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Background Report

New Jersey Tax Revenue Trends and the Growing Importance of the Gross Income Tax

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INTRODUCTION

The budget crisis of Fiscal Year 2002 should not be viewed in isolation. Rather, the sudden decline in State tax revenues, primarily the gross income tax, can be seen as the culmination of a series of economic developments interacting with several decades of tax policy changes. Since the 1960's, New Jersey has established the sales tax (1966) and the gross income tax (1976), and enacted significant subsequent amendments to those taxes. The State has made numerous other changes to tax policy, such as several reforms of public utility taxes, new revenue sources such as casinos, the State lottery, and the petroleum products tax, and the repeal of other taxes, such as the parimutuel tax and the business personal property tax. However, the sales tax and the gross income tax now dominate New Jersey's State revenue landscape in that, combined, they contribute nearly two-thirds of total State budgeted revenues. Moreover, in the 1990's the income tax became the State's largest tax revenue producer, surpassing the sales tax. In the years leading up to the Fiscal Year 2002 revenue decline, the income tax alone accounted for nearly two-thirds of State revenue *growth*. While the sales tax has been a steady, reliable source of revenue growth, the income tax has been the unpredictable "wild card" that either generates large revenue windfalls or creates shortfalls that precipitate a budget crisis.

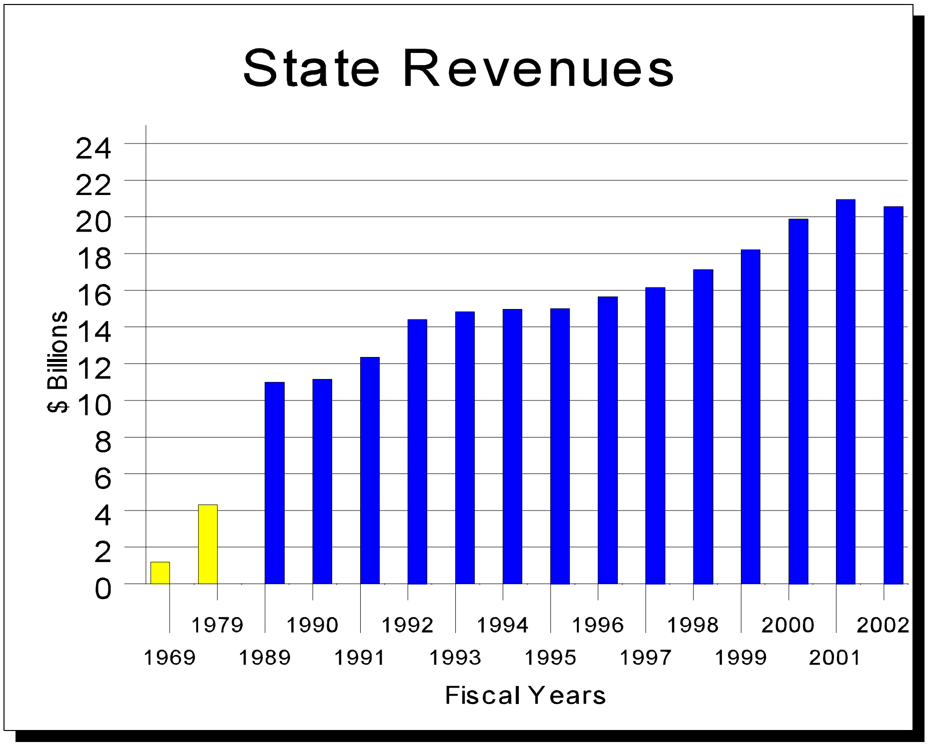
This Background Report reviews the general revenue patterns during the last several decades and then focusses on New Jersey's most crucial State tax revenue -- the gross income tax.

AN OVERVIEW OF TAX REVENUE TRENDS

During the last 33 years, total State revenues have increased more than 1,700 percent. In contrast, New Jersey's population has increased by 19 percent and the consumer price index (CPI) has increased by 483 percent over the same period. In FY 1969 the State collected $1.2 billion; collections grew to $21.0 billion by FY 2001 before slipping to $20.6 billion in FY 2002. Figure 1, on the following page, displays State revenues for FY 1969, FY 1979, and for FY 1989 through FY 2002.

State revenues more than doubled during the 1970's and again during the 1980's, but the growth rate slowed in the 1990's. The most rapid recent revenue growth occurred in at the beginning and at the end of the decade. FY 1991 and FY 1992 revenues increased by 11 percent and 17 percent respectively due to increases in sales tax and gross income tax rates. Fiscal year 1993's slow revenue growth is attributable to the rollback of the sales tax rate from seven to six percent. Fiscal year 1994's weak growth is related to the slowly recovering economy. Fiscal years 1995, 1996, and 1997 were affected by the three year phased-in reduction in gross income tax rates. As the State recovery began to accelerate in the last years of the decade, State revenue growth accelerated as well, rising by between five percent and nine percent from fiscal years 1998 to 2001, about $1 billion each year. Lastly, the late-1990's revenue boom ended dramatically in FY 2002, as revenues fell by nearly two percent, the first annual decline in at least 20 years.

