NEW JERSEY POLICY PERSPECTIVE

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Very Big, Very Few, and Far Away: Majority of Companies That Would Pay the Corporate Transit Fee Are From Out-of-State

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New Jersey's economy relies on NJ Transit to move millions of residents to their jobs, schools, doctor's appointments, and grocery stores. However, after decades of disinvestment and with federal pandemic aid about to expire, NJ Transit faces a nearly $800 million shortfall, even after the agency approved a 15 percent fare hike earlier this year.[i] To fully cover the budget deficit and get NJ Transit's finances back on track, Governor Murphy has proposed the first-ever dedicated source of funding for the agency: a Corporate Transit Fee on the biggest and most profitable corporations in the world, the overwhelming majority of which are headquartered outside of New Jersey.[ii]

The proposed Corporate Transit Fee would generate approximately $1 billion in revenue and only apply to corporations with net *profits* exceeding $10 million, representing less than 1 percent of all corporate taxpayers in New Jersey.[iii] Because the tax applies to profits made *in* New Jersey and not just companies located in the state, more than 4 out of 5 of the corporations that would pay the fee are out-of-state and multinational companies.

Despite claims from corporate lobbyists that this fee could hurt New Jersey businesses, the state's recent history suggests otherwise. Over the last six years, the same companies targeted by the 2.5 percent fee were already paying the same tax rate under the now-expired Corporation Business Tax surcharge, and they made record-breaking profits when the surcharge was in effect while tax revenues increased accordingly.

With the future of NJ Transit on the line, the Corporate Transit Fee would save the agency and ensure that the most profitable corporations in the world contribute their fair share to critical infrastructure that provides as many benefits to these companies as it does to the public.

The Corporate Transit Fee Targets the Top 1 Percent of Corporations

The Corporate Transit Fee is highly targeted to the most profitable corporations with the highest ability to pay. Out of more than 116,000 corporate filers in the state, the Corporate Transit Fee would only apply to approximately 600 companies, the top 0.5 percent.[iv] The fee would not apply to New Jersey's mom-and-pop businesses, or even most of the state's corporations, as more than 99 percent of corporate filers would not pay it.

Less Than 1 Percent of Corporations Filing Taxes in New Jersey Would Pay the Corporate Transit Fee

Percentage of corporations filing taxes in New Jersey with more than $10 million in profits.

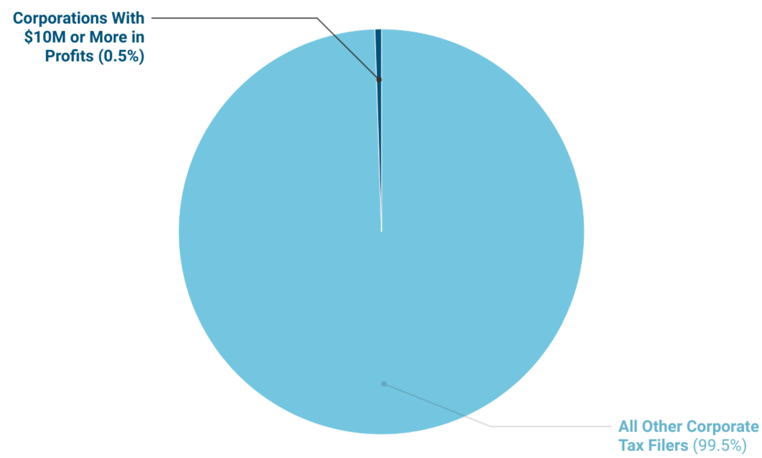


Chart: New Jersey Policy Perspective • Source: New Jersey Department of Treasury • Created with Datawrapper

