Closed For Business:
Is New Jersey Pushing Out Small-
And Medium-Sized Companies?

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INTRODUCTION

In 2014, RegentAtlantic released a paper titled *Exodus on the Parkway: Are Taxes Driving Wealthy Residents Out of New Jersey?* A team of RegentAtlantic advisors that works with small business owners recently decided to complete this paper as a follow up to the original piece. Our team refocused the issues related to out-migration taxes on the lifeblood of the state: business owners.

In conducting our research we interviewed more than 100 small- to medium-sized New Jersey business owners. Our goal was to understand the challenges they face as New Jersey-domiciled businesses; their personal financial situations and whether these business leaders will continue to call New Jersey home; and what business owners think needs to be done to improve the state's small business environment.

This paper will focus on:

- Profiles of actual New Jersey-based businesses
- Economic conditions in NJ and the lack of robust business growth
- New Jersey state incentive programs available to attract new business
- The continued out-migration of wealthy individuals and in particular, the out-migration of millennials
- How out-migration impacts New Jersey charities

About RegentAtlantic

RegentAtlantic has been an independently owned Registered Investment Advisor since 1982. At RegentAtlantic we define Wealth Management as the integration of financial planning and investment management to help our clients achieve their personal and financial goals. All of our wealth management advisors are fiduciaries, a legally defined standard of guidance and service that means an advisor is required to always act in his or her clients' best interests.

The wealth management advisors who authored this whitepaper have a distinct focus on working with business owners. We specialize in helping our clients develop a plan for their financial independence, preparing their transition out of a business financially and psychologically, generating a paycheck from the portfolio, succession planning, domicile planning and other strategic planning matters that come with owning a business. We authored this whitepaper because of our concern about the economic conditions affecting the success of small to medium sized businesses in NJ today and the increasing potential that business owners may leave the state.

EXECUTIVE SUMMARY

RegentAtlantic's 2014 white paper "Exodus on the Parkway: Are Taxes Driving Wealthy Residents Out of New Jersey?" focused on the out-migration of the state's retirees due to high income, estate, and property taxes. The paper continues to be cited as a seminal source on out-migration research.

Our latest findings indicate that the outmigration trends of wealth individuals continue to accelerate and a new burgeoning trend has joined it – **NJ business owners are questioning their futures here in New Jersey**. Some have decided to take their family and their business and go. Others have opened additional locations outside of NJ for a variety of cost saving or strategic reasons. We conducted field research, interviewing over 100 small to medium sized business owners to gauge their view of the current economic climate in NJ and their plans for the future.

We share in this paper several business case studies, which are actual situations. **We heard very similar comments from the business owners we interviewed and we identified several key themes:**

1. If the business owners we interviewed could start their companies again, almost half of them 43% said they would likely ***not*** domicile their company in New Jersey. A slightly higher 47% of respondents would still base their firms in New Jersey, while 10% were undecided.

2. Business owners would seriously consider opening their next business location somewhere other than New Jersey, due to regulatory concerns and the state's high taxes. Some of their competitors have already been lured to other states by state-sanctioned economic incentives. In the NJBIA 2016 Business Outlook Survey, 62% of business owners indicated that if they are able to expand their business, they will look to do so outside of NJ.

3. Even if they keep their companies in New Jersey for the time being, 65% of the business owners we interviewed said they will likely leave the Garden State after retirement to escape high property, income, and estate taxes. Only 24% of our survey respondents said they plan to stay. Another 11% were undecided.

New Jersey's Business Brain Drain

Our research shows that New Jersey is, indeed, suffering from an entrepreneurial and intellectual brain drain. Business owners tell us they find the state's increasingly tight regulatory environment and New Jersey's overall tax burden to be a significant barrier to their success. Business owners' response: They consider moving their companies.

RegentAtlantic believes this is an issue of great concern to all New Jersey residents — not just business owners. We recognize that small- and medium-sized businesses are the lifeblood of our economy. They create local jobs, attract workers and their families from other parts of the country, improve corporate facilities in New Jersey municipalities, pay taxes, help support local charities, and contribute to both the cultural and social fabric of our communities. When business owners, employees, and their families leave New Jersey, all of our state's tax-supported organizations — and our vibrant culture — stand to suffer.

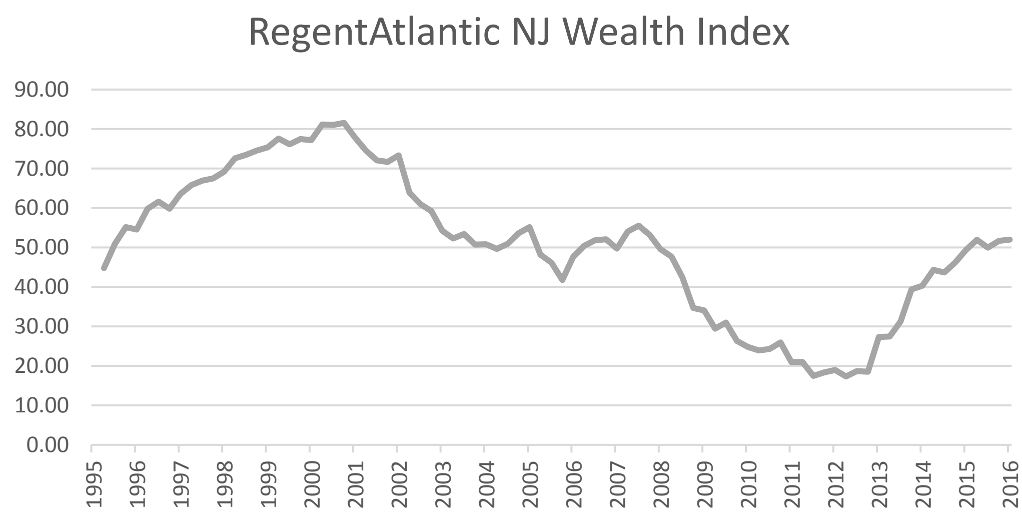
Key business factors we'll discuss:

- **From 2004 to 2013, New Jersey added only 3,380 net-new companies.** This data came from the Bureau of Labor Statistics (BLS). It's a number so insignificant that it's almost hard to believe. Florida, New York, Pennsylvania, and North Carolina all produced much stronger results. For a variety of reasons such as tax structure, climate, and proximity these states are key competitors to NJ for businesses. And they are winning.
- **Out-migration costs New Jersey serious money.** A recent example: During the three-year period from 2010 to 2013, New Jersey lost approximately $6.7 billion of adjusted gross income from out-migrating residents. The primary destination states (in random order) include North Carolina, Pennsylvania, New York, and Florida. Depending upon the industry in which their company operates, pre-retiree business owners tend to favor North Carolina, South Carolina, or Pennsylvania. North and South Carolina are attractive to owners of manufacturing plants. Pennsylvania appeals to a wide range of industries. Retirees favor Pennsylvania, New York, or Florida.
- **Millennials are leaving New Jersey and taking their expensive diplomas and work skills with them**. New Jersey housing and property taxes, in particular, remain among the most expensive in the country. That can make living here too costly for many younger workers. The result: Our well-educated (thanks to New Jersey's excellent public schools and universities) young people are increasingly choosing to live and work elsewhere. The future success of business in NJ depends on their entrepreneurial spirit and ideas. According to the American Community Survey, 18-29-year-olds were the largest group of residents to leave New Jersey from 2007 to 2014.
- **New Jersey's economic recovery is lagging behind the rest of the country.** Our most positive economic development in 2015 was an increase in the number of workers. However, the state is still about 50,000 workers short of its 4.1-million-worker high point in 2008. The rest of the country has, on average, already recovered all of jobs lost during the recession. Personal income has also grown much slower in NJ than the rest of the country.
- **New Jersey spends big on business incentive programs but lacks results.** NJ is the 5th biggest spender among all states on business incentives. The spending in this area has ramped up recently and some of the results are still unknown. While our willingness to compete here is admirable, we need to make sure the results keep pace with other competing states.
- **Charities in New Jersey are suffering just when we need them the most**. Charities can help provide necessary services and take the place of government services in many areas. However, when taxed heavily, people give less. Garden State nonprofits have aggregate net assets of $69 billion. This averages $7,785 per resident. The national average is $9,480.

