in the proposed FY 2013 Governor's Budget Message.
* Revenues represent seven months of cash collections. All others represent eight months of cash collections.

Figure 2
Year-To-Date Amount FY12 "Big Three" Revenues Above FY11



Executive Tax and Revenue Changes Requiring Legislation

The table below summarizes the Executive's tax and revenue changes for FY 2013 that require legislation, to the best of OLS' understanding. Unlike previous years, the Executive has not replied to a Legislative request for an itemized list of legislation assumed in the Governor's budget. The OLS will keep the Committees informed with subsequent information as it becomes available.

FY 2013 Executive Tax and Revenue Changes Requiring Legislation

$ in Millions

Tax or Revenue Change		Estimated Amount
1	Gross Income Tax -- First step of a multi-year phase-in of a 10% reduction in all marginal rates.	-$183.3
2	21st Century Justice Improvement Fund Fee Increase	$25.0
	Total	**-$158.3**

Revenues from Taxes on Energy Providers

Energy utilities are subject to the sales and use tax, the corporation business tax (CBT) and the transitional energy facility assessment (TEFA), a tax in the process of being phased out over time. Telecommunications utilities are subject to the CBT. The revenues are divided into two categories: **municipal use**, which are "off budget" and **State use**, which are "on budget."

Figure A displays public utility revenues from FY 1991 through FY 2013. Collections through FY 1997 were under the old public utility tax system. Since FY 1998, taxes have been collected under the current law. **Figures B through D** display the actual and anticipated revenues from FY 2010 through FY 2013 in greater detail.

From a budgeting perspective, the municipal use tax revenues are credited to the Energy Tax Receipts Property Tax Relief Fund (ETR Fund), and allocated to municipalities under a statutory formula. These amounts, considered **"off-budget,"** are not included in either the anticipated Schedule 1 revenues or the amount of State aid appropriated in the annual appropriations act. This amount has been held at $788.5 million by annual budget language since FY 2005.

After allocation of $788.5 million to the ETR Fund, the remaining revenues come "on-budget" for use in the State General Fund. Some of this on-budget portion is the TEFA, which was originally scheduled to end in FY 2002. However, TEFA has been extended several times and now runs through FY 2013. The Executive estimates TEFA payments of $176 million in FY 2012 and $121.5 million in FY 2013, reflecting the next steps of the phase-out.

The portion of energy revenue from the CBT and the sales tax not allocated to the ETR Fund has grown over time, rising from $72.2 million in FY 2005 to an expected $480 million by FY 2013. Economic growth and the 2006 sales tax rate increase have contributed to this rise. Total "on-budget" collections from energy and utility sources are estimated at $734.5 million in FY 2012 and $720.5 million in FY 2013.

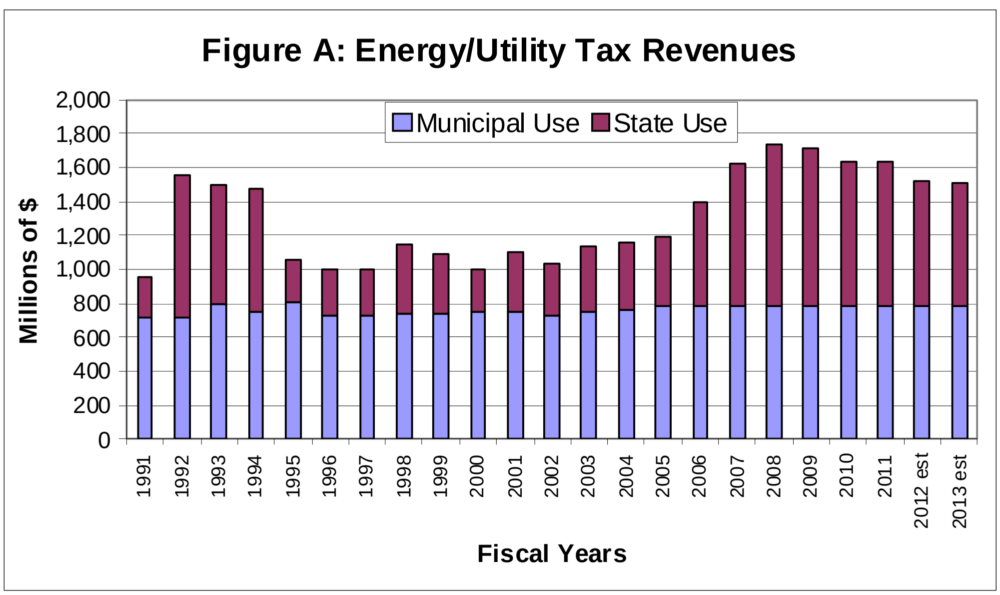


Figure B

Actual Energy/Utility Tax Revenue Fiscal Year 2010

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$356.7	$671.4	$1,028.1
Corporation Business Tax	$145.8	$117.1	$262.9
Transitional Energy Facilities Assessment (TEFA)	$227.4		$227.4
Franchise and Gross Receipts Tax Water and Sewer Utilities	$100.6		$100.6
Public Utility Excise Tax Water and Sewer Utilities	$13.2		$13.2
Total	**$843.7**	**$788.5**	**$1,632.2**