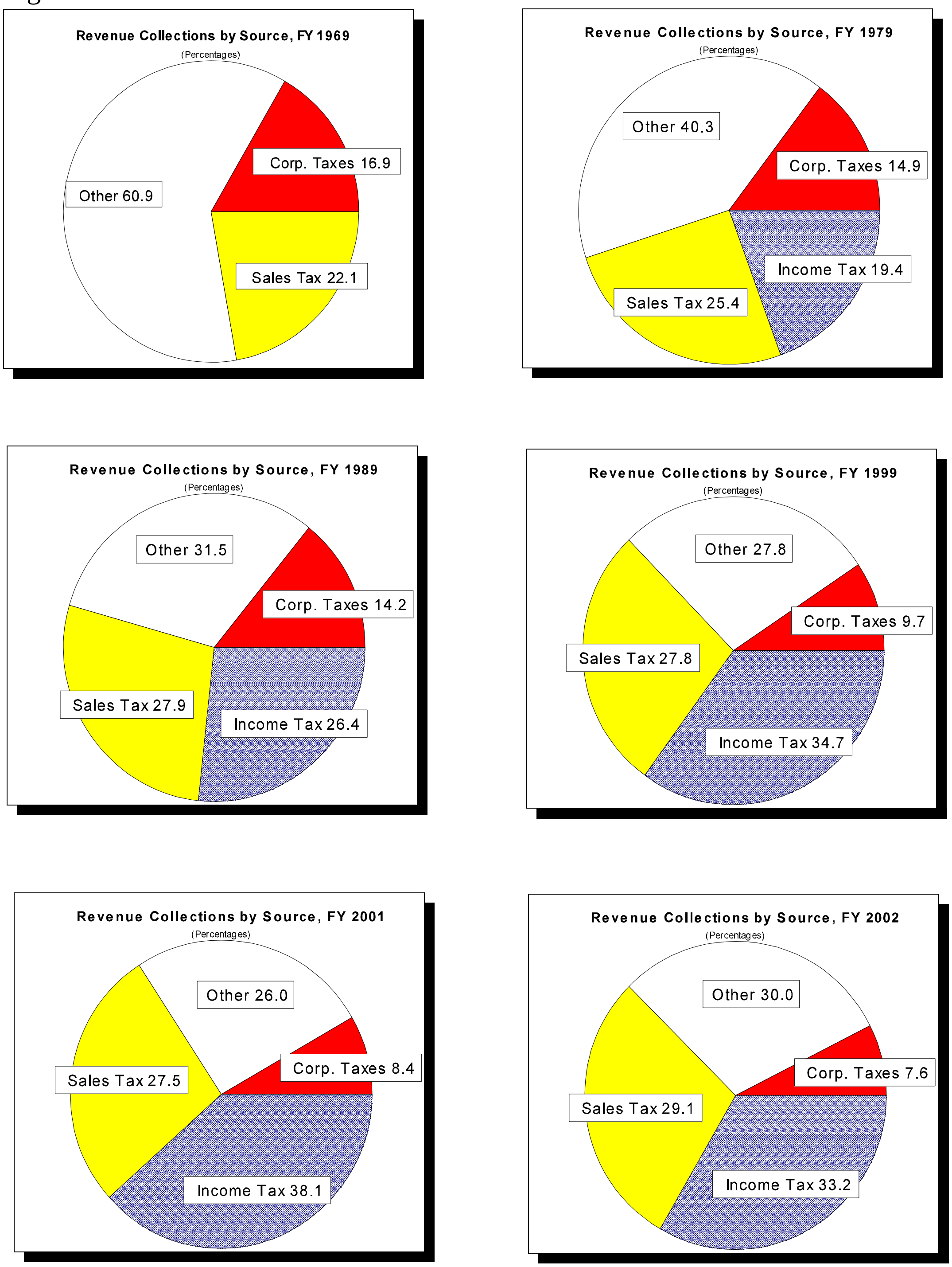
Figure 1



The composition of State revenues has changed significantly as well during the period. The six charts in Figure 2 on the following page compare major categories of State revenues in 10 year intervals between FY 1969 and FY 1999, plus the two most recently completed years of FY 2001 and FY 2002. In FY 1969 the sales tax accounted for about 22 percent and corporation taxes accounted for nearly 17 percent of total revenues. Sixty one percent of revenues came from other sources. There was no personal income tax at that time.

By FY 1999 a very different pattern is apparent. The sales tax had grown to about 28 percent of the total while corporation taxes had declined to less than 10 percent and all other revenues had dropped to just under 30 percent. However, the gross income tax, which first took effect in FY 1977, accounted for 35 percent of revenue collections as the 1990's came to an end.

Figure 2


Revenue Collections by Source, FY 1969
(Percentages)
Corp. Taxes 16.9
Other 60.9
Sales Tax 22.1
Revenue Collections by Source, FY 1979
(Percentages)
Other 40.3
Corp. Taxes 14.9
Income Tax 19.4
Sales Tax 25.4
Revenue Collections by Source, FY 1989
(Percentages)
Other 31.5
Corp. Taxes 14.2
Sales Tax 27.9
Income Tax 26.4
Revenue Collections by Source, FY 1999
(Percentages)
Other 27.8
Corp. Taxes 9.7
Sales Tax 27.8
Income Tax 34.7
Revenue Collections by Source, FY 2001
(Percentages)
Other 26.0
Corp. Taxes 8.4
Sales Tax 27.5
Income Tax 38.1
Revenue Collections by Source, FY 2002
(Percentages)
Other 30.0
Corp. Taxes 7.6
Sales Tax 29.1
Income Tax 33.2

The gross income tax reached a peak in FY 2001, accounting for 38 percent of budgeted revenues. Combined, the income tax and the sales tax accounted for fully two-thirds of state budgeted revenues. This peak was a function of the addition of several higher marginal tax rate brackets for upper-income taxpayers during the 1990's, economic growth and in particular, the remarkable stock market boom. As will be discussed in greater detail later in this paper, when the stock market boom collapsed, income tax revenues fell by over $1 billion, dropping suddenly back to 33 percent of budgeted revenues in FY 2002. Corporation tax revenues continued their historical pattern of relative decline, slipping to less than eight percent of total revenues by FY 2002.

In addition to the gross income tax, sales tax, and corporation taxes, there are dozens of revenue sources bundled together here in the "Other" category. In FY 1969, more than three of every five dollars of State revenue came from these "Other" sources, with motor fuels taxes and motor vehicle fees together accounting for about 26 percentage points. Nearly 10 percent of State revenues were derived from cigarette taxes and about 3 percent from gaming revenues (the parimutuel tax, as casino and lottery revenues did not yet exist).

