

Levied on Very Few, New Jersey's Estate and Inheritance Taxes Support Colleges, Health Care & Other Services

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An effort by some lawmakers to eliminate or drastically cut taxes for a small number of New Jerseyans – a move that would deliver the greatest benefit to the state's wealthiest households – threatens resources needed for public colleges, safe communities, health care and other important services.

The levies in question are New Jersey's estate and inheritance taxes. These are taxes owed by just 10 percent of all estates in New Jersey. The taxes bring in more than \$600 million a year.¹

These taxes – particularly the estate tax – are also important tools at a time when the economy doesn't work for everyone because so much wealth is increasingly concentrated in so few hands. With the wealthiest 1 percent in New Jersey holding 21 percent of the state's income – a level of inequality not seen since the 1920s² – these taxes, which preserve key public investments and stoke economic opportunity for all, are more important than ever.

Opponents of these important sources of revenue for public needs claim they are a hardship. They want to reduce the taxes or eliminate them. Here are some facts to clarify this debate:

- Each year about 70,000 people in

New Jersey Estate and Inheritance Taxes: The Basics

The amount of estate tax paid depends mostly on the size of the estate, while the amount of inheritance tax paid depends on the relationship to the decedent as well as the size of the estate.

THE ESTATE TAX

Dollar Threshold: Estates with assets over \$675,000

Tax Rate: Rate goes up with estate size, tops out at 16%

Who or What is Exempt: Surviving spouses and civil union or domestic partners; charitable donations. In addition, to avoid double-taxation, the estate tax liability is reduced by the amount (if any) of inheritance tax paid. Property located outside New Jersey is also exempt.



2,760 estates subject to the tax per year



\$297 million in revenue per year

THE TRANSFER INHERITANCE TAX

Dollar Threshold: Assets over \$25,000 for estates inherited by some relatives; assets over \$500 for estates inherited by non-relatives

Tax Rate: Between 11-16%, depending on relation to the decedent and size of the estate

Who or What is Exempt: Most close relatives are exempt and pay no tax at all. This includes fathers, mothers, grandparents, descendants, spouses, and civil union or domestic partners of the decedent. The following are also completely exempt: charitable donations; life insurance proceeds; property located outside New Jersey; most federal civil service retirement benefits; annuities to survivors of military retirees; and qualified employment annuities paid to a surviving spouse or civil union or domestic partner



4,790 estates subject to the tax per year



\$311 million in revenue per year

For more details, visit www.state.nj.us/treasury/taxation/inheritance.shtml
Number of estates taxed and dollar amounts per year are 3-year averages from FY 2012-2014

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New Jersey die. On average, fewer than 7,000 of the estates they leave owe either the estate or inheritance tax. In other words, 9 of 10 estates are spared from this very selective tax levy.³

- Just 4 percent of estates – those of New Jersey's wealthiest households – are large enough to owe any estate tax. Nothing passed on to a surviving spouse, civil union partner or domestic partner is subject to the estate tax.
- The estate tax is clearly not a tax on the middle class. The median net worth of all Garden State households is \$117,000 and the threshold for filing an estate tax return is five times that amount. Even households at the top – those with the highest 20 percent of incomes – have an average net worth of \$366,000, still far below the \$675,000, which is where the estate tax kicks in.⁴
- And most residents will pay little or no inheritance tax. Fewer than 7 percent of estates owe any inheritance tax. What's more, over 75 percent of inheritance tax collections come from the largest estates – those worth more than half a million dollars. And nothing passed on to the closest relatives (parents, children, grandchildren, grandparents or spouses including civil union and domestic partners) is subject to the inheritance tax. Moreover, many assets, including life insurance, are exempt from the inheritance tax.
- Only some 300 estates – the very largest – owe 39 percent of estate and inheritance taxes in a given year.
- The amount of estate tax owed is reduced by any New Jersey inheritance tax paid ensuring that wealth passed on to others is not taxed twice.