Source: Department of Treasury, March 2011.

Figure C

Actual Energy/Utility Tax Revenue Fiscal Year 2011

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$361.0	$689.2	$1,050.2
Corporation Business Tax	$117.6	$99.3	$216.9
Transitional Energy Facilities Assessment (TEFA)	$243.0		$243.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$104.9		$104.9
Public Utility Excise Tax Water and Sewer Utilities	$14.8		$14.8
Total	**$841.3**	**$788.5**	**$1,629.8**

Source: Department of Treasury, March 2012.

Figure D

Anticipated Energy/Utility Tax Revenue Fiscal Year 2012

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$360.0	$688.5	$1,048.5
Corporation Business Tax	$79.7	$100.0	$179.7
Transitional Energy Facilities Assessment (TEFA)	$176.0		$176.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$105.0		$105.0
Public Utility Excise Tax Water and Sewer Utilities	$13.8		$13.8
Total	**$734.5**	**$788.5**	**$1,523.0**

Source: Department of Treasury, March 2012.

Figure E

Anticipated Energy/Utility Tax Revenue Fiscal Year 2013

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$380.0	$687.5	$1,067.5
Corporation Business Tax	$100.0	$101.0	$201.0
Transitional Energy Facilities Assessment (TEFA)	$121.5		$121.5
Franchise and Gross Receipts Tax Water and Sewer Utilities	$105.0		$105.0
Public Utility Excise Tax Water and Sewer Utilities	$14.0		$14.0
Total	**$720.5**	**$788.5**	**$1,509.0**

Source: Department of Treasury, March 2012.

Cigarette Tax Details

Cigarette Tax Estimates and Distributions

Millions of Dollars

	Actual	Executive Estimates		OLS Estimates		OLS Difference	
	FY2011	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013
Total Collections All Sources	**$769.2**	**$780.0**	**$756.6**	**$780.0**	**$756.6**	**$0.0**	**$0.0**
Less, Health Care Subsidy Fund	-396.5	-396.5	-396.5	-396.5	-396.5	0.0	0.0
Less, Dedication for Debt Service	-145.5	-147.6	-143.2	-147.6	-143.2	0.0	0.0
Plus, Bond Refunding Savings	0.0	50.1	57.4	50.1	57.4	0.0	0.0
Total Collections On-Budget	**$227.2**	**$286.0**	**$274.3**	**$286.0**	**$274.3**	**$0.0**	**$0.0**

Historical Cigarette Tax Rates
($ per pack of 20 cigarettes)

Date of Change	Tax Rate	Law
1-Jul-48	$0.03	P.L.1948, c.65, s.101
1-Apr-56	$0.05	P.L.1956, c.10, s.1
6-Jan-61	$0.06	P.L.1960, c.158, s.1
1-Jul-62	$0.07	P.L.1962, c.75, s.1
31-May-63	$0.08	P.L.1963, c.45, s.1
16-Jun-66	$0.11	P.L.1966, c.105, s.1
4-Jun-68	$0.14	P.L.1968, c.51, s.1
16-May-72	$0.19	P.L.1972, c.24, s.1
June 18, 1982*	$0.24*	P.L.1982, c.40, s.1*
1-Jul-90	$0.40	P.L.1990, c.39, s.15
1-Jan-98	$0.80	P.L.1997, c.264, s.1
1-Jul-02	$1.50	P.L.2002, c.33, s.1
1-Jul-03	$2.05	P.L.2003, c.115, s.1
1-Jul-04	$2.40	P.L.2004, c.67, s.1
15-Jul-06	$2.58	P.L.2006, c.37, s.1
1-Jul-09	$2.70	P.L.2009, c.70, s.1

* From June 1982 through June 1990, the cigarette tax included a surtax on the average wholesale price of cigarettes (P.L.1982, c.40, s.1). The surtax was equal to the sales and use tax rate and imposed in lieu of that tax. When the State began to levy the sales and use tax on cigarette sales on July 1, 1990, the surtax was discontinued (P.L.1990, c.39, s.15).