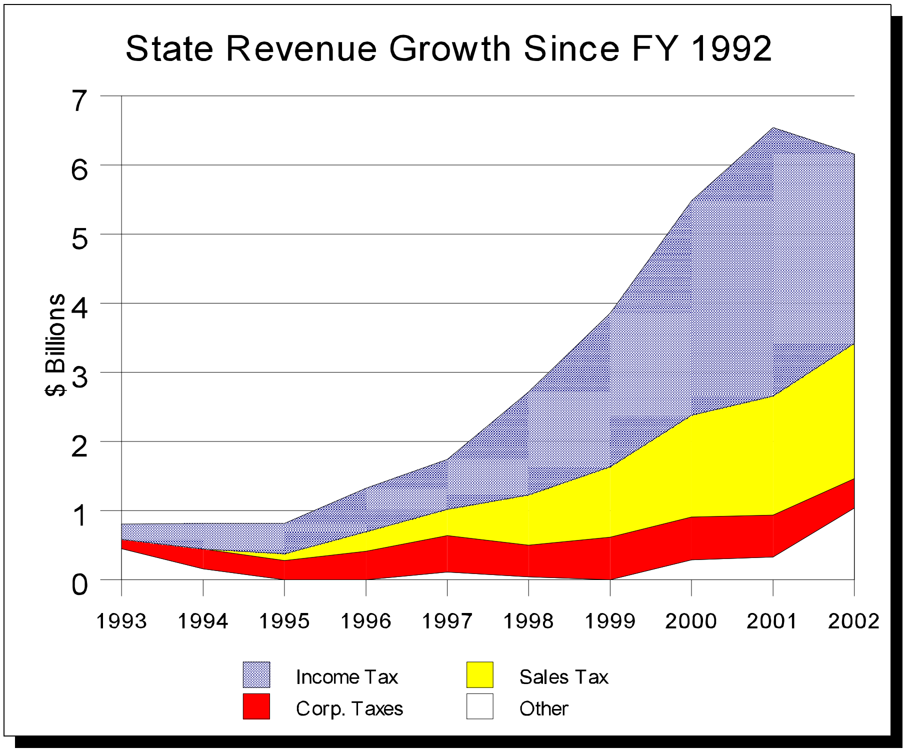
By FY 1999, the portion of State revenues from Other sources had fallen to about one of every four dollars of State revenue, with motor fuels taxes and motor vehicle fees together accounting for about 5 percentage points, cigarette taxes just over 1 percent, and gaming revenues about 6 percent (from the State lottery and casino funds -- the parimutuel tax was repealed). The increase in the portion of revenues from Other sources to 30 percent in FY 2002 is due in part to the sudden decline the income tax and to the use by the State of certain surplus funds from various accounts to help offset revenue shortfalls elsewhere.

RECENT REVENUE GROWTH IS CONCENTRATED

Most of the State's revenue growth is concentrated in the income tax and the sales tax. Figure 3 on the following page, displays State revenue growth for the past 10 years. Between FY 1992 and FY 2002, total annual State revenues grew by $6.2 billion. The income tax, the largest component of this revenue growth, increased by $2.7 billion and the sales tax was the next largest component of growth, increasing by $2.0 billion. Corporation tax revenues grew by about $425 million since FY 1992 and Other State revenues increased by $1.0 billion.

Combined, the State's two largest revenues have generated $4.7 billion new dollars since FY 1992, three quarters of New Jersey revenue growth during the last decade. This dependence on the income tax and the sales tax is most pronounced prior to FY 2002, when income tax revenues plunged. Between FY 1992 and FY 2001 these two tax revenues account for *nearly all* of the State's revenue growth. The income tax alone accounted for 60 percent of State revenue growth during this nine year period. That dependence left the State particularly vulnerable when income tax revenues tumbled in FY 2002.

Figure 3



THE PRIMACY OF THE GROSS INCOME TAX

The gross income tax (GIT) is New Jersey's most important State tax revenue. It not only accounts for a third of total budgeted revenues, but the income tax accounted for nearly two-thirds of all revenue growth in the 1990's. This tax's importance is manifest when revenues are rising, but perhaps more crucial when trying to balance a budget as revenues are falling. According to figures in the *New Jersey Comprehensive Annual Financial Report for FY 2002*, three-quarters of the revenue shortfall from the certified budget anticipation was due to income tax revenue. The original budget anticipation of $8.5 billion fell short by $1.7 billion. The remainder of this Background Paper focusses on the gross income tax.

THE CHANGING INCOME TAX RATE STRUCTURE

New Jersey enacted its income tax in July 1976 (P.L.1976, c.47). The tax began with a simple two-rate structure consisting of a 2.0 percent rate on income below $20,000 and a 2.5 percent rate on income above $20,000. Beginning in 1983 an additional rate of 3.5 percent for incomes over $50,000 took effect (P.L.1982, c.229). The next significant changes to the GIT rate structure occurred during the 1990's. Figures 4 and 5 display those changes for joint and single filers.

Figure 4

Taxpayers Filing a Joint Return

Marginal Tax Bracket (Taxable Income)	Marginal Tax Rates By Taxable Year					Percent Reduction Between 1993 & 1996
	1983 to 1991	1991 to 1993	1994	1995	1996	
less than $20,000	2.000%	2.000%	1.900%	1.700%	1.400%	30%
$20,000 to $50,000	2.500%	2.500%	2.375%	2.125%	1.750%	30%
$50,000 to $70,000	3.500%	3.500%	3.325%	2.975%	2.450%	30%
$70,000 to $80,000	3.500%	5.000%	4.750%	4.250%	3.500%	30%
$80,000 to $150,000	3.500%	6.500%	6.175%	6.013%	5.525%	15%
over $150,000	3.500%	7.000%	6.650%	6.580%	6.370%	9%

Figure 5

Taxpayers Filing a Single Return

Marginal Tax Bracket (Taxable Income)	Marginal Tax Rates By Taxable Year					Percent Reduction Between 1993 & 1996
	1983 to 1991	1991 to 1993	1994	1995	1996	
less than $20,000	2.000%	2.000%	1.900%	1.700%	1.400%	30%
$20,000 to $35,000	2.500%	2.500%	2.375%	2.125%	1.750%	30%
$35,000 to $40,000	2.500%	5.000%	4.750%	4.250%	3.500%	30%
$40,000 to $50,000	2.500%	6.500%	6.175%	6.013%	5.525%	15%
$50,000 to $75,000	3.500%	6.500%	6.175%	6.013%	5.525%	15%
over $75,000	3.500%	7.000%	6.650%	6.580%	6.370%	9%

Governor James Florio and the Legislature enacted a major restructuring of the GIT (P.L.1990, c.61) as part of a general reform of public school education funding (the Quality Education Act, P.L.1990, c.52) and statewide homeowner and tenant property tax rebates (the Homestead Tax Rebate, P.L.1990, c.61). Effective January 1, 1991, the new rate structure added several additional marginal tax rate brackets with rates rising to 7.0 percent on incomes over $150,000 for married joint filers and over $75,000 for single or married filing separate taxpayers[1]. The new, higher marginal rates affected approximately the top 20 percent of taxpayers.

The tax rates established by the 1990 enactments were in place for only two tax years. Beginning in 1994, Governor Christine Whitman and the Legislature enacted a series of reductions in these marginal tax rates. While maintaining the same tax bracket structure, these enactments[2] phased in a reduction in most marginal tax rates by 30 percent and the top rates by 15 percent and nine percent, as displayed in Figures 4 and 5. Approximately four of five GIT taxpayers saw a 30 percent tax cut, while the top fifth experienced lesser percentage reductions.

