

With Rich Getting Richer, Democrats Look Again To Millionaire's Tax

The Supreme Court ruling has Democrats aiming to increase school aid for suburbs as well as cities and looking again at an income tax surcharge on the wealthy to pay for it

By **Mark J. Magyar**, May 27 in **Budget**

Nine days ago, Governor Chris Christie wasted no time telling the Democratic-controlled legislature how he wanted to spend the hundreds of millions of dollars in extra income tax revenue paid into the state treasury by Garden State millionaires who capitalized on the Wall Street surge.

But when the New Jersey Supreme Court ordered the state to come up with \$500 million to restore cuts in state aid to 31 of the poorest school districts, Christie was only too happy to leave that headache to Democratic legislative leaders.

Christie may regret not using his bully pulpit to get out in front on that decision.

New Jersey: Income and Income Tax Statistics									
Year	Total Income Tax	Individual Income Tax	Corporate Income Tax	Other Income Tax	Total Income Tax				
2007	1,200,000	1,000,000	100,000	100,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
2008	1,300,000	1,100,000	100,000	100,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
2009	1,400,000	1,200,000	100,000	100,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
2010	1,500,000	1,300,000	100,000	100,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
2011	1,600,000	1,400,000	100,000	100,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
2012	1,700,000	1,500,000	100,000	100,000	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000

The Supreme Court's Abbott ruling, coupled with the income tax surge the week before, has reopened debate within the legislature over a state budget that had seemed all but settled five weeks before the June 30 deadline. And that debate isn't going in a direction that Christie likes.

Senate President Stephen Sweeney (D-Gloucester) and Assembly Speaker Sheila Oliver (D-Essex) were quick to assert that the legislature should restore not only the \$500 million in state aid cuts to the 31 Abbott districts, but also the \$500 million cut from more than 170 other suburban, rural and urban districts with low-income and special-needs students by Christie in his first budget.

An Income Tax Surcharge

Even with the surge in income tax revenues, the only way to find \$1 billion in the budget to restore all of the school aid cuts is to reinstate an income tax surcharge on the wealthy, as Senator Raymond Lesniak (D-Union) recommended in the wake of the Supreme Court decision. That is particularly the case if the legislature follows the advice of Assembly Budget Committee Chairman Lou Greenwald (D-Camden), who wants to add \$200 million or more for property tax rebates, as Christie had recommended before the Supreme Court's school-funding decision, or avert some of the \$300 million in Medicaid cuts that have been criticized so sharply.

Christie has warned repeatedly that he will veto any tax increase, particularly an income tax surcharge that he says would chase wealthy taxpayers out of state. But if the income tax surcharge comes to his desk at the same time as the budget, the Republican governor would simultaneously have to line-item veto the Democratic school aid increase for suburban and rural districts or increase property tax rebates that the tax hike funded. That would not play well in the suburban swing districts that Republicans need to capture if they have any hope of overturning the 24-16 Democratic majority in the Senate or 47-33 Democratic edge in the Assembly this coming November.

Being forced to veto an income tax surcharge also would not help Christie's personal poll ratings, which have tumbled to 47 percent favorable and 49 percent unfavorable in New Jersey even as national conservatives implore him to enter the 2012 presidential race.

Fifty-two percent of New Jersey voters strongly favored reinstatement of an income tax surcharge on millionaires, and another 20 percent said they were "somewhat in favor" of it, according to an Eagleton Institute Poll released in March. And that was before Christie's treasurer, Andrew Sidamon-Eristoff, and the nonpartisan Office of Legislative Services' budget officer, David Rosen, testified last week about the billions of dollars in bonuses and stock gains reaped by the state's estimated 15,000 millionaires.

Pay Cuts and Layoffs

The bonanza for the richest taxpayers contrasts sharply with the pay cuts, layoffs, furloughs, threatened foreclosures and declines in home values suffered by so many middle- and lower-income New Jerseyans. It is just the latest evidence of the growing gulf between rich and poor, and of the unevenness of the state's slow recovery from the Great Recession of 2007 to 2009 that marked the worst economic downturn since the Great Depression.

It has been a "jobless recovery" nationwide, but especially in New Jersey, which ranks near the bottom nationally in job growth. Sidamon-Eristoff acknowledged last week that New Jersey's unemployment rate -- currently 9.4 percent -- would likely still be 8.3 percent at the end of 2012. Economists project it will take until at least 2016 before employment levels in New Jersey reach pre-recession 2007 levels -- two years later than the national average. This assumes that the nation is not back in recession by then, which would be the normal economic cycle for a recovery that started in 2009.

While it will take up to a year before a detailed breakdown of income and income tax payments for 2010 is available, Rosen and Sidamon-Eristoff agreed that the surge in income tax collections came almost entirely from New Jerseyans in upper income brackets, not from wage-earners who pay their income tax largely through withholding -- a fact that Sidamon-Eristoff cited to argue against the wisdom of Democratic proposals to raise the income tax on the wealthy. Governor Corzine raised the maximum rate from 8.97 percent to 10.97 percent in 2009, but Christie vetoed Democratic legislation to extend the income tax surcharge on millionaires for another year to cover 2010,

Rosen projected that income tax collections would be \$1.4 billion higher than anticipated in Christie's March budget address over a two-year period that includes both the current year budget and the fiscal year 2012 budget that starts July 1, 2011.