Summary of Studies Concerning Outmigration of New Jersey Taxpayers

In recent years, income tax policy discussions in New Jersey have included assertions about the relationship between the State's marginal tax rates on higher income individuals and the likelihood that such individuals will leave the State, taking their tax payments and other assets with them. Participants in that discussion often cite one or another study that has been done in the last five years, which they see as providing evidence about this issue. The five studies most often cited are, in chronological order:

> ***1) Where Have All the Dollars Gone? An Analysis of New Jersey Migration Patterns.*** James Hughes, Joseph Seneca, and Will Irving. Rutgers University, Edward J. Bloustein School of Planning and Public Policy, Issue Paper Number 26, October 2007.
>
> ***2) Trends in New Jersey Migration: Housing, Employment and Taxation.*** Cristobal Young, Charles Varner, and Douglas S. Massey. Princeton University, Woodrow Wilson School of Public and International Affairs, Policy Research Institute for the Region, September 2008.
>
> ***3) Migration of Wealth in New Jersey and the Impact on Wealth and Philanthropy.*** John Havens. Boston College, Center on Wealth and Philanthropy, January 2010.
>
> ***4) Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment.*** Cristobal Young and Charles Varner. National Tax Journal, June 2011, 64 (2), p. 255-284.
>
> ***5) The Effects of Marginal Tax Rates on Interstate Migration in the U.S.*** Andrew Lai, Roger Cohen, and Charles Steindel. New Jersey Department of the Treasury, Office of the Chief Economist/Office of Revenue and Economic Analysis, October 2011. A draft working paper.

These studies vary in scope and purpose - an overview of net migration from New Jersey and its impact on State tax revenue collections; an analysis of the movement of household wealth and charitable giving capacity; the migration patterns of different income brackets and social groups and how that may impact tax revenues; and an analysis of aggregate national state-to-state migration data and how that may apply to New Jersey. Below, the Office of Legislative Services summarizes the contents of each study, explaining the authors' goals, outlining the methodology and identifying the findings. The summaries do not attempt to evaluate the quality of the studies or the validity of the findings.

SUMMARIES OF FIVE RECENT STUDIES

1) Hughes, Seneca, and Irving (Rutgers University, October 2007):

This study, prepared by Rutgers University's Bloustein School of Planning and Public Policy, attempted to verify the accuracy of the belief that out-migration from New Jersey was accelerating.

Using Census Bureau data, the authors found that net US migration from New Jersey to other states increased from 23,759 people in 2002 to 72,547 people by 2006. Cumulatively, there were 231,565 more out-migrants than in-migrants from 2002 through 2006.

Similarly, using Internal Revenue Service data, the report found that the net out-flow of federal tax returns from New Jersey grew from 12,027 in 2001 to 28,900 in 2005. Moreover, the annual loss of net adjusted gross income (AGI) increased from $688.6 million in 2001 to $1.96 billion in 2005. The cumulative net income out-flow from New Jersey over this period grew to $7.9 billion by 2005, or 3.3% of total AGI. The average AGI per tax return for out-migrants from New Jersey was $65,319 in 2005. The average AGI for in-migrants to New Jersey was $64,425 in 2005.

The authors then estimated the impact on New Jersey State tax revenues from the net out-flow of $7.9 billion of AGI. In 2005, the estimated income tax revenue loss was $236.0 million and the estimated sales tax loss was $217.5 million.

The report also looked at where these out-migrants were going. New York was the number one destination state (and the top state from which migrants came to New Jersey). Seven of the top 10 destinations were Southern and Western states, with Florida the top Sun Belt destination, followed by California, North Carolina and Virginia (Figure 1).

The authors suggested that possible causes of increased out-migration included improved economic opportunities elsewhere, high housing costs in New Jersey, or the overall high cost of living in the State. But the report did not attempt a statistical analysis of the relationships between such possible causes and the increased net out-migration.

Figure 1:
NJ Migrant's Top Ten Destination States:

1. **New York**
2. **Florida**
3. **Pennsylvania**
4. **California**
5. **North Carolina**
6. **Virginia**
7. **Georgia**
8. **Texas**
9. **Maryland**

10 Massachusetts

Note: This study, and others using the IRS data, exclude the net international migration (that is, the difference between the number of people leaving New Jersey for another country and the number of people coming to New Jersey from another country). During the period of this study, New Jersey experienced a net in-migration from other countries.