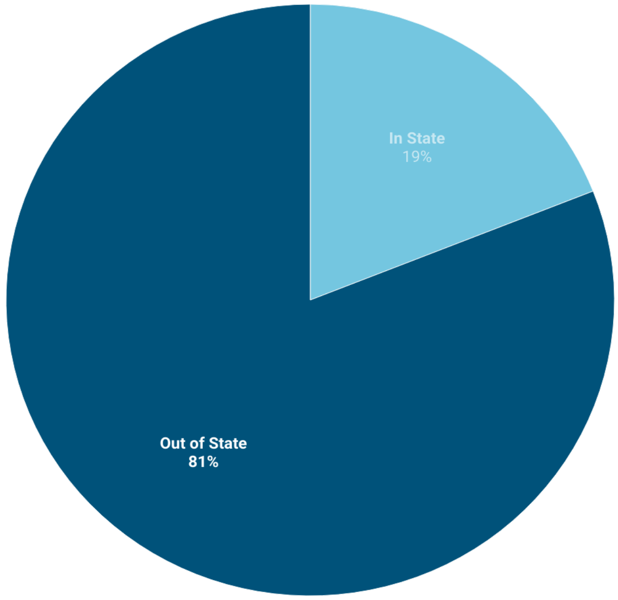
With corporate profits skyrocketing and large multinational companies concentrating enormous wealth and power, the Corporate Transit Fee would help level the playing field by making the tax code more progressive. Currently, corporate filers in New Jersey pay the same tax rate whether they have $100,000 in annual profit or more than $100 million.[v] This holds New Jersey's small, midsize, and even large corporations to the same standard as corporate behemoths like Amazon, Walmart, and Bank of America.

The Majority of Companies That Would Pay Are From Out-of-State

Business lobbyists often portray the Corporate Transit Fee as a tax exclusively on New Jersey companies, but the data tells a different story. Among the roughly 600 corporations that would pay the Corporate Transit Fee, more than 4 out of 5 — 81 percent — are headquartered outside New Jersey.[vi] This is a result of the fee's design, its high annual profit threshold of $10 million, and broader economic realities like increasing corporate concentration and the proliferation of online shopping.

Most Corporations That Would Pay the Corporate Transit Fee Are Out-of-State Companies

New Jersey corporate tax filers with profits over $10 million, by headquarter location.



Note: The Office of Revenue and Economic Analysis (OREA) used Tax Year 2021 Corporation Business Tax data compiled by the Division of Taxation. Based on the corporation's business registration profile and reported headquarter address, OREA estimates that, if the proposed $10 million threshold Corporate Transit Fee existed in TY 2021, approximately 19% of the corporations paying the fee would have been New Jersey resident corporations. This share may change from year to year.

Chart: New Jersey Policy Perspective • Source: New Jersey Department of Treasury • Created with Datawrapper

Like other corporate taxes, the Corporate Transit Fee is based on profits generated in New Jersey, regardless of where a company is headquartered. This means that corporations can be subject to the fee even if they do not have any physical presence in the state or employees working here, undermining the already unsubstantiated claims made by business lobbyists that the fee makes the state less attractive to businesses.

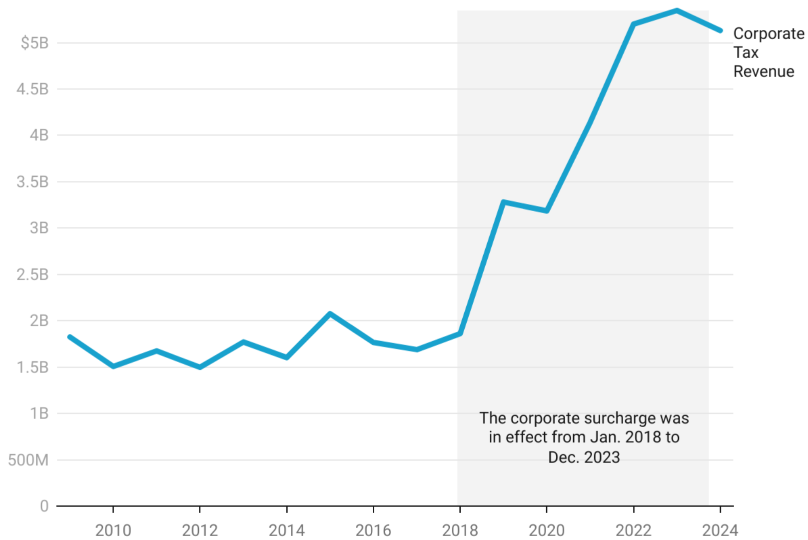
New Jersey will continue to collect corporate tax revenue as long as multinational corporations and out-of-state businesses continue to profit from sales to New Jersey consumers. Whether it's Amazon delivering packages, Tesla selling vehicles, or Adobe selling Photoshop, the Corporate Transit Fee won't stop them from doing business in New Jersey.