NEW JERSEY ECONOMIC AND FINANCIAL CONDITIONS:
RegentAtlantic New Jersey Wealth Index

The RegentAtlantic New Jersey Wealth Index (RANJWI) is a proprietary index that measures the "health of the wealth" in New Jersey. RegentAtlantic bases the index on four major components: Stock Performance Values, Employment, Personal Income, and Home Values. Scores can range from 0 to 100, with figures above 50 indicating that the state has experienced an above-average environment for wealth creation.

The graph below tracks the RANJWI from 1995 through the end of 2015. The RANJWI's value for the first quarter of 2016 was 51. That indicates that the economic environment in the state has been close to average for wealth creation for that time period.



What does the above 20 years' worth of information tell us? New Jersey was booming in the late '90s along with the rest of the U.S. economy. We weathered the 2000-02 recession very well, thanks to a robust housing market and better-than-expected employment. The wealth-creation environment stagnated afterward, though, held back by subpar income growth and New Jersey company stock prices.

The financial crisis and associated 2007-09 recession took the RANJWI to record lows. Falling home prices, a weak stock market, high unemployment, and slow income growth created a very adverse environment for wealth creation in the Garden State. The index hit an all-time low in mid-2012 at a value of just 17. The recovery since then to the First Quarter 2016 figure of 51 was then very rapid. It also became broader in 2015, with more components of the index showing improvements.

Closer Look at the Post Recession Changes in the Four Components of RANJWI

A strong rebound in New Jersey company stock prices
The recovery in the health of New Jersey's wealth was limited at first coming out of the great recession. Initially the recovery in wealth creation was driven by a buoyant stock market, especially the stock prices of some of New Jersey's largest businesses. Those price increases included major pharmaceutical firms such as Johnson & Johnson and Merck. Starting in 2014 and continuing throughout 2015, other components of the index became more supportive of wealth in the state.

Trends to Watch:

- Employment in New Jersey is improving. The state added 65,000 jobs in 2015, the best gain since 2012. This has helped push New Jersey's unemployment rate down to 5.1%, which is close to the national average.
- New Jersey's home-price recovery has lagged behind national averages. Home prices around the country, as measured by the Federal Housing Finance Agency (FHFA), rose 5.6% in 2015. New Jersey home prices are up only about 2.9% for the same period.
- Personal income was up 3.8% in 2015 in New Jersey. This growth rate declined from the 2014 growth rate but is still rebounding nicely from extremely low prior levels. National income rose 4.1% in 2015 by comparison.
- New Jersey stock prices have fallen behind the S&P 500 over the past 12 months, with healthcare companies based in New Jersey driving the difference. Merck, Allergan, and Celgene, in particular, have seen their stock prices fall behind other pharmaceutical firms and the market at large in response to weak earnings growth in 2015.

Employment improving, but still lagging
The strongest positive development of 2015 was an increase in the number of workers in the state. Since hitting a low point in early 2010, payrolls in New Jersey have increased by about 200,000 workers. This is strong progress back to normal.

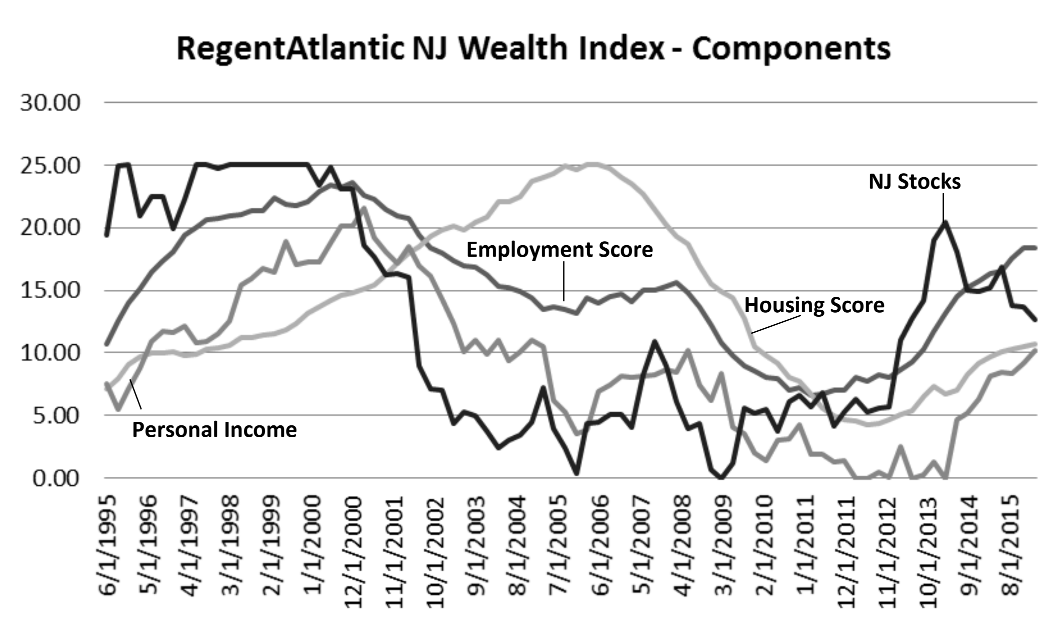
However, it's important to note that New Jersey employment peaked in 2008, with approximately 4.1 million workers statewide. The state is still about 50,000 workers short of that high point. New Jersey is lagging behind the rest of the country, which has recovered all of the recession's losses, on average.

Personal income trend is slowly rising
The personal income factor has registered the lowest score of all the NJRAWI components from 2010 to present. It has been symptomatic of our struggles to generate a robust business recovery commensurate with the rest of the nation. Fortunately, in the 12 months ending September 30, 2015, personal income in New Jersey grew about 2.9%.

Early indications suggest that workers throughout the country were successful in securing better wage growth in 2015. That means the personal-income-increase trend could continue to improve.