2) Young, Varner, and Massey (Princeton University, September 2008):

This study, funded by Princeton University and the (former) New Jersey Office of Economic Growth, focused on the social and demographic characteristics of migration into and out of New Jersey, and estimated the potential impact on State income tax revenues. The authors used the U.S. Census Bureau's population and migration estimates and the Bureau's American Community Survey for the years 2000 through 2006. They also analyzed New Jersey State income tax data to assess the migration of households earning more than $500,000 annually.

The study found that, since at least 1991, New Jersey closely followed the general pattern of out-migration from the Northeast states into Southern and Western states. However, in the mid-2000's the ratio of out-migration for New Jersey accelerated faster than for the Northeast region. In particular, net out-migration occurred most heavily in counties closer to the New York metropolitan area, such as Hudson, Essex, Passaic, Union and Middlesex Counties. Southern New Jersey Counties, such as Ocean and Gloucester, experienced net in-migration.

Analysis of the American Community Survey data indicated that, between 2000 and 2006, 1,050,000 people migrated out of New Jersey and 900,000 people migrated into New Jersey, so that for every 100 out-migrants there were only 85.8 in-migrants, producing a net loss to the state of 14.2 people per 100 out-migrants. According to the authors, out-migration was most prevalent among lower-income individuals. As shown in Figure 2, the net loss for the lowest 10 percent of income earners was 35.9 people per 100 out-migrants and the net loss for the second lowest 10 percent was 42.8 people per 100 out-migrants. The net migration figures were negative for each of the bottom five income deciles, or people below the median income. Net migration turned positive in New Jersey for each of the next four deciles above the median income. For the top 10 percent of income earners, net migration turned negative again, with a rate of 13.3 people per 100 out-migrants.

Figure 2:
NJ Net Migration
By Income Decile
(Per 100 Out-Migrants)

Decile 1 (lowest 10%)	**-35.9**
Decile 2	**-42.8**
Decile 3	**-6.7**
Decile 4	**-9.6**
Decile 5	**-24.2**
Decile 6	**0.6**
Decile 7	**11.4**
Decile 8	**5.9**
Decile 9	**35.6**
Decile 10 (highest 10%)	**-13.3**

Net migration was also negative for education levels below a bachelor's degree, while there was a modest net in-flow of migrants with bachelor's or advanced degrees. People aged 65 or older showed a net rate of out-migration of 35.0 persons per 100 migrants, and people aged 45 to 64 showed a net out-migration of 30.2 persons, significantly greater than younger individuals.

This study found that New Jersey out-migrants moved to states with a lower cost-of-living, lower average property values, and lower increases in housing prices. Other factors such as the quality of schools, sales tax rates, income tax rates, and crime statistics had significantly lower correlations. The authors concluded that lower-income people left New Jersey at much greater rates than other people because the high cost-of-living drove them out.

When looking at State income tax data from 2000 through 2007, the authors found that the increased high-income tax rate of 2004 (a marginal tax rate of 8.97% on income greater than $500,000) had a relatively small impact on net out-migration. The number of net out-migrants among half-millionaires increased by about 350 taxpayers per year after the 2004 tax rate increase, but the total number of half-millionaires also increased significantly, from 26,000 in 2002 to 44,000 in 2006, an increase of 70 percent. The rate of net out-migration from the population of half-millionaires remained steady at just under 2.0 net out-migrants per 100 taxpayers.

The study estimated a potential loss of 67 half-millionaire households as a result of increased out-migration due to the tax rate increase of 2004, for an income tax revenue impact of $10.6 million per year. Also, the study estimated a maximum potential loss of in-migrants of 287 half-millionaire households, for an annual loss of $27.0 million per year. The loss of new in-migrants was significantly greater than the increase in out-migrants. The authors estimated the marginal tax rate increase of 2004 may have induced a net loss of 354 half-millionaire households and reduced State income tax revenue by $37.7 million per year, a small portion of the more than $1.0 billion raised annually by the tax rate increase.

3) Havens (Boston College, January 2010):

The Havens report, prepared for the Community Foundation of New Jersey and the New Jersey Chamber of Commerce, focused on the movement of household wealth into and out of New Jersey. The objective was to estimate New Jersey's household charitable giving capacity. It examined the migration of net-worth millionaires (households with assets, including primary residence, worth at least $1,000,000) during two aggregated periods - 1999 through 2003 and 2004 through 2008 – rather than distinct annual changes. The author did not study the movement of income, noting that income and wealth were different concepts, and did not study changes in tax rates or tax revenues. Federal Reserve data indicated that in 2007 about 9% of U.S. households had net worth of at least $1.0 million. In 2006, the average income for households with at least $1.0 million in net worth was $354,000, and the median income for such households was $159,000 (Figure 3). In other words, most of the households in the study did not have $500,000 or $1.0 million in annual income.