In addition to the significant changes to the marginal tax rate structure during the 1990's, two other notable changes to the gross income tax were enacted in the decade. Beginning in 1997, a new property tax deduction and credit was established (P.L. 1996, c.60) and phased-in over several years. The maximum property tax deduction was capped at $10,000 and taxpayers could choose from either the deduction or the minimum $50 tax credit, whichever provided the greater tax savings. Then at the very end of the decade, Governor Whitman and the Legislature enacted an additional increase in the minimum income tax filing threshold (P.L. 1999, c.260), which was also phased-in beginning with tax year 1999. Ultimately, tens of thousands of low-income taxpayers would have their liability eliminated[3].

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[1] In addition, the legislation added the head-of-household and surviving spouse filing statuses, increased the dependent exemption from $1,000 to $1,500, and repealed the property tax deduction and credit and the tenant credit in favor of the Homestead Rebate.

[2] P.L.1994, c.2, cut all rates by five percent in 1994. P.L.1994, c.69, cut most rates by 10 percent in 1995. P.L.1995, c.165, cut most rates by 15 percent in 1996 to complete the three year phase-in. In addition, P.L.1994, c.8, increased the minimum filing threshold from $3,000 to $7,500 for joint filers ($3,750 for single filers).

[3] The minimum filing threshold is $20,000 for married, joint filers and $10,000 for single filers or married taxpayers filing separate returns.

RECENT INCOME TAX REVENUE GROWTH

Despite the long recession (1989-92) at the beginning of the decade and the income tax rate reductions of 1994 through 1996, income tax revenue grew in nominal terms every year throughout the 1990's and at the start of the next decade. The bars in Figure 6 display gross income tax revenue collections by fiscal year from FY 1988 to FY 2002. The tax collected $2.91 billion in FY 1989 and increased to $7.99 billion by FY 2001, an increase of about 175 percent overall. However, in FY 2002, income tax revenues dropped precipitously, down over $1.1 billion from the prior year, or about 14 percent.

Figure 6

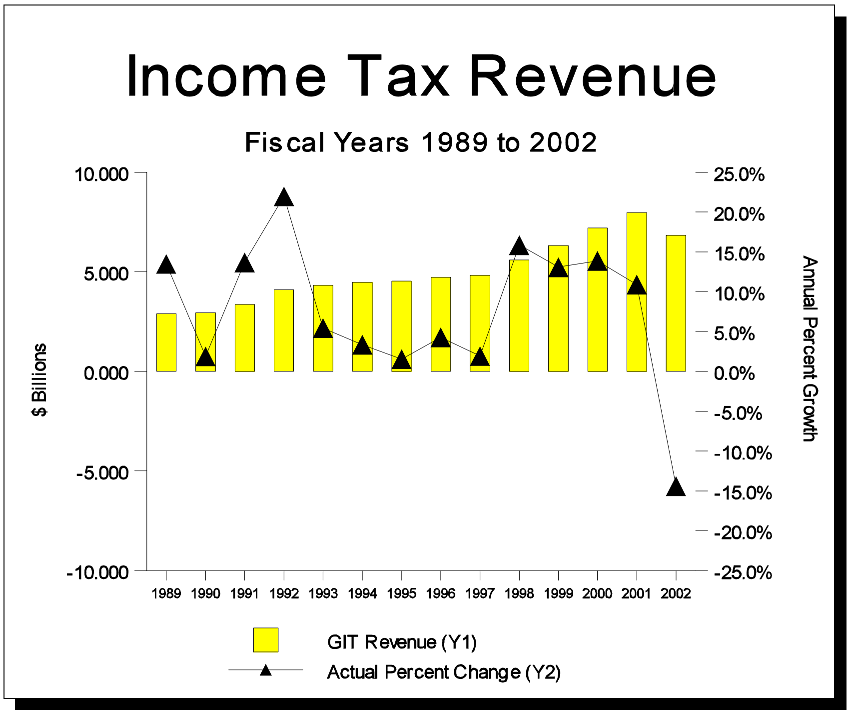


Figure 6 also displays the annual growth rate of GIT revenue (shown with triangles connected by a line). Collections jumped $740 million, or 22.0 percent, in FY 1992 following the 1991 tax rate increases. Then between fiscal years 1995 to 1997 revenues grew much more slowly while tax rates were reduced. Actual collections grew $355 million *combined* over three years, or about 7.9 percent overall. Annual growth never exceeded 5.0 percent.

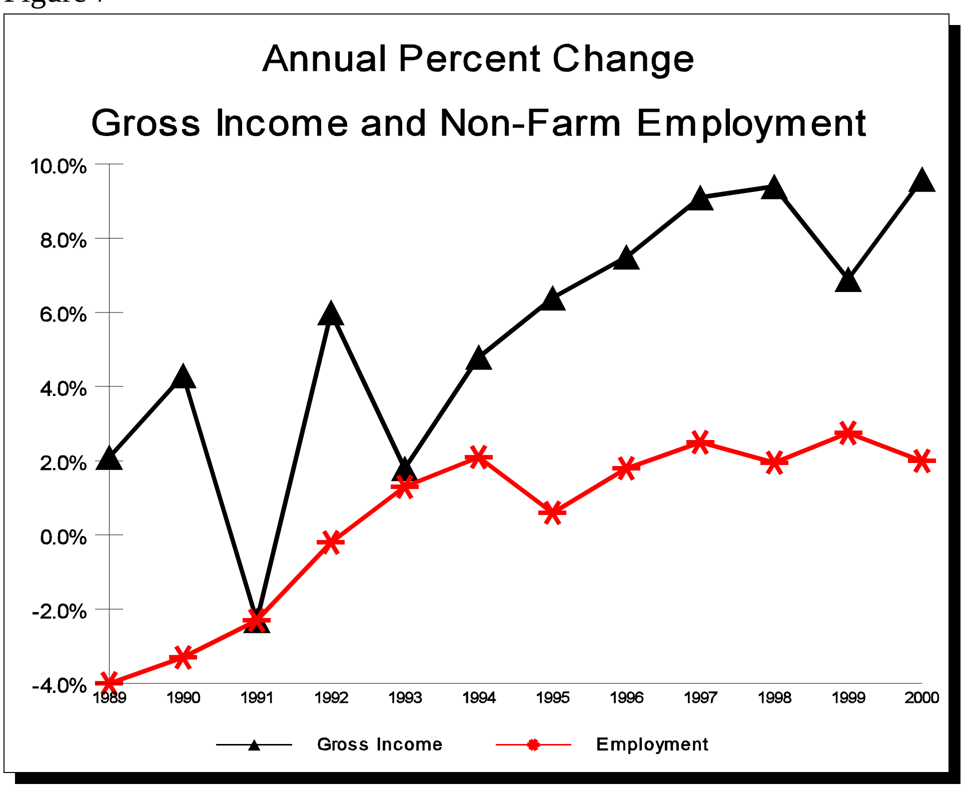
The phased-in tax rate reductions in the mid-1990's muted the effects the State's strong economic recovery would have had on growth in tax revenue collections. However, once the rate reduction period was over, the economic boom pushed income tax revenues upward. Between fiscal years 1998 and 2001 the income tax grew $2.4 billion, or 43 percent overall. Annual growth exceeded 10 percent each year. As was noted before, the gross income tax accounted for nearly two-thirds of all budgeted revenue growth during this period, magnifying the importance of the State's largest tax revenue source. That reliance on income tax revenue growth precipitated a budget crisis in FY 2002, when income tax revenues suddenly fell.