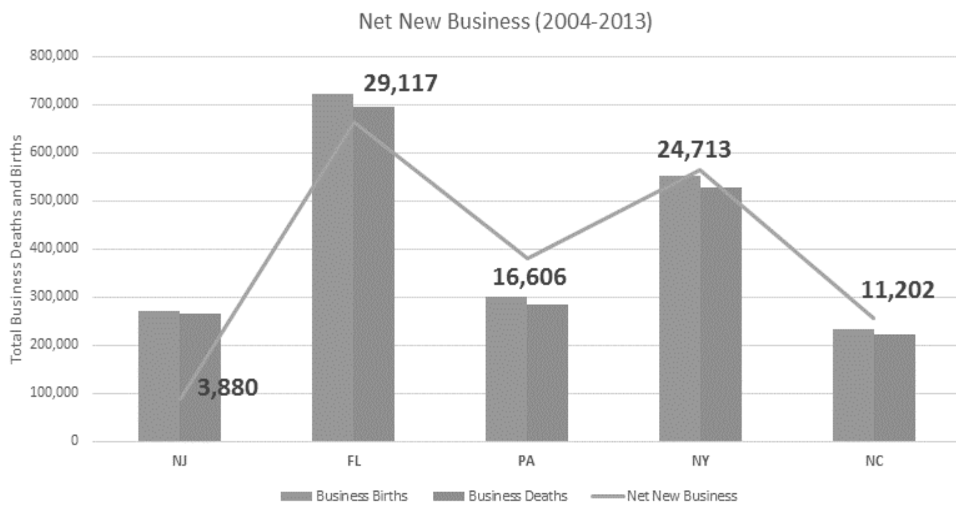
Home prices improving but still a major concern
Values for New Jersey homes have increased about 2.9% over the past year, which is a stronger showing than the state has produced during much of the recovery. Overall, though, state home values are essentially unchanged from their levels in 2004. New Jersey home prices continue to lag behind gains in the rest of the country.

In RegentAtlantic's opinion, home prices are one of the weakest links in the state's economic conditions.



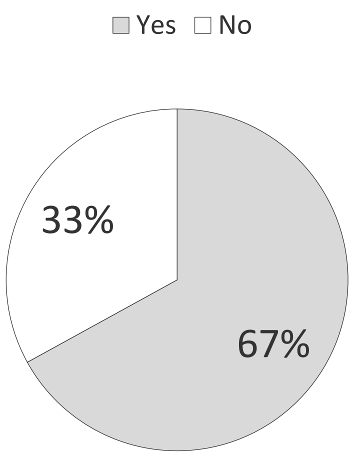
Business Out-Migration

When a business closes or leaves NJ the local economy takes a multi-faceted blow. The impact is felt in a reduction of corporate taxes (business), personal income taxes (employment losses), and sales taxes (consumption decline). Net new businesses have totaled only 3,880 for New Jersey over the 10-year period of 2004-2013. This number indicates that New Jersey is significantly behind the amount of business creation occurring in competing states over the same time period.



*Source: Bureau of Labor Statistics

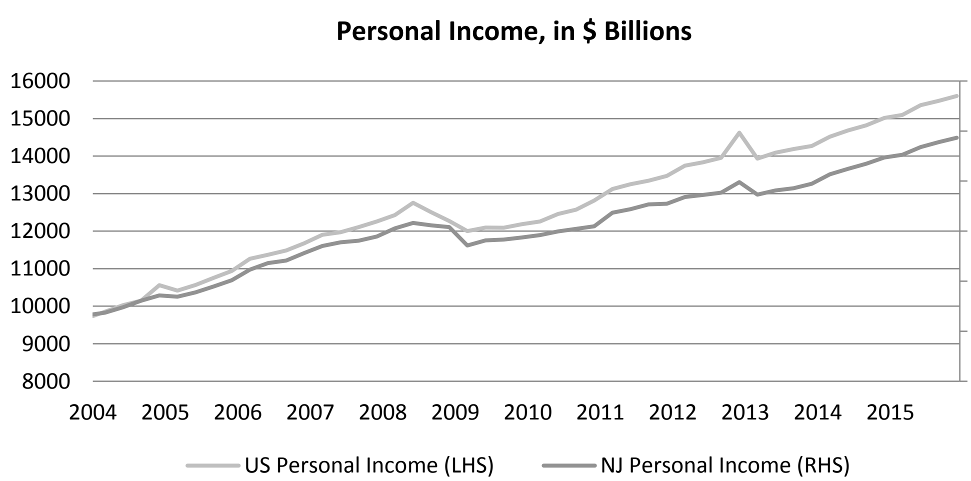
Do state inheritance or estate taxes affect decisions regarding your business' future?



Source: NJBIA 2016 Business Outlook Survey

Sounding the revenue alarm
The collective silence on the issue of New Jersey business out-migration is confounding. Income tax revenue is the number-one revenue stream for New Jersey, accounting for about 45% of state revenues. In fiscal year 2015, New Jersey collected $13.25 billion in state income taxes — or almost half of its $29.2 billion total major revenues. (Source: New Jersey Office of Legislative Services)

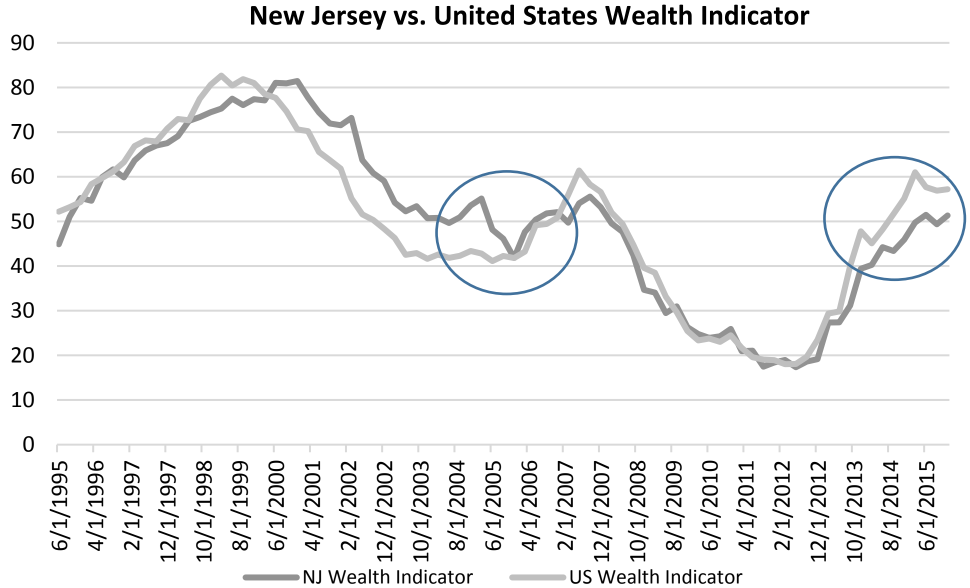
Without support to help New Jersey businesses grow and employ more people, the state simply stands no chance of balancing its budget and funding all the services it hopes to deliver to residents. Further evidence of this disturbing trend can be seen in personal income growth figures.



The economic recovery has not been robust in New Jersey, relative to the rest of the country. Personal income in the United States has grown a cumulative 60% since 2014, while personal income in New Jersey has only risen 48%. The Garden State's inability to foster entrepreneurship, create new high-paying jobs, and bring talented, well-educated graduates back home after college all point back on some level to the unfriendly business environment the state has created.

A Longer-Term Perspective on 'How We Got Here'

Let's look back at the RegentAtlantic New Jersey Wealth Index previously shown and now overlay the same statistics for the United States (chart below). To review, the index is based on four major components: New Jersey Stock Performance Values, Employment, Personal Income, and Home Values, and can range from 0 to 100. Figures above 50 indicate that it has been an above average environment for wealth creation.