Figure 3:
Profile of Net Worth Millionaires
(2004-2008 Period):

US Average Income	**$354,000**
US Median Income	**$159,000**
NJ Net In/Out-Migration	**-11,144**
NJ Net Change Wealth	**-$70 billion**
NJ Net Change Charitable Capacity	**-$1.1 billion**

The study used data from the Federal Reserve's Survey of Consumer Finances, the Census Bureau's Current Population Survey, the Census Bureau's American Community Survey, and the Internal Revenue Service's Annual State-to-State Migration file. The report found that during the first period, between 1999 through 2003, there was a *net influx* of $98.0 billion of household wealth into New Jersey. Charitable capacity *increased* by $881 million. In contrast, during the second period, between 2004 through 2008, there was a *net outflow* of $70.0 billion of household wealth from New Jersey. Charitable capacity *declined* by $1.132 billion (Figure 3).

The report found that the decline in households, wealth, and charitable capacity was mostly due to a more rapid decline of in-migration of wealthy households rather than to an increase of out-migration. During the first four-year period, 45,108 net-worth millionaires migrated into the State, while 47,028 migrated out of the State, for a net loss of 1,920 wealthy households. During the second four-year period, 22,627 net-worth millionaires migrated into the State, while 33,771 migrated out of the State, for a net loss of 11,144 wealthy households. Between these two periods, both in-migration and out-migration declined, but the decline of in-migration (50%) exceeded the decline of out-migration (28%), a result consistent with a similar finding in the Young, Varner, and Massey report.

Finally, the author noted that the declines in the number of wealthy households and in charitable giving in New Jersey were proportionately greater than the declines in New York or Connecticut. That suggested "a factor or factors idiosyncratic to New Jersey" accelerated the net outflow of wealth compared to those neighboring states. However, the report did not attempt to identify or statistically analyze what those factors may have been. Moreover, since the report was prepared to estimate changes in charitable giving capacity, it did not attempt to measure changes in income or changes in State tax revenues.

4) Young and Varner (Stanford and Princeton Universities, June 2011):

In the Summer of 2011, Young and Varner published their second analysis. This study focused on the impact of New Jersey's 2004 marginal tax rate increase of 2.6 percentage points (from 6.37% to 8.97%) on income over $500,000. The authors called New Jersey's 2004 tax increase the largest of a national trend they referred to as the "millionaire tax" movement, in which States shifted from traditionally flat State income tax systems to more progressive rate structures.

The authors called their analysis a "natural experiment" and an "ideal case study," in that New Jersey's policy change was significant both for the State and compared to other states at that time. In contrast, the second largest change in the top marginal rate in the nation around that time was Connecticut's smaller 0.5 percentage point change (from 4.5% to 5.0% in 2004). New Jersey also had a unique location in the economically vibrant New York metropolitan area near three other states, New York, Connecticut, and Pennsylvania, allowing high income earners the opportunity to migrate a relatively short distance and change their marginal tax rates significantly, while still remaining near Manhattan.

Figure 4:
NJ "Half-Millionaires"
Net Out-Migration
2000 to 2006:

Year	Households	Per 1,000
2000	239	5.8
2001	372	10.4
2002	342	10.5
2003	383	11.4
2004	577	14.7
2005	614	14.4
2006	686	14.0
Average	459	11.7

The study used the New Jersey Division of Taxation's gross income tax records for the years 2000 to 2007. Analysis of part-year resident returns allowed for the identification of in- and out-migrants annually. The authors found that New Jersey averaged a net out-migration of 459 "half-millionaires" per year from 2000 to 2006 (Figure 4). However, the authors noted that the stock of half-millionaires, from the economic low in 2003, increased 43% by 2006, indicating that New Jersey was a "*producer of millionaires*" rather than an importer. Income dynamics were the primary factor in determining the number of high-income taxpayers in the State.

Nevertheless, the authors found an increase in net migration of half-millionaires after the 2004 tax rate increase. Between 2000 and 2003, net out-migration averaged 9.3 households per 1,000 half-millionaires, while after the 2004 rate increase net out-migration increased to 14.5 per 1,000 half-millionaire households (Figure 4), for a total increased loss of 5.2 households per 1,000.