SOURCES OF INCOME TAX REVENUE GROWTH

What factors drove income tax revenue growth? Employment growth can explain some of the pattern. Figure 7 shows the percentage growth in the number of New Jerseyans employed between 1989 and 2000. The declining employment growth during the 1989-92 recession and the subsequent recovery are clearly visible in the chart. The employment decline and growth matches closely with the slowdown and acceleration in the growth rate in GIT revenues.

However, growth in employment only explains a portion of the strong revenue gains occurring in the last half of the 1990's. Even at its peak, employment grew by less than three percent each year, well below the recent strong growth rate in income tax revenue. Figure 7 also shows that New Jersey gross income increased by more than four percent per year during most of the 1990's and by nearly 10 percent per year since 1997. The rapid growth of income tax revenues has more to do with the ***level*** and the ***types*** of income earned by New Jerseyans than with the number of people employed in the State.

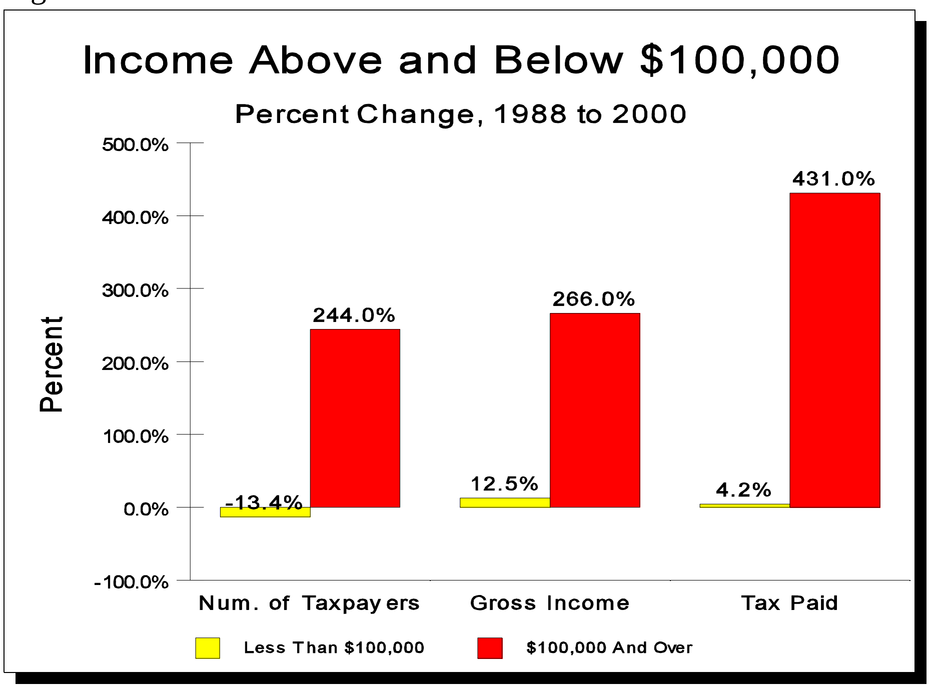
Figure 7



CHANGES IN INCOME DISTRIBUTION

Recent strong growth in GIT revenues is a result of the ***combined effect*** of rapid income growth among upper income taxpayers and the graduated marginal tax rate system. Figure 8 shows the percent change of certain data between 1988 and 2000 for taxpayers with less than $100,000 gross income and taxpayers with more than $100,000 gross income. Below $100,000 the number of taxpayers has declined, the amount of income has increased slightly, and the amount of tax paid has been virtually flat for over a decade. Above $100,000 the number of taxpayers has grown by 244 percent, the amount of income has grown by 266 percent and the amount of tax paid has grown by 431 percent. Income has increased significantly among upper income levels. Moreover, since taxpayers at these higher income levels pay at higher marginal tax rates enacted during the 1990's, the tax collected has grown even more rapidly.

Figure 8



TAX REVENUE DEPENDS INCREASINGLY ON HIGHER INCOME TAXPAYERS

Just as the income tax has become critical for the State's budget, higher income taxpayers have become critical for the State's income tax. In 1988, taxpayers with income below $50,000 paid 33.7 percent of charged tax, while taxpayers with income over $500,000 paid 15 percent of charged tax. By 2000, these percentages were reversed. The lower income group paid 7.1 percent of charged tax, while the higher income group paid 37.8 percent of charged tax. Similar shifts have occurred between the middle income brackets. Overall, in 2000 the 15 percent of taxpayers earning over $100,000 contributed 78 percent of total income tax liability[4].

[4] Refer to the tables in the appendix of this report for more detailed tax data.

Part of this shift in the distribution of tax liability is a result of changing marginal tax rates and part is a result of economic change and income growth. The marginal tax rate for the highest income levels was increased from 3.5 percent in 1988, to 7.0 percent in 1990, and was reduced to 6.37 percent in 1997 (see Figures 4 and 5 for detail). The highest income-earning taxpayers are paying more tax in large part because of higher tax rates. The lower (and middle) income groups have seen a reduction in marginal tax rates of 30 percent since the early 1990's, reducing their share of the total tax liability.