New Jersey Business Owner Profile: Boat Tax Changes are Promising But Personal Taxes Remain a Challenge

About the Business: Company M*, a marine sales business, is seeing a healthy increase in its sales. The company's profits have particularly benefited from a recent New Jersey taxation change: Prior to December 2015, New Jersey had no cap on state boat sales taxes. Nearby New York capped its boat tax at $18,000 and Florida capped the tax at $17,000. Savvy buyers of luxury boats had no reason to buy their vessels in New Jersey and pay significantly higher sales tax. The result: Garden State marine businesses lost out.

At the end of 2015, however, a new New Jersey law capped the state's boat sales tax at $20,000—low enough to make it competitive with other states. Also, the boat tax is soon expected to be cut in half—from 7% to 3.5%. Company M's owner is encouraged by these changes. However, he is still waiting for similar reforms in personal taxes.

Number of Employees: 17 and expanding.

Employee Demographic: Skilled labor. Getting tougher to find in New Jersey.

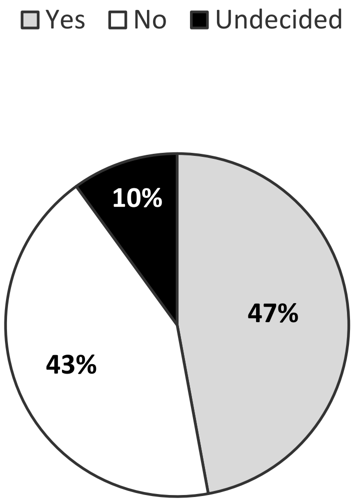
New Jersey Business & Tax Challenges: The owner's primary tax concerns are personal: He pays so much in state taxes that he has curtailed his charitable contributions. He would be happy to give more, he says, if he weren't already giving so much to the state of New Jersey.

Ideal Alternate Corporate Location: Florida or anywhere located near water.

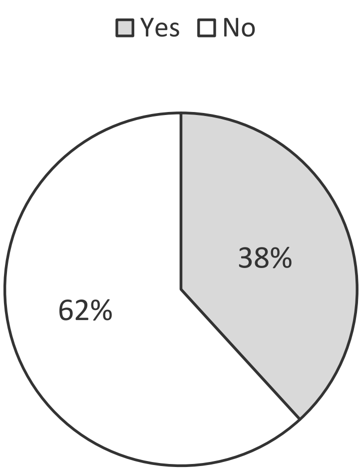
Retire in New Jersey? No. Discouraged by estate and personal taxes, he has already bought a Florida home.

** Company name has been changed for confidentiality.*

Would you start your business in NJ if you were starting out today ?



If you are planning to expand, would you open another location in NJ?



Source: NJBIA 2016 Business Outlook Survey

The climate for wealth creation in New Jersey was very strong, on a relative basis, in the late 1990s and into the early 2000s. However, the Garden State reached a key turning point and lost its competitive advantage by the middle of the latter decade. Housing was still riding high and employment was solid, but New Jersey companies began to struggle and income growth was not keeping up.

There is no doubt at least some correlation between this change in competitiveness and the increasing tax burden levied on businesses and individuals. The tax climate changed significantly in the year 2004 (e.g. New Jersey's "millionaire's tax" was introduced). The tax changes resulted in shock and frustration among the state's business community leading some to consider the benefits of more tax friendly states.

Lagging personal income and housing recovery

The second key turning point highlighted in the above chart is the weakness of New Jersey's recovery relative to that of the national economy. As stated earlier, personal income is the major factor holding back New Jersey. It speaks directly to the state's inability to foster high levels of business creation and growth.
In addition, New Jersey's housing recovery has trailed the U.S. housing market — another factor that can be related to the high tax burdens New Jersey residents face. New Jersey ranks highest in the nation for property taxes both as a percentage of property value (2.38%) and as a tax collected per residence ($7,335). The second highest dollar amount collected per residence is in Connecticut at $5,244.

New Jersey's property taxes hypothetically could fall 25% and the Garden State would still have the highest tax bills in the nation. (Source: Tax Foundation)

RELOCATING BUSINESSES

The decision to move a business to another location — particularly to a whole different state — is multi-faceted. There are many factors that will affect the business and also affect one's personal life. First, we will explore the various business cost savings that can typically be experienced by leaving NJ. Then we will dive into the personal issues, both qualitative life choices and quantitative financial flexibility.

Change in Business Costs

The previous section focuses on potential savings for business owners who leave New Jersey. However, the businesses themselves will also see significant cost reductions by relocating out of New Jersey. The three areas of cost savings we'll focus on are:

1. Health insurance
2. Corporation Business Tax (CBT)
3. Paid sick time

While we are only focusing on a few areas of savings, there are several other areas of inefficiency. Areas such as municipalities adopting their own legislation on labor and employment issues, or the lack of a uniform labor law between the state and federal government.

Health insurance savings
One area for significant potential savings for both the employer and employee is health insurance. Nationally, the average annual health insurance cost per employee is $9,736. Below are the top five highest-cost states for employee health insurance:

1. Alaska: $12,822
2. New York: $12,162
3. **New Jersey: $12,059**
4. Vermont: $11,920
5. Massachusetts: $11,468

The cost of New Jersey health insurance premiums per employee is 24% higher than the national average and among the top three highest costs in the country.

Workers who are not covered by an employer-provided plan and need to pay for individual policies will also face higher-than-the-national-average premiums. The national average for individual policies is $235/month. New Jersey's rates are roughly double the national average, at $473/month. This means most workers would pay $2,800/year for their individual policies, while New Jersey workers would pay almost $5,700/year.

<u>Corporation Business Tax (CBT)</u>
Corporations in New Jersey are taxed in one of two ways depending on how the business is setup. If the business is set up as a pass through entity (LLC, partnership, or sole proprietorship) then New Jersey collects its tax on the individual's tax return. If the business is setup as a corporation, S-corp, or C-corp then New Jersey assesses a corporation business tax on the net income of the business.

There are four states (Nevada, South Dakota, Washington, and Wyoming) that don't have a corporate income tax, and a total of seven states (aforementioned states plus Alaska, Florida, and Texas) that do not have a corporate or individual income tax. Let's take a look at the NJ rates:

The New Jersey CBT rates are as follows:

- 6.5% on net income less than $50,000
- 7.5% on net income between $50,000 and $100,000
- 9% on net income greater than $100,000

In other words, it does not take long before a corporation reaches the 9% tax bracket. Furthermore, beyond the CBT, New Jersey assesses a fee based on the gross receipts of the company. For most companies the minimum tax a company must pay starts at $500 when gross receipts are less than $100,000 and increases to $2,000 when gross receipts exceed $1,000,000.

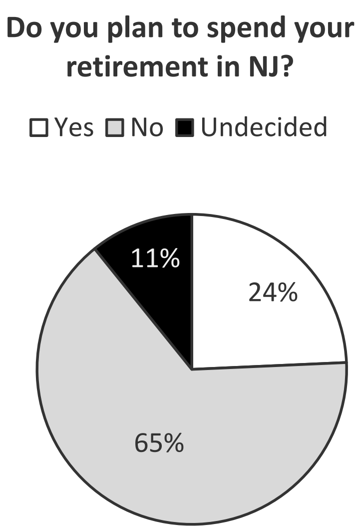
S-corporations are treated a little differently for purposes of calculating the CBT in New Jersey. One must file a specific S corporation election form, and they are subject to additional taxes based on the following gross receipt schedule:

- Revenue of less than $100,000 = $375 tax
- Revenue of $100,000 but less than $250,000 = $562 tax
- Revenue of $250,000 but less than $500,000 = $750 tax
- Revenue of $500,000 but less than $1,000,000 = $1,125 tax; and
- Revenue of more than $1,000,000 = $1,500 tax

Paid Sick Leave and Minimum Wage

New Jersey legislators proposed a bill in 2016 requiring employers of different sizes to offer paid sick time off. The bill requires that employer's offer one hour of paid sick leave for every 30 hours worked. This equates to about nine days per year. This cumulative amount and treatment of paid sick leave differs based on the company size. For example, employees of companies with less than 10 employees can accrue up to 40 hours of sick time and that sick time can be carried over to future years. For companies larger than 10 employees, the employees are capped in how much sick time they can carry over year-over-year to 72 hours.