The Wealthiest Pay the Bulk of Estate and Inheritance Taxes

Three year averages, FY 2012-2014

| Size of Taxable Estate | Annual Revenue Dollar Amount (Share of Total) | Estates Taxed Number (Share of Total) |
|------------------------|--|--|
| Over \$3 million | \$234.4M (39%) | 307 (5%) |
| \$1 - 3 million | \$203.6M (34%) | 1,419 (20%) |
| \$500K - \$1 million | \$94.4M (16%) | 1,782 (25%) |
| Less than \$500K | \$75.0M (12%) | 3,484 (50%) |

Source: New Jersey Office of Legislative Services

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Furthermore, there is no credible evidence to support the contention that the estate and inheritance taxes are driving hordes of wealthy families to leave New Jersey before dying. While plenty of older people leave New Jersey every year, few are fleeing these taxes. On the whole, older New Jerseyans leave the state to retire in warmer areas or in locales with lower housing costs (which means both purchase price or rental costs, and property taxes).⁵

The facts on supposed “tax flight” are clear:

- Between 2001 and 2014, when these taxes were cut or eliminated in dozens of states,⁶ the amount of revenue collected in New Jersey, where the taxes stayed the same, has not decreased. In fact, it has risen to \$687.4 million in the 2014 budget year from \$478.1 million in the 2001 budget year – a 44 percent increase.⁷
- New Jersey has the third most millionaire households on a per-capita basis in the nation, according to one wealth management firm’s estimates. And the share of these households, with over \$1 million in “investable assets,” has grown to 7.1 percent of all households in 2014 from 6.5 percent in 2006, representing an increase of about 25,000 millionaire households.⁸
- New Jersey has the seventh highest median household net worth; the Garden State’s median is 66 percent higher than the nation’s.⁹
- Families and individuals appreciate the benefits of living in New Jersey, such as excellent schools, convenient access to two major cities and bustling small towns. These factors weigh much more heavily in location decisions than taxes.

The bottom line is that proposals to eliminate the estate or inheritance tax would deprive New Jersey of resources needed to promote widespread prosperity, while benefiting a relative handful of the state’s highest net-worth households the most. The Garden State does not need, and cannot afford, to take this step backward.

New Jersey Policy Perspective

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Endnotes

¹ The detailed breakdown of estate and inheritance tax collections and incidences used in this report is from an unpublished Office of Legislative Services analysis of Fiscal Year 2012 to Fiscal Year 2014 data provided to lawmakers in January 2015.

² The Economic Policy Institute's Economic Analysis and Research Network, *The Increasingly Unequal States of America: Income Inequality by State*, January 2015. <http://www.epi.org/publication/income-inequality-by-state-1917-to-2012/>

³ New Jersey Office of Legislative Services data (see endnote #1) show the average number of unique tax filings subject to either the estate or inheritance tax in Fiscal Years 2012-2014 was 6,991, while New Jersey Department of Health data (<https://www26.state.nj.us/doh-shad/resources/BirthDeathData.html>) show the average number of deaths in calendar years 2011-2013 was 70,646. To calculate the average number of unique filings, NJPP added the number of estate tax filers plus the number of inheritance tax filers who are likely to have had no liability under the estate tax based on the size of the taxable estate (net taxable assets under \$1 million). This is likely a slight *overestimate* since the estate tax threshold is \$675,000, not \$1 million.

⁴ Corporation for Enterprise Development and Haverman Economic Consulting analysis of the U.S. Census Bureau's *Survey of Income and Program Participation, 2008 Panel, Wave 10*, 2013. For more: <http://scorecard.assetsandopportunity.org/latest/measure/net-worth>

⁵ Center on Budget and Policy Priorities, *State Taxes Have a Negligible Impact on Americans' Interstate Moves*, May 2014. <http://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-negligible-impact-on-americans-interstate-moves?fa=view&id=4141>

⁶ For more on state estate tax changes that occurred after 2001's federal tax cuts, see the Institute on Taxation and Economic Policy, *State Estate and Inheritance Taxes*, July 2014.

http://itep.org/itep_reports/2014/07/state-estate-and-inheritance-taxes-1.php#.VdH8tRNVic9

⁷ New Jersey Department of the Treasury, *Comprehensive Annual Financial Reports*, FY 2001 – FY 2014. <http://www.nj.gov/treasury/omb/publications/archives.shtml>

⁸ Phoenix Marketing International, *Millionaires By State Ranking 2010-2014*, January 2015, and *Ranking of U.S. States By Millionaires Per Capita 2006-2013*, January 2014. <http://phoenixmi.com/wp-content/uploads/2015/01/Phoenix-GWM-Millionaires-By-State-Ranking-2010-2014.pdf?5da317> and <http://w3.phoenixmi.com/wp-content/uploads/2014/01/Phoenix-GWM-U.S.-Ranking-States-By-Millioinaires-Per-Capita-2006-13.pdf>

⁹ Ibid 4