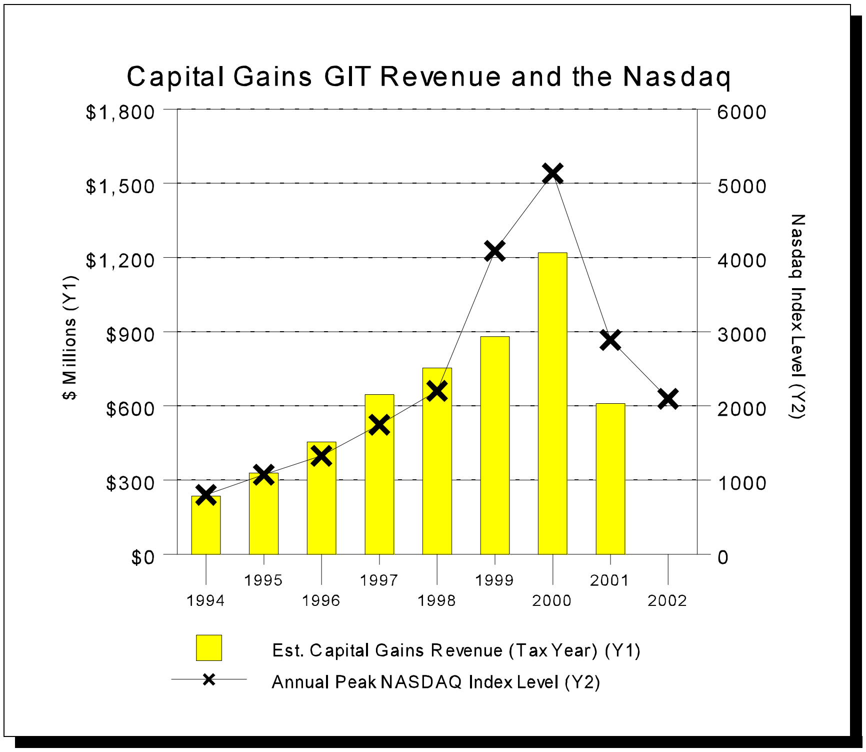
The shift of taxpayers can also be explained by the movement of taxpayers out of or into different tax brackets. The minimum filing threshold was increased in 1994 and again at the end of the decade, removing several hundred thousand taxpayers from the tax rolls and reducing the number of filers at the lower income levels. In 1988 the lower income group consisted of 2,886,971 tax filers accounting for 80.9 percent of all tax returns, but in 2000 they consisted of 2,177,733 tax filers accounting for only 62.6 percent of tax returns. In addition, as income rises, taxpayers move into higher tax brackets. When incomes rise because of inflation, this phenomenon is referred to as "bracket creep." Incomes also rise as employees receive raises, as people move into higher paid jobs, or when they receive significant increases in non-wage income. Growth in non-wage income is the key to understanding the recent pattern of income tax revenue growth.

NON-WAGE INCOME: THE STOCK MARKET AND CAPITAL GAINS

The income tax's strong growth between FY 1997 and FY 2001 is closely tied to the remarkable stock market boom in the second half of 1990's. As the Nasdaq index rushed relentlessly past 5,000 points, as the Dow Jones Industrial Average surged past 11,000, as market transactions volume soared, individual income from capital gains, stock options and bonuses also soared. Capital gains, for example, increased by about 40 percent per year on average between tax year 1994 and tax year 2000 (the latest year with completed and published data). Figure 9, on the following page, displays estimated capital gains income tax revenue and the ***peak*** values of the Nasdaq since 1994. Estimated capital gains income tax revenue grew from about $235 million in tax year 1994 to at least $1.2 billion at its peak in tax year 2000. An estimated 50 percent decline in tax year 2001 would represent a $600 million reduction in tax revenues from capital gains income alone.

The causal link between stocks and capital gains is more complex than Figure 9 suggests, but the similar growth pattern between the Nasdaq and capital gains tax revenue on the way up has been followed by a similar pattern on the way down. While stock values began to plunge from their peak early in the year 2000, tax revenues continued to soar well into FY 2001 because the huge volume of equity sales included a large "overhang" of unrealized gains from the boom years that investors sought to cash in before stock values fell too far. But the relentless stock market declines have pushed certain kinds of income sharply downward, which had a significant impact on FY 2002.

Figure 9



The stock market decline that began in the year 2000 continued in 2001. Accordingly, the remaining "overhang" of unrealized gains was significantly reduced from the levels at the beginning of the previous year. For example, during most of 2001, the Nasdaq had an index value consistently below 2,000, more than 60 percent below its peak level the previous year. While New Jersey specific income data on the value of stock market gains are not available, some national data provide an indication of the massive impact the recent market slide could have. According to the Investment Company Institute,[5] total capital gain distributions paid by mutual funds fell from $326 billion in tax year 2000, to $72 billion in 2001 -- a 78 percent decline (Figure 10). ***Taxable*** household capital gain distributions fell from $99 billion in 2000 to $16 billion in 2001 -- an 84 percent decline. Moreover, the value of ***unrealized gains*** in mutual fund portfolios has plummeted from $1,472 billion in 1999 to $31 billion in 2001, a 98 percent decline over 2 years (Figure 11). This mutual fund data suggests the level of capital gains reported by taxpayers should drop significantly and could take years to recover to prior levels.

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[5] Investment Company Institute, *Mutual Fund Industry Developments in 2001*, Perspective, Vol. 8, No. 1, February 2002.

Figure 10

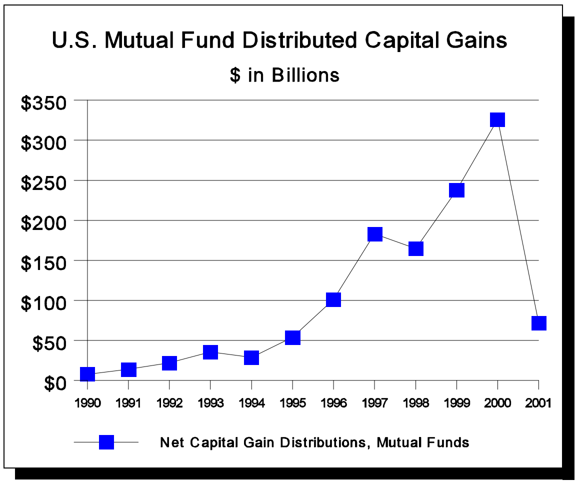
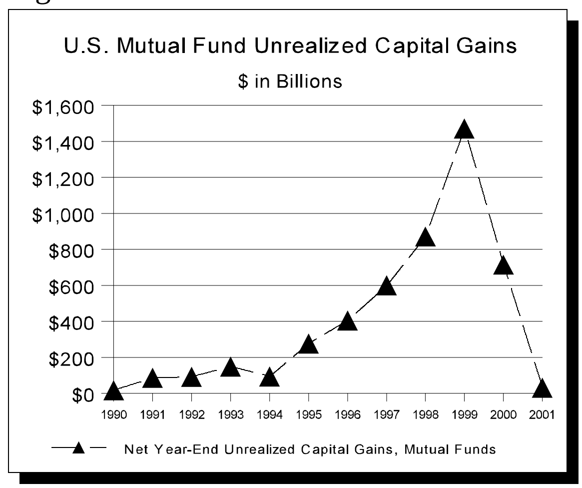