In addition to paid sick leave, New Jersey's Assembly recently approved a bill increase their minimum wage from \$8.38/hour to \$15/hour. This increase would be phased in over time. As presented, the new minimum wage would be \$10.10 on January 1, 2017 and would increase by \$1.25/hour per year until 2021. After 2021, the minimum wage would be tied to changes in the Consumer Price Index (CPI). This bill resembles the bill recently passed by New York. New York enacted a bill in 2016 which will phase-in the minimum wage from \$9/hour to \$15/hour by 2019 for New York City workers. The rest of the state will be phased in by 2020.



Coupling these two changes means increased costs for business owners. A company of 15 employees, can be paying an additional \$9,000/year. While this may not be significant in any given year, this is an additional cost that needs to be incurred by the employer which can dissuade expansion or entrepreneurial activity. Business owners are clearly taking note of these potential developments.

Family Migration

There are many ***qualitative factors*** that go into the decision to relocate a family. Parents tend to carefully consider the neighborhoods available in the cities in which they're searching, the school systems' quality, and whether each town offers enough extracurricular activities for their kids. The quality of NJ private and public schools is excellent. New Jersey also offers many high caliber undergraduate educations.

Even single business owners with no kids will still face many qualitative decisions. They'll consider the social life in their potential new town/city, whether they can maintain their outside-of-work hobbies, the length of their morning and evening commutes, and more. Qualitative decisions like these are hard to concretely define, because they're unique to each person and family.

Clearer results can be found in the ***quantitative decisions*** related to relocating to another state. Our analysis focuses on the most common pre-retirement and post-retirement savings of migrating to another state. The factors we considered for families are:

- **Sales tax**. This is the amount of tax a resident pays every time they purchase an item. There is no uniform way to compare this tax fairly from state to state. Not only does the sales tax rate vary per state, but the items upon which the state assess sales tax varies. For example, some states do not assess a sales tax on clothing, while others do. The same is true of food sales
- **Tax on portfolio income.** The two components of this tax are: What is the state's income tax rate and does that state allow carry-forward losses?

- **Pension tax.** Not all states assess a tax on pension and retirement income. The situation gets complicated even further, as some states allow a *portion* of a retiree's pension income to be exempt
- **Property tax.** This variable is highly dependent on the size of the home purchased and the area in which the individual/family resides. For purposes of our analysis, the median home price for the includable states was used
- **Social Security tax.** Most states do not tax Social Security income. New Jersey is one of the few states that do

Business Owners: Taxes & Retirement

The line-up of states receiving our New Jersey business owners — both pre-retirees and retirees — typically is the same. In no specific order, the states are North Carolina, Pennsylvania, New York, and Florida.

When New Jersey business owners retire and leave the state primarily for income tax reasons, they tend to favor Florida. To understand why, let's look at a brief case study:

Case Study: Business Owners Move From New Jersey to Florida in Retirement

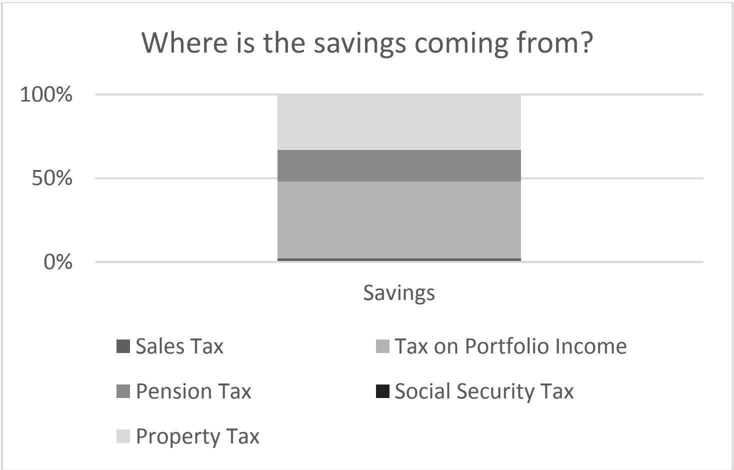
A couple (both age 66) wants to retire to Florida within the next year. They have a total net worth of approximately $5.6 million dollars, of which $3 million is in investible assets, $600,000 is in a home, and the remaining $2 million is tied up in their business.

The couple generates $90,000/year of taxable income from their portfolio, receives a pension of $50,000/year from a former teaching position, and they earn Social Security benefits of $42,000/year. This couple wants to be able to spend $125,000/year in retirement, adjusted for inflation. The table below shows the various types of taxes this couple can expect to pay on an annual basis.

Tax	NJ	FL	Savings
Sales Tax	$ 7,202	$ 6,836	$ 366
Tax on Portfolio Income	$ 7,661	$ -	$ 7,661
Pension Tax	$ 3,185	$ -	$ 3,185
Property Tax	$ 11,333	$ 5,832	$ 5,501
Social Security Tax	$ -	$ -	$ -
Total	**$ 29,381**	**$ 12,668**	**$ 16,713**

As you can see, by moving to Florida, this couple will have almost $17,000 more per year for discretionary spending. This money could go toward funding a grandchild's college education, supporting their favorite charity, or taking more trips. Over the course of this couple's lifetime, they'll save an astonishing $706,000 in tax — assuming the annual tax grows by 3% each year due to inflation. Additionally, the couple will save almost $1.8 million in estate taxes.

The breakdown of this savings can be seen below:



New Jersey Business Owner Profile: Longtime New Jersey Business Concerned About Access to Local Talent

About the Business: Company X*, is a New Jersey manufacturer. The owner is a long-time New Jersey resident, and that factored in to the company's location choice. However, even more important to the company's long-term success has been the firm's access to a highly skilled labor force.

Number of Employees: 80

Employee Demographic: Highly educated, several years of experience in the field, and generously compensated.

New Jersey Business Challenges: Company X has historically benefitted from being able to hire residents who were highly educated by New Jersey's exemplary public schools. The presence of top pharmaceutical companies ("Big Pharma") has also helped attract top job candidates to the area.

However, Company X's business climate is increasingly challenging. The firm's leadership points to New Jersey's astronomically high corporate, property, and personal taxes; tightening environmental constraints; and the increasing layers of city, county and state regulatory bureaucracy. In addition, many highly educated younger workers are finding it too expensive to live in New Jersey and are moving elsewhere.

One of Company X's largest in-state competitors recently relocated to Virginia for these very reasons. The relocated rival can now afford to offer products at much lower prices — possibly due to financial boons like lease enticements and/or tax abatements arranged through Virginia state or local authorities. This kind of competitive shift is difficult for companies like Company X that prefer to remain headquartered in the Garden State.