Corporations Make Record Profits Even With Corporate Taxes

There's no need to speculate about the potential impact of the Corporate Transit Fee on corporate profits or New Jersey's business community. Over the last six years, corporate profits and corporate tax collections both skyrocketed in New Jersey with an almost identical tax in place: the 2.5 percent Corporation Business Tax surcharge on corporations with more than $1 million in annual profit. Between 2017 and 2023, corporate tax revenue in New Jersey more than tripled from $1.7 billion to over $5.3 billion.[vii] At the same time, corporate after-tax profits reached record levels.[viii] This evidence shows that a modest and targeted tax on the world's most profitable corporations does not stop them from making record-breaking profits, nor does it impede state tax collections.

Corporate Profits and Tax Collections Skyrocketed in New Jersey With the Corporate Surcharge in Effect

Corporate tax revenue before, during, and after the corporate surcharge, in 2024 dollars.



Note: Data organized by fiscal year. Data for 2024 is an estimate based on the FY 2025 budget proposal, which includes surcharge collections ending December 2023.

Chart: New Jersey Policy Perspective • Source: NJPP analysis of Governor's Budgets since FY 2009 • Created with Datawrapper

Since 2017, New Jersey's corporate tax collections have not only been record highs for the state but also far outpaced comparable states in the Northeast and Mid-Atlantic. During that period, New Jersey's corporate tax collections increased by 310 percent, almost triple that of neighboring Pennsylvania, a state with lower corporate tax rates that business lobbyists often point to in their efforts to lower their own tax obligations.[ix] The suggestion that reducing the corporate tax rate is beneficial to anyone but those corporations is simply unfounded, and New Jersey's experience with the corporate surcharge shows that large corporations can remain ultra-profitable even while paying a modest tax on their profits.

The Corporate Transit Fee Makes Fiscal and Common Sense

Requiring the most profitable corporations in the world to help fund the infrastructure they benefit from makes fiscal and common sense. Companies like Amazon, Coca-Cola, and Walmart continue to generate record-breaking profits and can easily afford to pay the

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Corporate Transit Fee without it hurting their bottom line, and having a reliable mass transit system is in the best interest of riders, the business community, and the broader economy. By targeting very big, very profitable, and mostly out-of-state corporations, the Corporate Transit Fee is a necessary step to save NJ Transit and improve service without once again balancing the agency's budget on the backs of riders.

[i] New Jersey Transit Board of Directors, Meeting Minutes for March 12, 2024, Exhibit A, FY25 Operating Budget, p. 67426, https://content.njtransit.com/sites/default/files/board/meeting_minutes/2024_03_12_OpenSess.pdf. The budget anticipates $766.8 million in Corporate Transit Fee revenue to cover its shortfall from other revenue sources.

[ii] NJPP analysis of data from New Jersey Department of the Treasury.

[iii] Governor's Budget in Brief FY25, p. 60.

[iv] NJPP analysis of data from New Jersey Department of the Treasury.

[v] N.J. Stat. 54:10A-5(c)(1). For a plain English explanation, see NJ Division of Taxation, *Corporation Business Tax Overview*, https://www.nj.gov/treasury/taxation/corp_over.shtml (2023).

[vi] New Jersey Office of Revenue and Economic Analysis review of tax year 2021 business registration data and reported headquarter address.

[vii] NJPP analysis of New Jersey state budgets for fiscal years 2011-25.

[viii] U.S. Bureau of Economic Analysis, Corporate Profits After Tax (without IVA and CCAdj) [CP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CP, May 3, 2024.

[ix] NJPP analysis of Federal Reserve state corporate income tax revenue data.

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