Sidamon-Eristoff agreed that income taxes would be much higher than expected, but said his intentionally cautious estimate put the increase for the two years at about \$1 billion. If the income tax surcharge had remained in effect in for the 2010 state income tax returns filed in April, state income tax collections for the current fiscal year would have been \$495 million higher, Sidamon-Eristoff said.

The rise in state income tax collections more than made up for a sharp drop in expected corporate tax revenues, Sidamon-Eristoff and Rosen agreed. Overall, Rosen projected that the state's net tax collections for the two-year period would be up \$913 million, while Sidamon-Eristoff put the number at \$511 million. It is the treasurer's estimate that counts because the governor's office has the final authority to certify state revenues in the budget.

Democratic legislators at last week's budget hearing questioned why they should not impose an income tax surcharge when the new tax revenue estimates

showed clearly that it is the wealthy who are reaping the lion's share of stock market gains due to the Wall Street boom and corporate bonuses arising from an economic recovery that is now in its second year.

Doing the Math

Income tax statistics make the growing income gap clear. According to Treasury estimates for 2009 released by the Office of Legislative Services (OLS), 11,900 tax returns filed by millionaires or millionaire couples recorded total income of \$31.7 billion -- an average of \$2,262,000 -- while the 25,100 taxpayers earning between \$500,000 and \$1 million pulled in \$17.3 billion. The \$49 billion earned by those 37,000 taxpayers is almost half as much as the \$97.8 billion earned by the 1.9 million New Jersey individuals and households who reported income of \$100,000 or less that year.

As wide as that gulf is, "2009 was actually a bad year for millionaires," Rosen noted. Two years earlier, in 2007, the state's 48,800 millionaire and half-millionaire taxpayers earned \$75.9 billion -- more than two-thirds of the \$105.2 billion earned by the 2.1 million taxpayers making under \$100,000. And in 2008, when the economy was in recession for the full year and hundreds of thousands of New Jerseyans were out of work, the 44,400 millionaires and half-millionaires pulled in \$63.8 billion, compared to \$104 billion for the 2.1 million individuals and families making \$100,000 or less.

Rosen estimated that 2010 income statistics would be "similar to 2006 or 2008 levels." That would translate into about 15,000 millionaires making about \$40 billion to \$45 billion -- or an average of close to \$3 million apiece -- on which they were charged a maximum rate of 8.97 percent as a result of the elimination of the income tax surcharge

The income tax statistics for 2007 to 2009 show a substantial growth in wealth for high-income taxpayers since 2001, the first year for which Treasury income statistics are posted online. In that year, 9,900 millionaire taxpayers made \$27.1 billion and another 18,100 half-millionaire taxpayers listed income totaling \$12.5 billion.

That year, the 82 percent of New Jerseyans making under \$100,000 earned 54.9 percent of total state income -- a marked difference from the 37.8 percent earned by the 75 percent of New Jerseyans making under \$100,000 in 2009. New Jersey's highly graduated income tax, which ranges from a low of 1.4 percent to a high of 8.97 percent, means that the wealthiest 2 percent of New Jerseyans can pay up to 50 percent of total state income tax revenues when Wall Street is booming. When the stock market hits the skids, however, New Jersey's income tax revenues plummet; it is this "volatility" in income tax collections that is the greatest cause of year-to-year budget instability in New Jersey.

In 2008, for example, a year that Rosen projected as similar to the income tax year that just ended December 31, just 15,600 millionaires earned 15.2 percent of income and paid 29.3 percent of total income taxes -- \$2.7 billion. The 28,800 half-millionaires paid another 9.8 percent of the income tax, or \$902 million. The 639,800 tax returns showing income of \$100,000 to \$500,000 paid \$3.9 billion, or 41.8 percent of the total income tax bill. That left 2.1 million taxpayers earning under \$100,000 -- or 75 percent of the total -- to pay just 19.1 percent of the total income tax bill, or \$1.75 billion, which is almost \$1 billion less than the 15,600 millionaires paid.

Sidamon-Eristoff told the Assembly Budget Committee that he feared reimposing an income tax surcharge on millionaires or other wealthy taxpayers would drive enough of those taxpayers to leave the state that the New Jersey might end up with less revenue in the end. Pennsylvania's income tax has a flat rate of 3.5 percent, and states like Florida, Texas and Wyoming have no income tax, making them attractive havens for millionaires from high-tax states like New Jersey.

Mark J. Magyar, a frequent contributor to New Jersey Spotlight, recently co-authored [Redistricting and the Politics of Reform](#) with Donald Scarinci, who served as a Democratic counsel to the New Jersey Legislative and Congressional Redistricting Commissions in 2001. Magyar teaches labor studies at Rutgers University. A former Statehouse correspondent, senior policy adviser in the Whitman administration and public policy center director, he served as policy director for the independent Daggett for Governor campaign in 2009.