The study then looked at those taxpayers earning between $200,000 and $500,000 per year, as a control group of high-income households not directly impacted by the 2004 tax rate change. The authors found that the migration rates for those below $500,000 income increased by approximately the same amount as for those above $500,000, suggesting that the policy effect for the tax rate change was close to zero.

Running a series of statistical regressions on the tax return data for those with income below $500,000 and above $500,000, the study found that baseline migration rates tended to be higher following the tax policy change for retirement-age people and for households who received most of their income from investments. These groups had substantial overlap. The authors hypothesized that retirees and those with significant investment income were less tied to location. In contrast, wage earners, married people, households with children, and business owners had lower migration rates. The authors suggested this was so because such people faced significant impediments to moving tied to employment, schools, and their business locations.

The authors discussed other possible explanations for the increased migration of half-millionaire households. Housing prices in New Jersey surged 47% from the third quarter of 2003 to the first quarter of 2006, much higher than for the U.S. as a whole. Housing booms make it easier and more attractive to sell a home, encouraging moves. The authors also noted that since the housing market collapse in 2007 and 2008, migration rates throughout the nation fell to a 60-year low, according to the Census Bureau. The authors did not believe property taxes had much impact on the migration of very high income households, since property taxes accounted for only about 2% of income for those among the top 1% of earners in New Jersey.

Finally, the authors estimated the revenue yield from the 2004 tax rate increase. The average annual revenue gain was $900 million, rising from an estimated $740 million in 2004 to $1.08 billion in 2006. They also estimated the tax rate increase led to a loss of 70 half-millionaires and $195 million in total income per year, yielding an annual net loss in gross income tax revenue of $16.4 million for 2007.

5) Lai, Cohen, and Steindel (New Jersey Department of the Treasury, October 2011):

In the Fall of 2011 came an analysis from the New Jersey Department of the Treasury's Office of the Chief Economist and the Office of Revenue and Economic Analysis. This report was a preliminary paper released prior to full completion at a State Economic Forum in October 2011. The report analyzed national migration data and state marginal income tax rates to estimate the tax revenue impact of New Jersey's 2004 marginal tax rate increase of 2.6 percentage points (from 6.37% to 8.97% on income over $500,000).

The study integrated data from the Internal Revenue Service's historical data (from 1992 to 2008) on annual cross-state movement of taxpayers and income with the National Bureau of Economic Research's series on state marginal tax rates. The national data suggested that migrants tended to favor low tax states, as five of the top ten destination states had marginal tax rates in the lowest quartile of U.S. states, and two of those states, Texas and Florida, had no income tax.

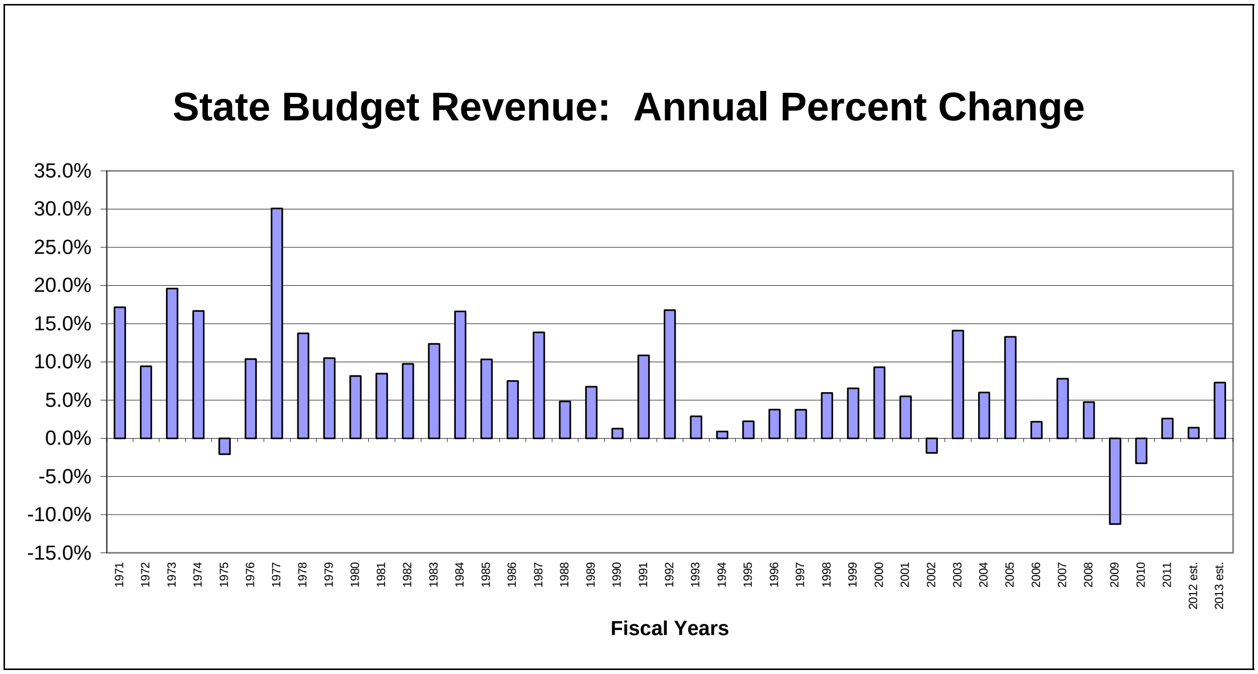
Other factors also influenced migration patterns. People tended to migrate to states with large populations, as the top four destination states are also the four most populous states: Florida, California, Texas, and New York. The Census Bureau's Current Population Survey found that, for both the nation as a whole and for New Jersey, more than half of migrants cited housing-related issues as their primary reason for moving. The statistical regression models used by this report indicated that many factors were correlated with migration, such as unemployment, housing prices, distance to the destination state, population, and differences in tax rates.