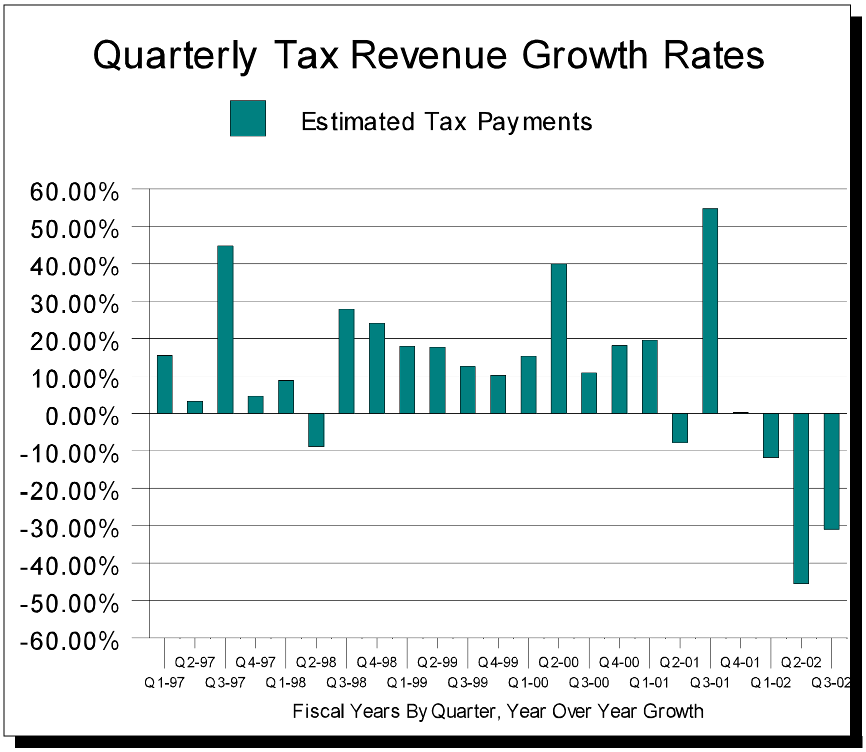
Figure 11



TAX REVENUE FROM NON-WAGE INCOME IS FALLING SHARPLY

The actual tax year 2001 data for capital gains are not yet available. However, certain kinds of regularly reported State tax data provide strong evidence that a "last hurrah" for capital gains income in tax year 2000 was followed by a sharp decline in tax year 2001. Income taxes on non-wage income like capital gains are primarily paid each quarter through ***estimated tax payments*** and during the April tax filing period through ***final year-end tax payments***. Figure 12 on the following page, displays year over year growth rates for estimated tax payments by quarter. Between the 2nd quarter of FY 1998 and the 3rd quarter of FY 2001, growth in estimated tax payments exceeded 10% twelve times. Between FY 1997 and FY 2001, quarterly estimated tax payments grew by an average of 17.4 percent per year. Likewise, final year-end payments grew by an average of 19.4 percent over this same period. Estimated tax payments and final tax payments are strongly correlated, and they are the primary means by which taxes on non-wage income such as capital gains are paid.

Figure 12



Based on national figures indicating a sharp decline in non-wage income such as capital gains from mutual funds, New Jersey non-wage income would be expected to fall significantly in tax year 2001. Such a fall should result in weakening and declining quarterly estimated tax payments and lower final year-end tax payments. Indeed, as the sharp drop in the last quarters of Figure 12 shows, estimated quarterly tax payments did begin falling sharply from the prior remarkable levels of growth. The first estimated payments made for tax year 2001 occurred in the 4th quarter of FY 2001 (April and June), and these payments were essentially flat with the same months in the prior year. Moreover, the next three estimated payments in the Fall and Winter of 2001 (the beginning of FY 2002) and the Spring of 2002 were down by an average of about 30 percent from the same time the prior year, indicating that non-wage income declined dramatically. Lastly, when taxpayers made their final year-end 2001 tax payments in April of 2002, those payments declined by 21 percent.

The sharp drop in estimated and final tax payments in FY 2002 indicate that non-wage income sources declined significantly in tax year 2001. This decline in non-wage income was heavily influenced by the stock market collapse, and it drove total income tax collections in FY 2002 down by an unprecedented 14 percent.

CAPITAL GAINS IN OTHER GUISES

The capital gains data do not represent the entire impact of stock-driven income growth and tax revenue growth. The increasing use of stock options as a form of employee compensation and the impact of stock values on profits from partnerships, S-corporations and other small businesses which are taxed under the gross income tax are substantial. Unfortunately, State and federal income statistics do not track income sources such as stock options. Employers withhold on income from most employment incentive stock options, but the withholding data do not distinguish between regular wage income and stock option income. Accordingly, the impact of the recent stock market boom and the subsequent stock market decline on New Jersey income tax revenue is larger than it appears when only considering income labeled as capital gains[6].

CONCLUSION

The Fiscal Year 2002 budget crisis can be viewed as the culmination of several decades of evolving State tax policies and the interaction of those policies with changing economic conditions. Since the 1960's, the composition of New Jersey's State tax revenues has evolved to the point that the sales tax and the gross income tax have come to dominate annual revenue collections. The income tax in particular, has become the State's most important source of tax revenue growth. When income tax revenues rise, budgets flourish, but when income tax revenues stumble, budgets face a crisis.

Moreover, within the framework of the State's increasing dependence on income tax revenues, the tax has itself changed and evolved -- the income tax has become increasingly dependent on high-income taxpayers and non-wage income. The State now has a highly graduated rate structure with more than twice as many brackets as the initial structure. The highest marginal rate is nearly double the highest rate of a decade ago. As New Jersey income from higher income taxpayers soared, the higher marginal tax rates generated strong growth in tax revenues. By tax year 2000, nearly 80 percent of the State's income tax revenue was paid by the 15 percent of taxpayers earning over $100,000. These shifts also coincided with the 1990's stock market boom, and the increasing importance of non-wage income such as capital gains and wage income from stock options. At the end of the 1990's, capital gains income had been increasing by about 40 percent per year. These structural and economic shifts established the landscape for the FY 2002 revenue shortfall, and will continue to affect New Jersey budget policy for years to come.

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[6] In addition, the stock market has an important influence on State expenditures. While budget expenditures are not within the scope of this report, it is worth noting that hundreds of millions of dollars of potential State pension contributions have been saved each year during most of the 1990's as investments in State pension funds prospered.

