

# **New Jersey Taxes Hit Poor & Middle Class Harder than the Wealthy**

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Low- and middle-income families in New Jersey pay higher shares of their incomes in state and local taxes than do the richest New Jersey residents, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, New Jersey has an unfair tax system.”

## **New Jersey’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy**

When all New Jersey taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of New Jersey families—with average incomes of \$1.4 million—is 8.4% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.9%.
- The tax rate on families in the middle of the income distribution—those earning between \$34,000 and \$56,000—is 9.9% before the federal offset and 9.3% after, nearly double the effective rate the richest pay.
- But the tax rate on the poorest New Jersey families—those earning less than \$19,000—is the highest of all. At 12.4% it is more than twice the rate on the very wealthy.

“New Jersey’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in New Jersey.”

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## **New Jersey Tax Changes Since 1989: A Good Start**

The study also examined the impact of changes in the regressivity of New Jersey taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Income taxes became significantly more progressive through the introduction of new graduated tax brackets and an EITC.
- Consumption tax burdens rose with large increases in the cigarette tax.

"New Jersey may still be a long way from a progressive tax system, but the state made promising changes in the 1990s," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that the tax system still places its highest tax burdens on low-income taxpayers, while the wealthy still pay the least."

### **Two pages of tables detailing the New Jersey findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

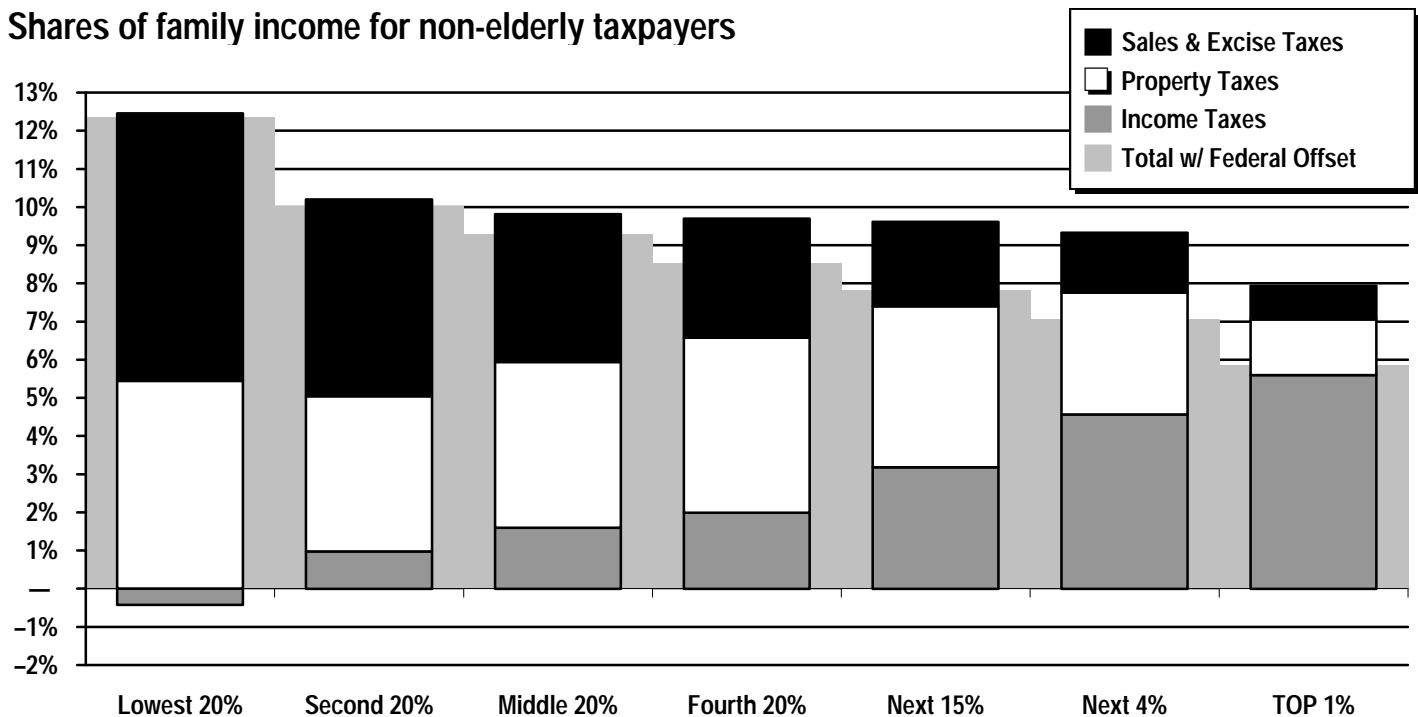
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# New Jersey

