As New Jersey policymakers close in on a deal to boost New Jersey’s transportation funding, a bold solution that raises at least $1 billion in new revenue a year through new gas taxes is essential if New Jersey wants to take advantage of one of its greatest economic assets – its location – and rebuild a strong state economy. Equally essential is strengthening a key tax credit for working families – the Earned Income Tax Credit (EITC) – to ease the disproportionate pinch a gas tax increase would mean for low-income households.

Focusing on some kind of gas tax increase to fund the state’s transportation needs makes sense. New Jersey’s gas tax has not been increased in nearly a quarter-century – it is now the second lowest in the nation. And taxing the users of roads and bridges is the best way to raise the money needed to maintain and modernize the state’s roads, bridges and transit systems.

Policymakers and others have made a variety of proposals to raise the money needed to fund New Jersey’s transportation needs. For example, NJPP has proposed that the sales tax be extended to gasoline. Others have proposed a per-gallon tax increase (an increase of at least 25 cents per gallon is needed to raise $1 billion a year). And lawmakers have introduced legislation to increase the existing tax on petroleum products, which would be similar to extending the sales tax to gas purchases, but at an earlier point in the distribution process.

An increase in a percentage-based tax on gas or petroleum products is important because it will ensure that the revenue collected to pay for transportation projects rises as gas prices increase and decreases as prices drop, tying it automatically to inflation and making it less likely than the per-gallon tax to lose its value over time. However, lawmakers should not rule out an increase in the per-gallon gas tax in addition to a percentage-based tax increase, in order to bring even greater stability to New Jersey’s transportation funding.

Regardless of which proposal lawmakers choose, low-income households would shoulder more of the cost as a share of their income. That’s because taxes on gas and related products are inherently regressive, meaning that lower-income households pay greater shares of their income to the taxes. That’s why it’s crucial that policymakers take additional steps to level the playing field.
Strengthen the EITC to Offset Impact on Low-Income Taxpayers

Policymakers could use a number of tax credits to help offset the impact of a gas tax increase on low-income families. But reversing the cut they made in 2010 to the state’s EITC – which gives low-income working families a modest break on their state income taxes – makes the most sense. The EITC would reach most New Jerseys affected by a new gas tax.\(^4\) Plus, unlike a new credit or rebate tied specifically to fuel purchases, the EITC already exists, so policymakers would not have to design something new and the state would not have to incur the software and administrative costs of implementing a new tax credit.

Under the sales tax plan or petroleum products tax increase, for example, strengthening the EITC would ensure that nearly all New Jersey households – 80 percent – shoulder an equal share of the tax increase as a proportion of their income. (Non-New Jersey residents would pay more than a quarter of the revenue raised – 27 percent – from any gas tax hike.) Without the EITC restoration, households earning less than $45,000 a year would pay more toward the new tax as a proportion of their income than everyone else.\(^5\)

Boosting the EITC is Important Regardless of Transportation Fix

Since the EITC is so effective in helping working families and improving the opportunities of low-income children, policymakers need to work on strengthening it regardless of the transportation fix. Lawmakers should reverse the 2010 cut to the EITC – which has taken about $250 million out of the pockets of a half-million New Jersey working families – and should consider boosting the credit \emph{above} 25 percent, as six states and the District of Columbia have done,\(^6\) to give low-income working New Jerseys a better shot at the middle class.
Beware of Harmful ‘Reform’ Proposals

As a gas tax increase starts to look more inevitable, some policymakers are calling for the state to undertake broader tax changes as part of the process. But the idea gaining the most traction would mostly benefit the wealthiest New Jerseyans while further harming the state’s ability to pay for essential public services.

Pairing a much-needed gas tax hike with a reduction in or elimination of New Jersey’s estate or inheritance taxes, as several lawmakers have suggested, makes little sense. The potential gas tax increase is for a specific need – improving our deteriorating transportation infrastructure paid for by those who use it. Cutting the estate or inheritance taxes would drain the general fund and give a tax cut to the very households that stand to feel the least impact of the gas tax hike.

To be sure, New Jersey badly needs a full and rigorous review of its taxes, but the estate tax/gas tax trade is clearly not such a review. Pretending like it is, while masking the harmful effects of such a deal, is irresponsible.

