May 12, 2020

The Honorable Stephen M. Sweeney
Senate President
New Jersey Senate
Trenton, NJ 08625

VIA ELECTRONIC MAIL

Dear Senate President Sweeney,

On behalf of the For The Many - NJ coalition, we, the undersigned, write in support of targeted changes to the tax code to help fill revenue shortfalls and support New Jersey workers and communities in every corner of the state.

As the Senate crafts the upcoming Fiscal Year 2021 state budget, we strongly encourage you to include new, sustainable sources of revenue to ensure a balanced response to the economic fallout from COVID-19. This would protect against deep cuts to critical public programs and services that families rely on, especially now in the midst of a recession.

New Jersey cannot afford to make the same mistakes that were made in the wake of the Great Recession. We know now that deep cuts to public services worsened the economy's fall, further fueled deep inequities for millions of New Jerseyans, and ultimately slowed the state's recovery. These cuts have also hampered the state's response to the crisis, as the departments at the forefront of New Jersey's COVID-19 response have significantly fewer staff and resources than prior to the Great Recession.

To advance an equitable recovery and prepare New Jersey for future crises, the state must embrace bold, permanent changes to our broken tax code and invest in our communities, especially those who have been historically excluded from opportunity and economic security. Such investment should include funding for public schools and colleges, NJ Transit, and much more. Without intentional policy changes at the state-level, this pandemic will drastically exacerbate economic and health inequities.

Those most at risk of another recession still have yet to fully recover from the last one, yet they continue to show up for work and do essential jobs during a pandemic, putting their own families' health and well-being at risk. New Jersey deserves a recovery that works for everyone, not just the wealthy and well connected.

States that recovered from the Great Recession far more quickly than New Jersey did so by implementing a fairer tax coder, and we would do well to learn the lesson they provided. Tax and budget experts across the country, from the Center on Budget and Policy Priorities to the Institute on Taxation and Economic Policy (ITEP) and the Tax Policy Center, have all pointed to the recommendations below as crucial policies that states can and must implement to mitigate drastic cuts and speed their recovery out of this economic downturn.

In order to implement a recovery that works for all, New Jersey must focus tax changes on sectors of the economy that continue to have high incomes and profits even in these extraordinary times. Asking more of the wealthiest among us — who currently pay a lower share of their income in taxes than middle class families do — is far preferable to deep cuts, which would lead to more layoffs, loss of public services and a sluggish recovery. Even in this time of economic crisis, New Jersey has enough wealth to mitigate cuts to vital services and community investments, and build a more just and inclusive economy for everyone. Here is how:

Reform New Jersey's income tax code to reflect the income gains made by the highest earning households. This can be accomplished by creating new brackets at $250,000, $750,000, $1 million, and $2.5 million, and very slightly increasing the tax rate at the existing $500,000 and $5 million brackets. Doing so would raise income taxes on just the top 6 percent of the state's households and would help ensure that the wealthiest New Jerseyans are paying their fair share on a yearly basis. In fact, the tax increase would be paid almost exclusively by New Jersey's ultra-wealthy, with the top 1 percent – households with average annual incomes of $2.4 million – paying 85 percent.

Address long-standing economic and racial inequities by reforming how New Jersey taxes inherited wealth. For the inheritance tax, creating an exemption up to $1 million would exempt middle-class families and help guard against the deepening trend of concentrated wealth in fewer and fewer hands. For the estate tax, restoring it with a higher threshold would help New Jersey regain the lion's share of revenue it previously collected while ensuring that the wealthiest heirs pay their fair share at the state level. Reinstating the tax on estates worth more than $1 million would recoup 93 percent of the tax revenue the state used to collect from this source.

Strengthen the combined reporting law by using a more effective approach to taxing multistate corporations and closing tax avoidance loopholes used by multinational

businesses. If New Jersey switched from an entity-by-entity approach (*Joyce*) to a group approach (*Finnigan*) to determine state corporate income tax jurisdiction, the state would collect significantly more revenue from multistate corporations. Alternatively, the overall revenue impact of *Joyce* vs *Finnigan* could be mitigated by simply enacting a "throwback rule" to recoup taxable income.

Like most combined reporting states, New Jersey also allows multinational corporations to opt-in to worldwide reporting instead of requiring it, essentially giving a green light to shifting profits to tax haven jurisdictions. A recent report from ITEP estimates this loophole costs New Jersey an estimated $714 million in potential tax revenue. Worldwide combined reporting is the most comprehensive tool to address tax haven abuse. Alternatively, New Jersey could enact what is known as Tax Haven List legislation, which would require any subsidiary that may be used as a tax shelter to be included in a combined report. This approach could produce between $95 million and $233 million in additional corporate tax revenue depending on how many tax havens are included on the list.

Restore the sales tax to 7 percent and modernize it to include more services, especially those used by higher income households like chartered flights, interior decorating, and limousine services. New Jersey needs to reverse the gimmicky 2016 reduction in the sales tax rate, which has put very little extra cash in the pockets of most New Jersey working families while starving the state budget of significant resources. The cut was estimated to cause the state to lose $2.5 billion in fiscal years 2019-2022. Even the wealthiest 1 percent of families only save an average of $14 a week. Those in the bottom 20 percent save less than a dollar a week. Finally, as services become an even larger part of household spending, New Jersey's sales tax must adjust and adapt. We recommend applying the sales tax on high-end services to make the tax code fairer.

A vital lesson from the Great Recession is that an overreliance on cutting services and laying off workers in the face of falling revenue led to a prolonged and painful recovery. To keep the current crisis from becoming even more severe, a more balanced approach must be taken to both help families facing deep economic insecurity and address revenue shortfalls.

Thank you for taking our concerns under consideration. We look forward to continued discussions with you, your staff, and your colleagues in the Legislature on New Jersey's response to COVID-19.

Sincerely,

Anti-Poverty Network of New Jersey
BlueWaveNJ
Clean Water Action
Communications Workers of America, District 1
Environment New Jersey
Housing and Community Development Network of New Jersey
Hudson County Central Labor Council
IFPTE Local 194
Latino Action Network
League of Women Voters of New Jersey
Make the Road New Jersey
New Jersey Citizen Action
New Jersey Policy Perspective
New Jersey Work Environment Council
New Jersey Working Families Alliance
Our Revolution Essex County NJ
Salvation and Social Justice NJ
Save Our Schools NJ Community Organizing
Wind of the Spirit

Cc: Members of the New Jersey State Senate