Suggestions for Change? In addition to improvements in the tax system, perhaps an increase in the availability of state grants for local businesses. For example, Company X recently qualified for a state grant for specialized employee training. The drawback: The firm did not quality for a repeat grant, because the sponsoring agency prefers to offer grants to different companies each year.

Retire in New Jersey? Unlikely, says some of the company's senior managers. New Jersey's high estate and property taxes are discouraging.

** Company name has been changed for confidentiality.*

The couple’s biggest savings comes from not having to pay income tax in Florida. The couple’s portfolio and pension income would all be exempt from state taxes in Florida while New Jersey would charge them 6.37%. New Jersey’s top tax rate is 8.97% for taxpayers earning more than $500,000. New Jersey does offer some reprieve of exempting Social Security income from tax.

Business owners don’t just gain benefits from moving to Florida. Other popular states include New York, Pennsylvania, and North Carolina. The table below shows the tax benefits for each of the aforementioned states.

Tax	NJ	NY	PA	NC
Sales Tax	$ 7,202	$ 4,484	$ 6,405	$ 5,265
Tax on Portfolio Income	$ 7,661	$ 8,238	$ 3,692	$ 6,915
Pension Tax	$ 3,185	$ 2,055	$ -	$ 2,645
Property Tax	$ 11,333	$ 7,363	$ 8,098	$ 4,665
Social Security Tax	$ -	$ -	$ -	$ -
Total	**$ 29,381**	**$ 22,140**	**$ 18,195**	**$ 19,490**

BUSINESS INCENTIVE PROGRAMS

How economically competitive a state is to individual residents is typically measured by various state-imposed taxes: sales tax, income tax, retirement income exemptions, estate taxes, property taxes, etc. So-called "lower-tax" states tend to more successfully attract new financially aware residents compared to "higher-tax" states. The rationale here is obvious and simple. An individual's dollars go farther when they're not tied up in taxes.

But how do states compete for new businesses? A state attempting to lure a profitable company away from another state is much like a competitive company luring away a top worker from his/her current employer. A savvy state economic development officer might offer a business owner tax credits, abatements, and relocation packages if they agree to re-domicile their business in the new state.

If New Jersey economic development officials catch wind of a significant offer, or if the business owner is proactive about talking to state representatives about the option, New Jersey officials may provide the business owners a counter-proposal to encourage them to stay. The state of New Jersey must regularly make judgment calls about how much to offer a potentially departing business. That choice is obviously based on how valuable that particular business is to the state's economy.

How relocation benefits are determined

When a state offers a business a lucrative relocation package, the company typically doesn't receive those dollars in a lump-sum welcome package. Instead, benefits typically are paid out over a number of years. The criteria each state uses for determining those benefits is based on a number of factors, such as:

- How many jobs will the business create?
- Where will the business be located?
- In what industry does the business operates?
- How much and what type of financial assistance does the company need?

There often are other criteria beyond the list above, but those are the most common factors.

The New Jersey Economic Development Authority (EDA) offers numerous business assistance programs. Available financial offerings depend on the category into which the business falls. The EDA breaks businesses into the following categories:

- Small- to mid-sized businesses
- Large businesses
- Manufacturing
- Emerging technology and life sciences
- Clean energy solutions
- Nonprofit organizations

The EDA regularly partners with financial institutions, local organizations, and other State agencies to help borrowers bridge financing gaps and increase their access to capital. This includes offering low-interest loans, bond financing, and support for micro-lenders to increase their lending capacity. For example, the EDA offers direct loans up to $2 million for fixed assets and $750,000 for working capital with lower interest rates and longer terms than loans through traditional lenders. However, businesses need to commit to creating one full-time job for every $65,000 of EDA exposure within two years.

The EDA's Small Business Fund features an expedited approval process and provides up to $500,000 in low-cost direct loans to qualified businesses and not-for-profits through direct loans, participations or guarantees with a fixed interest rate. The program requires that a business be in operation for at least one full year. Not-for-profit corporations that have been operating for at least three full years may also be eligible. Funds can be used for fixed assets or working capital.

The Premier Lender program, which was created to be more responsive to the needs of businesses and bank partners, offers low-cost financing with quick turnaround time, while the EDA's exposure by participating in or guaranteeing a portion of a loan reduces the risk for lenders. Businesses can use this financing for fixed assets, working capital to meet operating needs, and/or the refinancing of other bank debt.

The role of state-sponsored economic incentives

Each state displays varying degrees of both aggression and success in attracting new businesses. The top five states offering economic development subsidies through 2015 are as follows:

Known State Subsidy Amount			
Rank	**State**	**$ Billions**	**# of Subsidies**
1	NY	23.9	74,964
2	MI	14.2	16,984
3	WA	13.4	21,517
4	LA	13.1	6,996
5	NJ	8.9	14,655

Source: www.chiefexecutive.net

New Jersey has made a strong effort over the past several years to attract more companies to the state. As of January 2015, New Jersey was ranked 10th on the Good Jobs First/New Jersey Policy Perspective list with $4.81 billion being offered. As seen in the table above, New Jersey has almost doubled the amount of their subsidies and credits since then to now being ranked 5th on the list of subsidies given out. While it appears that 2015 was a busy year for New Jersey, one must keep in mind that negotiations could have been on-going for many years prior to when an actual subsidy was given and the long-term impact of this increase in subsidies will not be clear for several years.

While this focus and improvement looks good by the numbers, awarding and recording state subsidies doesn't tell the whole story and, in fact, they may be misleading. For example, New Jersey offered Revel AC a $323-million package. However the company wasn't able to capitalize on the entire package due to their 2014 bankruptcy. Of the $323 million dollar subsidy, $261 million was in the form of tax credits/rebates. A benefit like this inflates the recorded numbers. Companies may also not qualify to receive the potential subsidy if they fail to create jobs or expand.

New York given out the greatest number and highest dollar amount of subsidies, they have proffered some of the biggest contracts to mega corporations. For example, Alcoa, Boeing, General Motors, and Ford have all received significant subsidies from New York State. Alcoa[1] received the second-highest corporate subsidy to date — $5.6 billion — to build an aluminum plant.

The table below compares the Grow New Jersey Assistance Program to the StartUpNY program.

New Jersey	New York
Grow New Jersey Assistance Program Tax Credits	**StartUpNY Tax-Free Locations**
Corporate income tax credits available up to 10 years	No capital expenditure minimums
Unused tax credits transferable and saleable at a discount	No job number minimums, but new jobs to NY must be created
Minimum of 10 to 50 new or retained jobs, depending on industry type	No corporate income tax, real property tax, sales tax, employee income tax for up to 10 years
Jobs can be new to NJ or retained in state (retained jobs allowed only 50% of credit value)	Incentives only available in specific locations associated with a state or private college. Depending on location of college, only space on-campus or within 1 mile can be used
Capital expenditure based on investment per square foot (psf) ($20 psf to $120 psf, depending on project type)	Space limited to 200,000sf in any one location
Incentives available across the state	Business must be allied with school's academic mission
No limits on building square footage	All industry types eligible except retail, wholesale, law, accounting, retail banking, medical, utilities, real estate management, restaurants, hospitality
All industries eligible, with bonus for target industries	In Downstate locations, businesses must be high-tech or start-up
Base awards from $500 to $5,000 per job, per year, for up to 10 years	
Bonuses in Garden State Growth Zone (GSGZ) Cities; Urban Transit Hub (UTH) cities, distressed cities; and 8 southern NJ counties	
Bonus awards of $250 to $3,000 per employee, per year, based on factors such as location, industry, salary levels, capex, # of jobs, environmental investment	
Approved incentives amount based on net benefits test for NJ.	