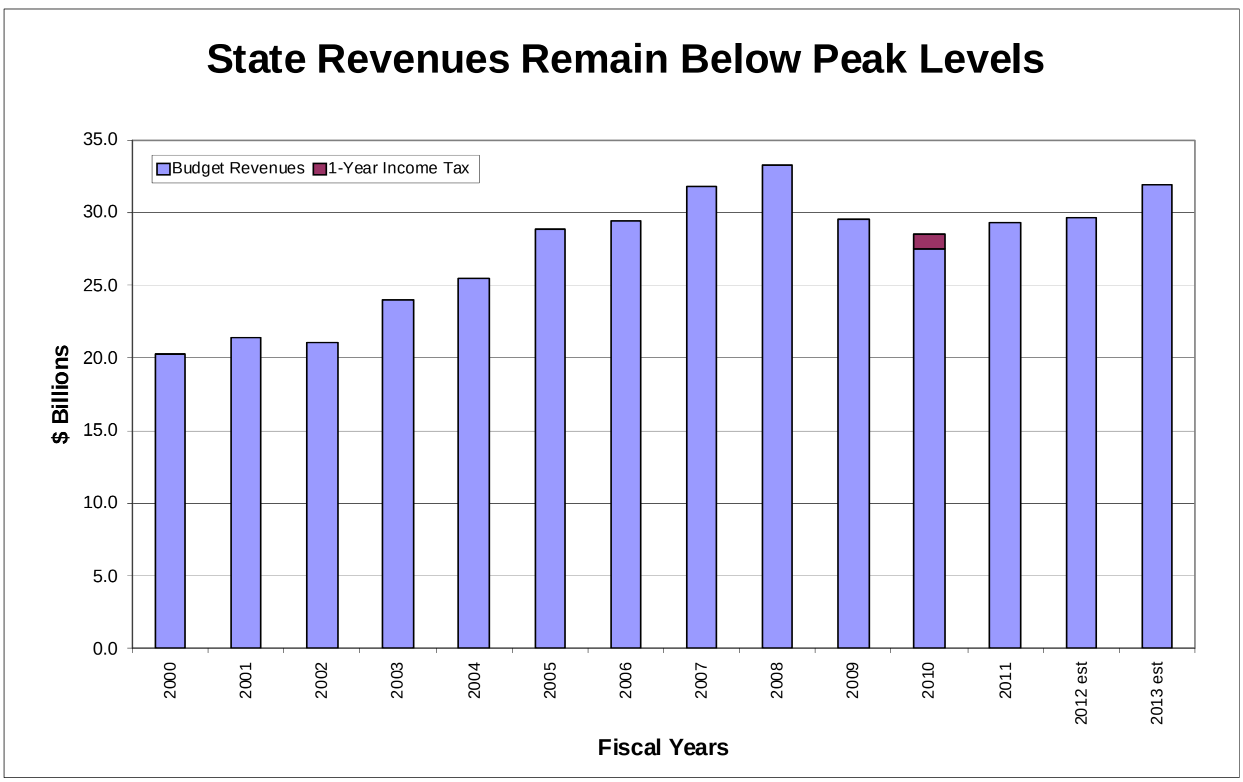
The authors found that differences in marginal income tax rates had a small, but significant effect on net out-migration. Applying the regression results to a hypothetical one percentage point increase in all New Jersey marginal income tax rates (a $2.5 billion tax revenue increase), the study calculated an increase in net out-migration of all taxpayers by about 4,200. This would result in a loss of $530 million adjusted gross income per year, and a decline of about $29 million of income tax revenue per year.