Overall Tax Structure Would Become Less Equitable

The proposals to increase the gasoline or petroleum products taxes would affect everyone who drives in New Jersey. Taken alone, these proposals are regressive, meaning that hundreds of thousands of families in the bottom-earning 40 percent of New Jersey households would pay greater shares of their income, on average, toward these new gas taxes. Meanwhile, estate and inheritance taxes are progressive, meaning that they apply to only a few thousand families at or near the top of the income and wealth scales.
In fact, over the past three budget years (July 1, 2011 through June 30, 2014), estates worth over $1 million made up the lion’s share of estate and inheritance tax revenue – 72 percent – even though those estates only make up 30 percent of the total number of estates subject to the taxes.\textsuperscript{8}

To trade an increase in a tax that hits low-income and middle-class New Jerseyans hardest with a cut in a tax that overwhelmingly benefits their wealthy neighbors would make New Jersey’s overall tax structure – which is already tilted in the favor of those with higher incomes\textsuperscript{9} – less equitable. It makes far more sense to mitigate the disproportionate impact on low-income New Jerseyans with an EITC boost.

\textit{Potential Costs to the State Are Enormous}

Taken together, the estate and inheritance taxes are among the largest sources of revenue in the state budget. In the most recent budget year that has been fully audited, ending June 30, 2013, New Jersey collected $624 million from these taxes.\textsuperscript{10} The final 2014 budget expected $715 million in revenue from them, and the adopted 2015 budget projected $758 million in collections.

Taking this revenue – or any significant chunk of it – out of the state’s coffers at a time when New Jersey is already unable to meet its current financial obligations would create a large hole in the budget and jeopardize the state’s ability to pay for essential public services that average people rely on each day, like our public schools.

On the other hand, restoring the EITC to make sure low-income residents aren’t shouldering most of the load from a gas tax increase would cost New Jersey much less, at an estimated $57 million a year. This constitutes a much smaller chunk of the state budget, and it is an investment that pays real dividends for New Jersey’s working families. The children of families that receive the EITC have been shown to do better in school and have increased earnings later in life, meaning that they are able to more fully participate in and contribute to the state’s economy in the next generation.\textsuperscript{11}

If policymakers consider estate or inheritance tax cuts, they must find new revenue to make up for what would be lost. And that means something more than a vague promise of new revenue based on faulty economic assumptions.

Proponents claim that cutting the inheritance and estate taxes will keep wealthy New Jerseyans from leaving the state, and therefore equal more revenue collected from other taxes these folks pay.\textsuperscript{12} But the overall amount of annual

\begin{figure}[h]
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\caption{Despite Estate Tax Changes in Other States, Revenue Continues to Grow in New Jersey}
\end{figure}

\textit{While there have been dips during economic downturns, particularly during the Great Recession, overall revenue from New Jersey’s estate and inheritance taxes has grown by 56 percent since 1996. This growth has come at a time when many other states have reduced their estate taxes.}

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revenue from these taxes has risen by 56 percent over the past 15 years, even as many other states have reduced these taxes. So it’s hard to argue that the taxes are prompting large numbers of wealthy people to move elsewhere.

**Few New Jerseyans Would Benefit**

Even though the dollar amounts collected by the estate and inheritance taxes are quite large, these taxes are collected from relatively few households of considerable wealth. Over the past three budget years, an average of just 7,550 estates were subject to either tax: 4,790 paid the inheritance tax and 2,760 paid the estate tax. The total number of estates being taxed, however, is likely less, since some but not all estates are subject to both taxes.

For the last three full years for which data are available, an average of 68,964 people died each year in New Jersey. So, at most, these taxes are being levied on just 11 percent of New Jerseyans who’ve died in any given year. And that share is likely lower, since the taxes can apply to non-residents while the death statistics focus only on New Jersey residents, and since some estates pay both taxes.

The EITC restoration, on the other hand, would have a much wider impact and affect far more New Jersey families, giving a much-needed boost to over a half-million New Jersey households.
Endnotes


3 Assemblyman John Wisniewski has introduced legislation to increase the percentage tax on petroleum products by 6.25 percentage points, to 9 percent; it is currently 2.75 percent. See A-3886 for details: http://www.njleg.state.nj.us/2014/Bills/A4000/3886_I1.PDF

4 Even though the EITC would not reach every low-income household affected by the new tax (like single workers without children who earn more than $14,590 a year) while reaching some who are not affected by it (like families who rely on mass transit), it is the best option to help low-income working families and far better than fixing the transportation-funding mess *without* restoring the EITC.

5 Tax impact figures by income bracket are from the Institute on Taxation and Economic Policy’s microsimulation model. For more details about that model, visit: http://www.itep.org/about/itep_tax_model_simple.php


8 All detailed information on the estate tax and inheritance tax collections for Fiscal Years 2012-2014 is from the Office of Legislative Services.