APPENDIX: INCOME TAX DATA "SNAPSHOTS" FOR 1988 TO 2000

The following pages present gross income tax data for the years 1988, 1991, 1994, 1997 and 2000.[7] The figures represent tax years and do not correspond to any fiscal year because payments and refunds for a single tax year fall into two or more fiscal years. These five income tax snapshots capture a range of circumstances, displaying moments in time during a period that saw both recession and vigorous growth as well as upward and downward revisions of tax rates.

The 1988 data (Figure 13) represent a peak year during the 1980's economic boom based on employment figures and consumer confidence measures. The 1991 data (Figure 14) represent the low point of the long recession during the early 1990's and reflect tax collections under the marginal rate increases enacted in 1990. The 1994 data (Figure 15) represent one of the first years of rebounding growth during the long recovery, and reflect the first year of the three year phased-in marginal rate reduction. The 1997 data (Figure 16) represent one of a series of years with strong economic growth and the year after the phased-in marginal rate reductions were completed. Finally, the 2000 data (Figure 17) represent the peak year of the recent economic boom. The 2000 data are also the most recent year with detailed tax and income data available.

Figure 13

Tax Year 1988 New Jersey Gross Income Tax Summary

	Less Than $50,000	$50,000 to $100,000	$100,000 to $500,000	$500,000 And Over	All Taxpayers
No. Returns	2,886,971	532,128	139,239	11,205	3,569,543
% of Total	*80.9%*	*14.9%*	*3.9%*	*0.3%*	*100.0%*
Gross Income ($ millions)	$53,385	$35,609	$23,699	$13,351	$126,044
% of Total	*42.4%*	*28.3%*	*18.8%*	*10.6%*	*100.0%*
Avg. Gross Income	$18,492	$66,918	$170,206	$1,191,522	$35,311
Charged Tax ($ millions)	$845	$703	$584	$375	$2,506
% of Total	*33.7%*	*28.1%*	*23.3%*	*15.0%*	*100.0%*
Average Charged Tax	$293	$1,321	$4,191	$33,467	$702

Source: 1988 *Statistics of Income*, Department of Treasury, OTA.

[7] The data come from the *Statistics of Income*, published annually by the Department of Treasury, and income tax samples prepared and compiled by the Department of Treasury's Office of Revenue and Economic Analysis, OREA (formerly the Office of Tax Analysis, OTA).

APPENDIX: INCOME TAX DATA "SNAPSHOTS" FOR 1988 TO 2000

Figure 14

Tax Year 1991 New Jersey Gross Income Tax Summary

	Less Than $50,000	$50,000 to $100,000	$100,000 to $500,000	$500,000 And Over	All Taxpayers
No. Returns	2,832,552	635,613	177,845	7,646	3,653,656
% of Total	*77.5%*	*17.4%*	*4.9%*	*0.2%*	*100.0%*
Gross Income ($ millions)	$50,967	$43,174	$28,583	$8,283	$131,008
% of Total	*38.9%*	*33.0%*	*21.8%*	*6.3%*	*100.0%*
Avg. Gross Income	$17,993	$67,925	$160,719	$1,083,312	$35,857
Charged Tax ($ millions)	$882	$998	$1,084	$447	$3,410
% of Total	*25.9%*	*29.3%*	*31.8%*	*13.1%*	*100.0%*
Average Charged Tax	$311	$1,569	$6,095	$58,462	$933

Source: *Statistics of Income* tax sample, Department of Treasury, OTA, 1998.

Figure 15

Tax Year 1994 New Jersey Gross Income Tax Summary

	Less Than $50,000	$50,000 to $100,000	$100,000 to $500,000	$500,000 And Over	All Taxpayers
No. Returns	2,581,364	702,383	244,612	11,021	3,539,380
% of Total	*72.9%*	*19.8%*	*6.9%*	*0.3%*	*100.0%*
Gross Income ($ millions)	$47,605	$48,564	$38,930	$13,051	$148,150
% of Total	*32.1%*	*32.8%*	*26.3%*	*8.8%*	*100.0%*
Avg. Gross Income	$18,442	$69,142	$159,150	$1,184,194	$41,858
Charged Tax ($ millions)	$788	$1,090	$1,385	$658	$3,921
% of Total	*20.1%*	*27.8%*	*35.3%*	*16.8%*	*100.0%*
Average Charged Tax	$305	$1,552	$5,662	$59,704	$1,108

Source: *Statistics of Income* tax sample, Department of Treasury, OTA, 1998.

APPENDIX: INCOME TAX DATA "SNAPSHOTS" FOR 1988 TO 2000

Figure 16

Tax Year 1997 New Jersey Gross Income Tax Summary

	Less Than $50,000	$50,000 to $100,000	$100,000 to $500,000	$500,000 And Over	All Taxpayers
No. Returns	2,307,759	748,043	341,219	19,820	3,416,841
% of Total	*67.5%*	*21.9%*	*10.0%*	*0.6%*	*100.0%*
Gross Income ($ millions)	$45,959	$52,561	$56,451	$26,636	$181,608
% of Total	*25.3%*	*28.9%*	*31.1%*	*14.7%*	*100.0%*
Avg. Gross Income	$19,915	$70,265	$165,439	$1,343,910	$53,151
Charged Tax ($ millions)	$539	$894	$1,734	$1,234	$4,401
% of Total	*12.2%*	*20.3%*	*39.4%*	*28.0%*	*100.0%*
Average Charged Tax	$233	$1,195	$5,082	$62,270	$1,288

Source: *Statistics of Income* tax sample, Department of Treasury, OREA, March 1999.

Figure 17

Tax Year 2000 New Jersey Gross Income Tax Summary

	Less Than $50,000	$50,000 to $100,000	$100,000 to $500,000	$500,000 And Over	All Taxpayers
No. Returns	2,177,733	784,183	485,268	32,906	3,480,090
% of Total	*62.6%*	*22.5%*	*13.9%*	*0.9%*	*100.0%*
Gross Income ($ millions)	$44,230	$55,899	$82,066	$53,568	$235,763
% of Total	*18.8%*	*23.7%*	*34.8%*	*22.7%*	*100.0%*
Avg. Gross Income	$20,310	$71,283	$169,115	$1,627,916	$67,746
Charged Tax ($ millions)	$465	$968	$2,566	$2,527	$6,526
% of Total	*7.1%*	*14.8%*	*39.3%*	*38.7%*	*100.0%*
Average Charged Tax	$214	$1,234	$5,288	$76,788	$1,875

Source: *Statistics of Income*, Department of Treasury, OREA, 2002.

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