GSI Research – The Real Cost to New Jersey of Being an Outlier: The Impact of Steep Corporate Tax Rates

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- *Over the last quarter century, New Jersey's high business taxes have led to an outmigration of businesses, loss of income to other states and a stagnant economy and population relative to the U.S.*

- *A step-down or elimination of Corporate Business Tax, paid for by closing loopholes and eliminating tax incentives, can restore New Jersey's competitiveness & spur economic growth*

MORRISTOWN, NJ – Just a few decades ago New Jersey's economy was the envy of the nation. In recent years the state has become an outlier, ranked at the bottom of most lists for its ability to attract and retain business in the Garden State, primarily driven by a high cost of doing business and tax burden. In a new report, the Garden State Initiative offers an alternative path to restore the state's competitiveness through tax reform that allows New Jersey's natural attributes to outweigh its crushing tax burden.

The report, ***The Real Cost to New Jersey of Being anOutlier: The Impact of Steep Corporate Tax Rates,*** lays bare the consequences of New Jersey's march to the highest business taxes in the U.S., how other states have moved to grow their economies by promoting tax reform, and how the state will benefit from a significant draw-down, or ultimately , an elimination of the Corporate Business Tax (CBT) over time.

At the current rate of 11.5%, no state in the country has a more punitive tax on its home-based corporations than does New Jersey. The New Jersey tax rate is roughly twice as high as the 50-state average and only contributes 4 to 7% of total revenues to the state depending on the year. Coupled with the United States' fairly high statutory federal tax rate on American corporations (21%), New Jersey's combined federal-state rate is 31% – making our state among the most expensive places in the world to do business.

While taxes are a fixed cost in New Jersey, the combination of the pandemic and economic turbulence ahead are driving firms to locate where they can reduce fixed expenses to protect their competitiveness.

New Jersey has clear competitive advantages – including a well-educated workforce, world class universities, extensive transportation networks and its proximity to the global financial center New York City and the historic city of Philadelphia. But too often the state's combination of high state personal income and corporate taxes measurably reduces or completely cancels out these advantages.

Excessive State Corporate Taxes Inhibit Overall Growth

- The number of Fortune 500 companies headquartered in New Jersey fell from 22 in 2006 to 15 in 2021.
- The state has lost between $350 and $400 billion in personal income since 1990 due to outward migration. The state's total personal income would be about 30% larger today if not for people and businesses leaving.
- Between 2005 and 2020 New Jersey has lost population and income to all but two of the other 49 states.
- The state's population has fallen every year relative to the rest of the nation in every year for the last three decades.

Alternative Solutions and Recommendations

- The **temporary 2.5% corporate tax "surcharge"** adopted in 2018 and extended to 2023 must be entirely and immediately eliminated without any further delays.
- The **New Jersey CBT tax should be ratcheted down over a two-to-five-year phase down** to match the national average rate of 5 to 6%.
- **To pay for reductions in the tax rate, the state should repeal most of the $1.2 billion in revenue lost by special interest or questionable write-offs and special interest exemptions.** These loopholes reduce collections from the CBT by 20% to pass favor to certain companies rather than making a stronger and fairer tax structure. That revenue loss is more than the State spends on the Department of Health.
- For maximum economic benefit, **New Jersey should consider eliminating the CBT altogether over the long term**. The tax reduces New Jersey Gross State Product by almost $8 billion a year. Eliminating the tax altogether would raise the rate of growth in personal income by roughly 30%.
- New Jersey should simultaneously **eliminate future tax incentive programs**. While certain companies will protest the elimination of existing incentives, everyone will benefit from the elimination of the CBT, creating a level playing field for all companies and a more vibrant economy moving forward.

"Companies consider many quantitative and qualitative factors when making their site-selection decisions. Important among these, especially in high-cost states in the Northeast like New Jersey, is the corporate income tax rate – now the highest in the nation at 11.5%," said **John Boyd, Jr., Principal of The Boyd Company, Inc., a Princeton-based corporate site selection consultancy.** "An elimination of the 2.5% CBT surcharge is a good first step but falls far short of the kind of tax and regulatory re-engineering that needs to take place in New Jersey for its business climate to be more competitive. I would suggest that Governor Murphy follow the lead of North Carolina's Democratic Governor Roy Cooper who has signed off on legislation reducing his state's 2.5% corporate income tax – currently the lowest in the nation – down to 0% by the end of the decade. New Jersey can go to school here as North Carolina is one of the most popular landing spots for companies and people leaving the high taxes of New Jersey."

"With our state's natural attributes, including a highly skilled and trained union workforce, New Jersey has a historic opportunity to reinvigorate our economy in a way unseen in over a generation," said **IBEW Local 102 Business Manager Patrick Delle Cava**. "Through common sense tax reform that will even the playing field with other states in our region and across the country, our strengths will again make New Jersey a magnet for investment and residents. Such reform will have widespread benefits for our state and especially for Middle Class working families. The Garden State Initiative's thoroughly sourced report and analysis should serve as the launching point for a true effort to restore New Jersey's competitive standing."

"NJBIA has been a vocal proponent for business tax relief," said **Michele Siekerka, president & CEO of the New Jersey Business & Industry Association**. "We must ensure that the sunset of the CBT surcharge gets across the finish line during this budget season. From there, we must continue the work of making New Jersey more affordable and regionally competitive for businesses. This requires a tax reform agenda that not only seeks to further drive down our CBT rate over time like neighboring states such as Pennsylvania, but also comprehensively addresses our outlier status with overall businesses taxes. Having that stability and predictability matters for long-term business planning."

"This report lays bare the reality that New Jersey is a diminished state. Over a generation, our state's position as an outlier on tax policies have led to an indisputable outmigration of business and wealth," stated **Thomas J. Healey, a founding member of GSI's board and Assistant Secretary of the Treasury in the Reagan Administration**. "For our state to regain its position as a beacon of prosperity, the Governor and Legislature should act on the common sense reforms recommended in this report."