Source: http://www.choosenj.com/IncentivesComparison.aspx

Reaching out to emerging businesses

New Jersey continues to maintain their aggression in attracting and retaining new companies to the state. While the New York subsidies and loan programs mentioned above help small and large businesses, New Jersey has tended to favor larger businesses. There are two schools of thought when looking at how to assist small start-up companies. The first is, put the dollars directly in the pocket of the small business owner. The opposite stance, and one that New Jersey tends to opt for is, put the dollars with large companies and let the dollars trickle down to small companies as they hire them for manufacturing, auditing, compliance, and other ancillary businesses the larger companies need to engage in.

1 Becker, Sam. "The 8 Biggest Corporate Welfare Recipients in America." The Cheat Sheet. N.p., 07 May 2015. Web. 2016.

Other nearby states, including Connecticut, have created clear and explicit initiatives to help startups, venture capital programs, and small businesses. New Jersey could use Connecticut's quasi-government entity known as Connecticut Innovations (CI) as a blueprint for attracting small, emerging companies.

According to research by the law firm Day Pitney[2], New Jersey could benefit from using the model set forth by Connecticut, which includes programs such as:

Venture Capital. CI maintains a Venture Debt Fund that offers funding from $150,000 to $2 million for capital expenditures and working capital. Its Pre-Seed Fund offers up to $150,000 to early-stage companies, as well as mentoring and other resources. CI's Seed Fund offers up to $500,000 in assistance, structured primarily as preferred-stock investments. The Eli Whitney Fund is targeted at early-stage, high-tech companies, offering investments of up to $1.5 million per round.

- **Capital Access for Business (CAB).** This program encourages banks to lend money to small and entrepreneurial Connecticut businesses by offering a first-loss guaranty on loans up to $500,000

- **Small Business Innovation Research (SBIR) Acceleration and Commercialization Program.** This program is intended to encourage the participation of Connecticut-based firms in federal SBIR and Small Business Technology Transfer (STTR) programs. The phased support includes help obtaining funding and also grants aimed at helping companies secure Phase II SBIR/STTR funding

- **Connecticut Bioscience Innovation Fund.** As its title implies, this fund offers financial support to startups, early-stage businesses, nonprofits and colleges and universities dedicated to biosciences innovation

New Jersey Business Owner Profile: Business Growth is Terrific but for the Right Reasons?

About the Business: Company Q* is a successful commercial real estate brokerage in southern New Jersey. The firm's business is actually booming, fueled by a marketing campaign to bring new businesses into the area. A big selling point: Employers can establish their business offices in New Jersey, but they and their employees can live in nearby, tax-friendly Pennsylvania. In this way, Company Q's commercial real estate firm is actually benefitting from some of the state of New Jersey's taxation mistakes. However, the company's owner is very unhappy about his high New Jersey personal taxes.

Number of Employees: 7 and cautiously expanding.

New Jersey Business & Tax Challenges: Company Q feels state-run business incentive programs are "bandaids". Large corporations land sweetheart deals with massive tax credits to stay in New Jersey, while small- to medium-sized business are rarely incentivized. With firsthand experience watching employees and owners of New Jersey business set up their domiciles in nearby Pennsylvania, Company Q's owner says it's obvious how far New Jersey needs to go to reform tax policies. As a business owner, the head of Company Q also finds it challenging to put money into expanding his business when he is paying almost half of his earnings in combined federal and New Jersey taxes. He has moved the firm to Pennsylvania before — and could do it again if the tax climate doesn't improve.

Ideal Alternate Corporate Location: Pennsylvania.

Retire in New Jersey? Very unlikely. After living in New Jersey for many years and being active in politics, he is quite pessimistic. Company Q's owner isn't confident that the state will be successful making the necessary tax and business reforms that could make New Jersey an attractive place to stay.

** Company name has been changed for confidentiality.*

2 Research conducted by Day Pitney

The table below illustrates state-by-state comparisons of angel investor and tech tax credit programs offered by New Jersey, New York, Connecticut, and Maryland.

Program Features	**New Jersey** *Angel Investor Tax Credit Program*	**New York** *Qualified Emerging Technology Company Certification & Capital Tax Credit*	**Connecticut** *Angel Investor Tax Credit Program*	**Maryland** *Biotechnology Investment Incentive Tax Credit*
Tax Credit Amount	10% of a qualified investment; max credit of $500,000 per investment	10% of a qualified investment if investor commits to hold investment for 4 years; 20% of a qualified investment if investor commits to hold investment for 9 years. The total amount of credit allowable to a taxpayer for all years may not exceed $150,000 for credit computed at the rate of 10% of qualified investments, and $300,000 for a credit computed at the rate of 20% of qualified investments	10% of a qualified investment; max credit of $250,000 per Angel Investor	50% of a qualified investment in only in Biotechnology Companies; max credit of $250,000 per Angel Investor or Company; cannot exceed 15% of total fiscal year program funding
Annual Funding Commitment	$25 million	No annual funding commitment	$3 million per year; commitment expires in 2019	$10 million in 2014. Subject to appropriation of funds
Refundable?	Yes	No	No	Yes
Carry Forward	15 years for corporations	No	5 years	No
Business Eligibility – # of Employees	Fewer than 225 employees; 75% must be employed in NJ	100 or fewer employees; 75% must be employed in NY	Fewer than 25 employees including shareholders, members or active partners; 75% must be residents of CT	Fewer than 50 full-time employees; must have at least one full-time employee engaged in biotechnology research in MD
Business Eligibility – Location	Does business, employs or owns capital or property, or maintains an office in New Jersey	Has research and development activities in New York State	Principal place of business is in Connecticut	Has its headquarters and base of operations in Maryland
Business Eligibility – Years Operating in State	No requirement	No requirement	Operating in CT for less than 7 consecutive years; shall have received less than $2 million from angel investors; Investors must meet the accredited investor definition and cannot be VC's; can't own more than 50% of company	In active business no longer than 10 years (up to 12 years if in the process of regulatory approval) and once certified as a QMBC, may remain eligible for a qualified investment for up to 10 years

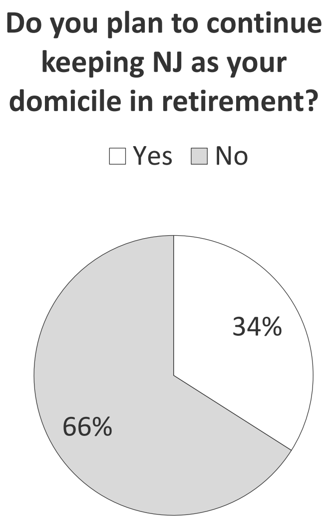
Source: http://www.choosenj.com/Incentives/Angel-Investor-Technology-Tax-Credit-Program-Compa.aspx

UPDATE ON THE OUT-MIGRATION OF NEW JERSEY RESIDENTS

Since RegentAtlantic's 2014 publication of Exodus on the Parkway: Are Taxes Driving Wealthy Individuals Out of New Jersey?, there have been a number of material developments.