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$34,000	\$34,000 – \$56,000	\$56,000 – \$94,000	\$94,000 – \$193,000	\$193,000 – \$571,000	\$571,000 or more
Average Income in Group	\$11,000	\$26,100	\$44,000	\$72,900	\$127,000	\$276,000	\$1,447,000
<b>Sales &amp; Excise Taxes</b>	<b>7.2%</b>	<b>5.2%</b>	<b>3.9%</b>	<b>3.1%</b>	<b>2.2%</b>	<b>1.6%</b>	<b>0.9%</b>
General Sales—Individuals	2.7%	2.2%	1.8%	1.5%	1.1%	0.9%	0.5%
Other Sales & Excise—Ind.	2.8%	1.6%	1.1%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.7%	1.3%	1.0%	0.8%	0.6%	0.4%	0.3%
<b>Property Taxes</b>	<b>5.6%</b>	<b>4.1%</b>	<b>4.3%</b>	<b>4.6%</b>	<b>4.2%</b>	<b>3.2%</b>	<b>1.5%</b>
Property Taxes on Families	5.6%	4.0%	4.3%	4.5%	4.1%	3.0%	1.0%
Other Property Taxes	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%	0.5%
<b>Income Taxes</b>	<b>-0.4%</b>	<b>1.0%</b>	<b>1.6%</b>	<b>2.0%</b>	<b>3.2%</b>	<b>4.7%</b>	<b>6.0%</b>
Personal Income Tax	-0.4%	1.0%	1.6%	2.0%	3.2%	4.6%	5.6%
Corporate Income Tax	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.4%
<b>TOTAL TAXES</b>	<b>12.5%</b>	<b>10.2%</b>	<b>9.9%</b>	<b>9.8%</b>	<b>9.7%</b>	<b>9.5%</b>	<b>8.4%</b>
Federal Deduction Offset	-0.1%	-0.2%	-0.6%	-1.2%	-1.9%	-2.4%	-2.5%
<b>TOTAL AFTER OFFSET</b>	<b>12.4%</b>	<b>10.0%</b>	<b>9.3%</b>	<b>8.5%</b>	<b>7.8%</b>	<b>7.1%</b>	<b>5.9%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# New Jersey Tax Trends

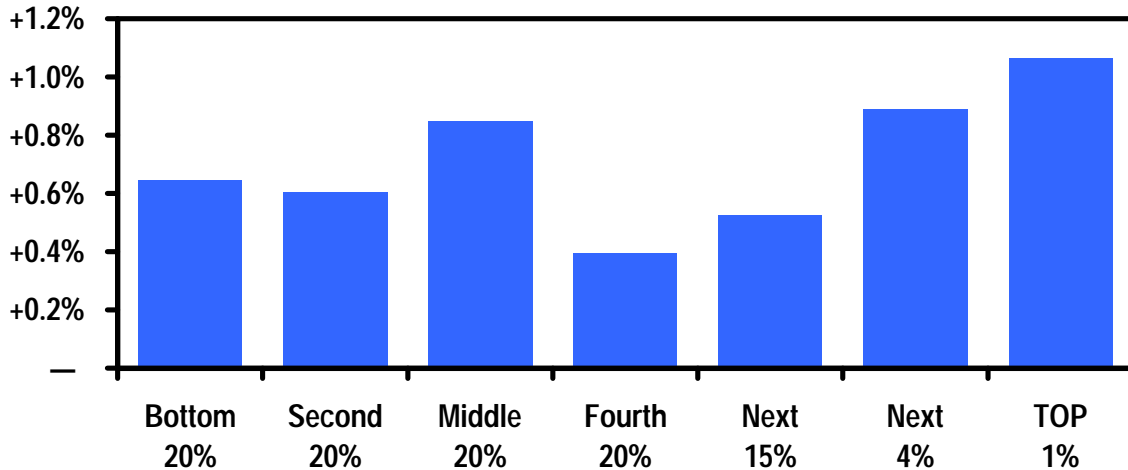
## Progressive Features

- ✓ Refundable EITC
- ✓ Graduated income tax rates

## Regressive Features

- ✗ High reliance on property taxes
- ✗ One of the highest cigarette taxes in the nation

### Changes in Taxes as Shares of Income, 1989 – 2002

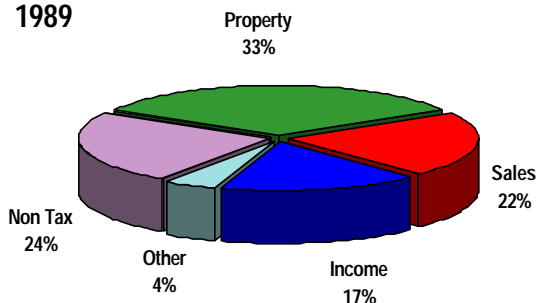


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+1.3%	+0.6%	+0.4%	+0.2%	+0.1%	+0.1%	+0.0%
Property	+0.9%	+0.6%	+0.8%	+0.5%	-0.1%	-0.4%	-0.4%
Income	-1.5%	-0.5%	-0.1%	+0.1%	+0.9%	+1.9%	+2.7%
Federal Offset	-0.1%	-0.1%	-0.2%	-0.4%	-0.4%	-0.6%	-1.3%
Overall Change	+0.6%	+0.6%	+0.8%	+0.4%	+0.5%	+0.9%	+1.1%

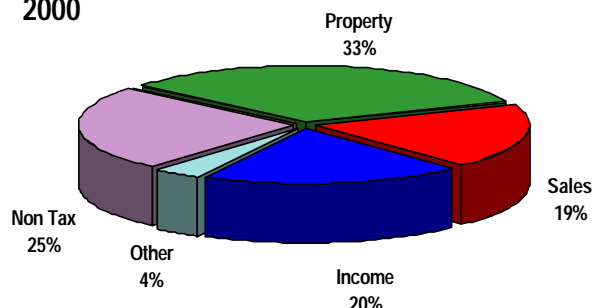
A 1990 education funding reform sharply increased the progressivity of the income tax and hiked sales taxes. The sales tax hike and a portion of the income tax rate hikes were subsequently repealed, but the introduction of a 20 percent refundable EITC further increased income tax progressivity. These progressive changes were countered in the bottom 60% by a \$1.23 hike in cigarette taxes--the third largest cigarette tax hike in the nation over the decade. Still, New Jersey remains a state which taxes its poorest citizens far more heavily than its wealthiest ones.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census