

Eliminating New Jersey's Estate Tax: Like Robin Hood in Reverse

Cutting this tax on inherited wealth would benefit the wealthiest while taking \$300 million a year away from colleges, health care and other crucial services

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By seeking to eliminate one of New Jersey's taxes on inherited wealth,¹ Gov. Christie's latest proposal would deliver the greatest benefit to New Jersey's most well-off households while seriously threatening resources needed for public colleges, safe communities, health care and other important building blocks of a strong economy.

The governor, in his State of the State address, pushed for abolishing New Jersey's estate tax and to do so in one step this year.² This tax is owed by just 4 percent of all estates in New Jersey, and brings in about \$300 million a year.³

The estate tax is also an important tool 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 1920s⁴ – this tax, which preserves key public investments that stoke economic opportunity for all, is needed more than ever.

Opponents of this important source of revenue for public needs claim a tax on the wealthiest is a hardship for them. Here are some facts to clarify this debate:


- Each year about 70,000 people in New Jersey die. On average, fewer than 3,000 of the estates they leave – just 4 percent – owe any estate tax. These estates belong to New Jersey's wealthiest households.⁵

New Jersey's Estate Tax: The Basics


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

Tax Rate: Rate goes up with estate size, ranges from 4.8% on estates under \$840,000 and tops out at 16% for estates over \$10 million

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

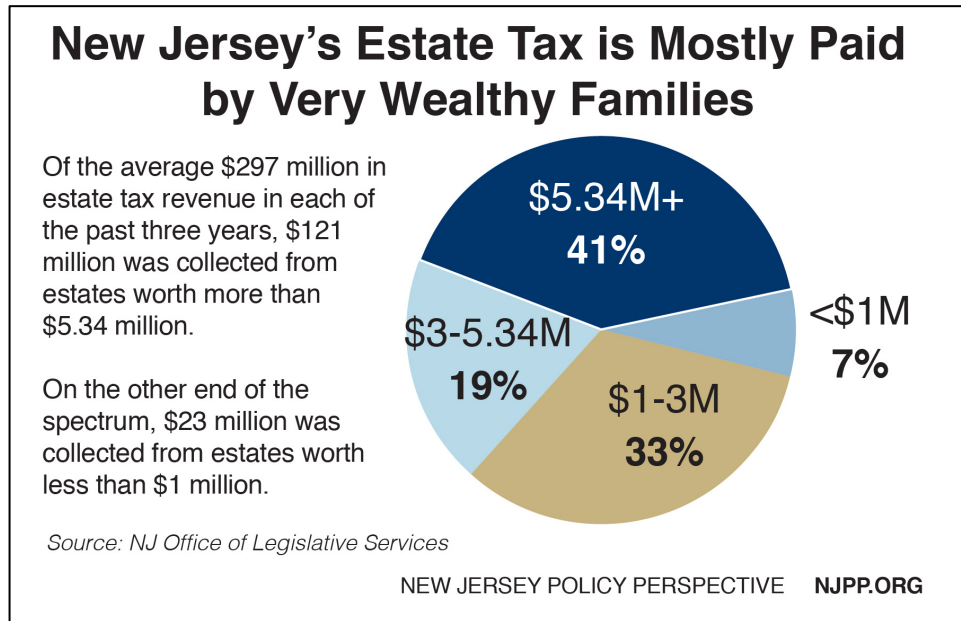


\$297 million in revenue per year

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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- Only 94 estates – the very largest, each of which has taxable assets of more than \$5.34 million – pay 41 percent of estate tax in a given year. Eliminating this tax would give these wealthy families a tax break averaging \$1.3 million – a reduction *58 times* larger than the break for the families with taxable assets between \$675,000 and \$1 million.



- 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 assets – have an average net worth of \$366,000, still far below \$675,000 – the level at which the estate tax kicks in.⁶
- Even with New Jersey's higher-than-average home values, the estate tax is clearly not a hardship for most of those the governor claims are “middle class families who want to pass down the family home.” In fact, the average home in New Jersey is worth \$355,685, about halfway to the estate tax threshold. Not a single county has average home values of over \$505,000. And less than 10 percent of municipalities – which represent just 4 percent of New Jersey's population – have average home values of \$675,000 or more.⁷
- Nothing passed on to a surviving spouse, civil union or domestic partner is subject to the estate tax. And the amount of estate tax owed is reduced by any New Jersey inheritance tax paid, ensuring that inherited wealth is not taxed twice.

Furthermore, there is no credible evidence to support the contention that taxing inherited wealth drives hordes of wealthy families to leave New Jersey before dying. While plenty of older people leave New Jersey every year, few are fleeing the estate tax. On the whole, older New Jerseyans

leave the state to retire to warmer areas or in locales with lower housing costs or lower property taxes.⁸

The facts on supposed “tax flight” are clear:

- 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.⁹
- Revenue collected from New Jersey’s estate and inheritance taxes has grown by 44 percent in the last 13 years, rising to \$687.4 million in the 2014 budget year from \$478.1 million in the 2001 budget year – making clear that claims of widespread estate tax avoidance by the wealthy are overblown at best.¹⁰
- New Jersey is consistently in the top 10 states for median household net worth and has an average household net worth at close to twice the national average.¹¹
- 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 estate taxes.

Eliminating the estate tax would deprive New Jersey of resources needed to promote widespread prosperity while benefiting the state’s highest net-worth households the most. The Garden State does not need, and cannot afford, to take this step backward.

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Endnotes

¹ New Jersey also levies an inheritance tax on assets passed on after death. The governor has not proposed eliminating this tax, which is related to but structured differently than the estate tax. For more information on both taxes, see: <http://www.state.nj.us/treasury/taxation/inheritance.shtml>

² New Jersey Office of the Governor, *Governor Chris Christie's 2016 State of the State Address As Prepared for Delivery*, January 2016.

<http://www.nj.gov/governor/news/news/552016/approved/20160112c.html>

³ 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.

⁴ 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/>

⁵ New Jersey Office of Legislative Services data (see endnote #3) 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.

⁶ 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>

⁷ New Jersey Policy Perspective, *Fast Facts: New Jersey's Average Home Values Are Well Below Estate Tax Threshold*, December 2015. <http://www.njpp.org/reports/fast-facts-new-jerseys-average-home-values-are-well-below-estate-tax-threshold>

⁸ 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>

⁹ 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>

¹⁰ New Jersey Department of the Treasury, *Comprehensive Annual Financial Reports*, FY 2001 – FY 2014. <http://www.nj.gov/treasury/omb/publications/archives.shtml>

¹¹ Ibid 6