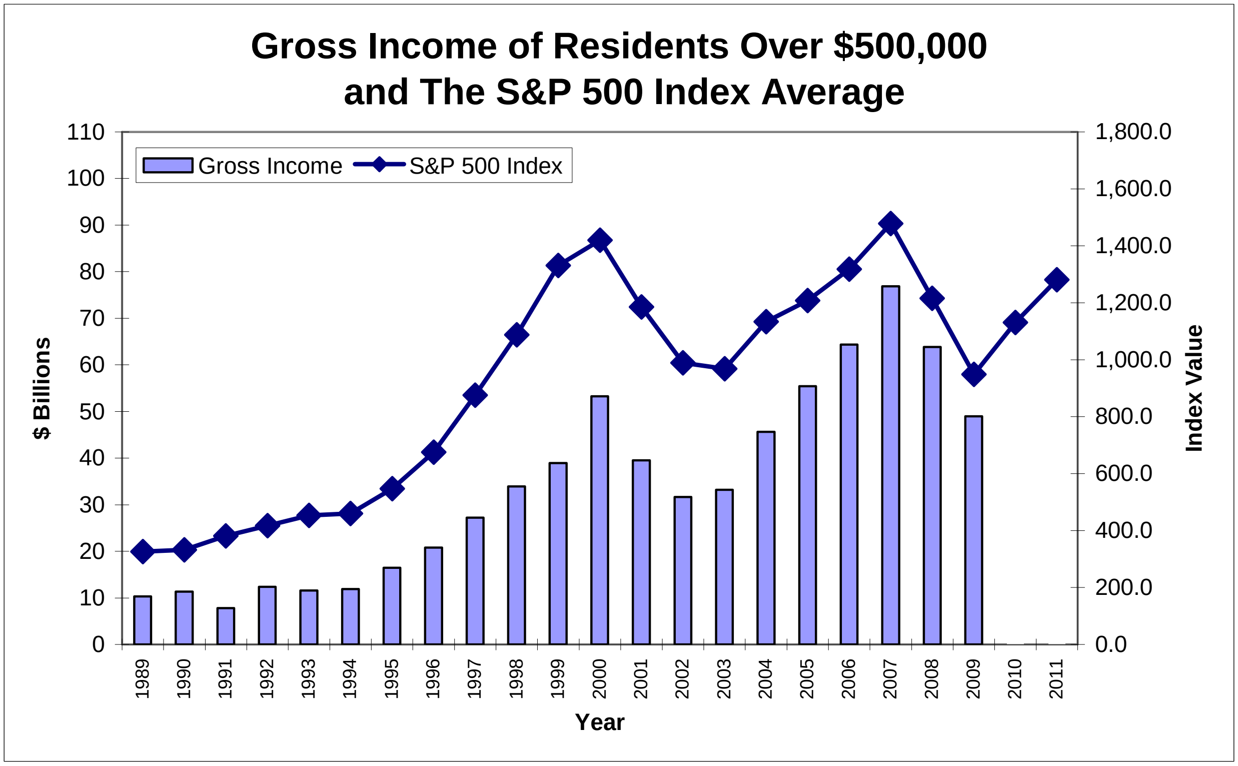
Further applying these statistical relationships to the various permanent and temporary income tax changes since 2003, including the impact of bracket creep, the authors found the impact projected through 2011 to be a net additional out-migration of 25,000 taxpayers across all income levels, the loss of about $3 billion in adjusted gross income, and an annual loss of some $150 million in State income tax revenues. This loss compared to approximately $1.0 billion of increased gross income tax revenues from the 2004 marginal tax rate increase.

Since the study used aggregate migration and income data for all taxpayers, and average marginal tax rates rather than the actual tax rates by income bracket, the authors noted that the results cannot distinguish between the reactions of taxpayers at different income levels or among various demographic groups. The statistical estimates included the impact of all additional taxpayers who out-migrated following the 2004 tax changes, including the out-migration of those taxpayers not directly impacted by the rate changes. The authors suggested that additional micro-level data would permit more detailed analysis, but that the study's results did suggest a meaningful correlation between increased state income taxes and increased net out-migration.

Selected Historical Revenue Charts






Gross Income of Residents Over $500,000
and The S&P 500 Index Average
Gross Income
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