- Out-migration of wealthy individuals continues to be an issue
- Millennials (age 18-34) are the largest category of residents to leave the state
- From 2011 through 2013, New Jersey has lost more than $6.7 billion dollars of net adjusted gross income

However, a few things haven't changed: New Jersey's education system is undeniably one of the best in the nation. Additionally, the state is known as an attractive place to raise a family. New Jersey is also flush with history, culture, and close proximity to other states.



Source: NJBIA 2016 Business Outlook Survey

Losing David Tepper

Unfortunately, the attractiveness of the Garden State isn't always enough to retain wealthy individuals here as taxpayers. In March of 2016, New Jersey got a surprise message from its wealthiest resident, David Tepper. He announced plans to leave the state as a taxpayer as of the end of 2015. Tepper, age 58, is the owner and founder of the hedge fund Appaloosa Management. His estimated net worth is in excess of $11 billion.

The loss of Tepper is extremely significant and should act as a wake-up call for New Jersey. The taxes lost due to Tepper's departure will be staggering. The figure is exponentially more significant when you consider that Tepper is relatively young. New Jersey has likely lost the ability to collect state income taxes from Tepper for 30+ years due to his migration to a lower tax haven.

The out-migration of someone like Tepper may seem like it doesn't move the needle much for New Jersey because it is only one family relocating. However, it's actually more meaningful that many people realize. Why?

- New Jersey relies on personal income taxes for 40% of its revenue
- Less than 1% of New Jersey taxpayers contribute one-third of all personal income tax revenue collected

New Jersey Business Owner Profile: Foreclosure Red Tape and Rising Property Taxes are 'Killing Inner Cities'

About the Business: Company R* is a real estate firm in a densely populated city in Passaic County. Although the owner is a New Jersey native and loves the state, he has literally put his life on the line to continue doing business in his crime-ridden town. He was once robbed at gunpoint.

Number of Employees: 15

New Jersey Business & Tax Challenges: "New Jersey laws are killing the inner cities," he says. His city has one of the highest home-foreclosure rates in the state, and these foreclosed homes are being "tied up in red tape for years," he says. Homes are being abandoned, then stripped of their copper piping and other valuable materials, and left to rot. Unemployment is high and residents are struggling to pay their mortgages. At the same time, property taxes in Company R's town have risen by more than 60 percent.

Possible solutions Company R's owner would suggest: Tax assistance for inner cities, fix the home foreclosure process, and continue to closely regulate banks that offer mortgages.

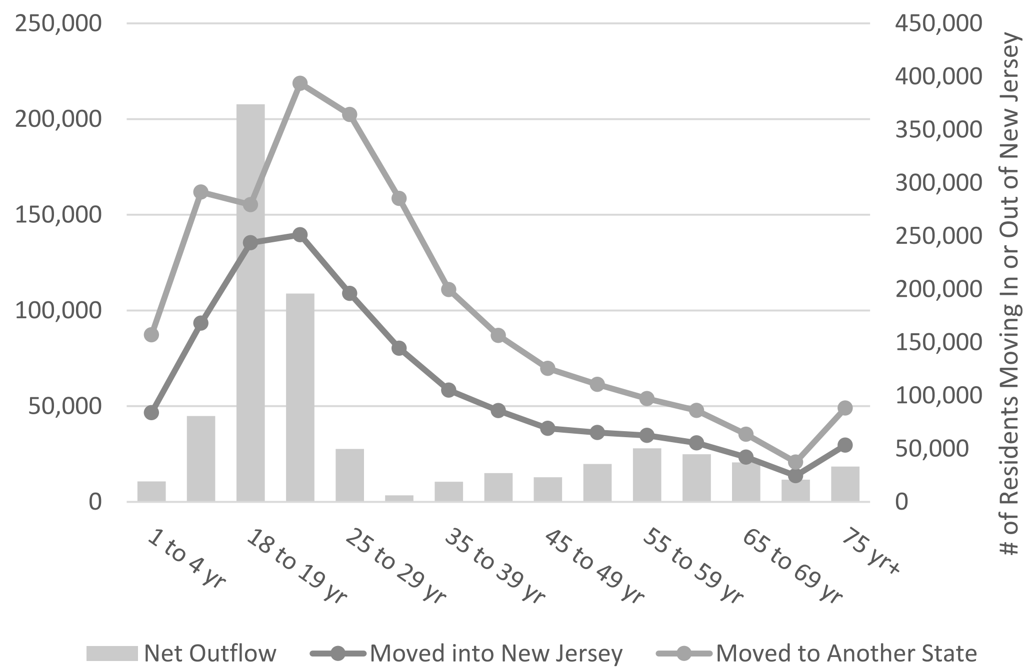
Retire in New Jersey? Hopefully yes, if he can afford to do so.

** Company name has been changed for confidentiality.*

Losing the millennials
The topic of out-migration typically makes people think of retirees, or extremely wealthy individuals. Millennials often aren't considered during that conversation. Many people think of millennials as the demographic group that will remain in New Jersey "footing the bill" of the fleeing retirees.

However, this "dine and dash" concept only works if millennials are still sitting around the table waiting for the check — and have deep enough pockets to pay the bills. Unfortunately for the state of New Jersey, many of the millennials have already left the restaurant.

The American Community Survey tells us that from 2007-2014, the 18-29 year-old age group was the largest group of residents leaving New Jersey.



Source: American Community Survey

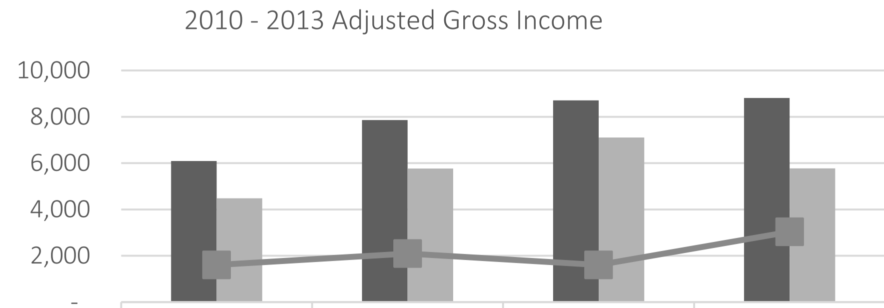
To illustrate that this was not simply caused by a one-off year during 2007-2014, the chart above depicts the median, per-year net outflow during this time period.

Losing state tax income

The out-migration of residents like the Teppers and New Jersey's millennials is not uncommon. From 2010-2013, New Jersey lost an estimated $6.7 billion of adjusted gross income due to loss of residents. This is income that New Jersey can no longer tax, so state revenues will struggle to grow in line with our expenses.

Note that some of these individuals may still maintain properties in New Jersey. That could mean they are still paying property taxes and/or taxes on any New Jersey-sourced revenue. But, the overall wealth leaving the state is a problem that has actually been accelerating in recent years.

Below is a chart outlining the dollars that flowed to New Jersey during 2010-2013, the dollars that left the state, and the net difference (figures are reflected in millions)



	2010	2011	2012	2013
Moving Out	6,091	7,863	8,712	8,814
Moving In	4,486	5,766	7,108	5,777
Net Outflow	1,605	2,097	1,604	3,037

The four years in this data set show consistent net outflows of dollars ranging from $1.6 billion to more than $3 billion. While this time period is relatively short, if we extended the time period from 2004 through 2013, the story would remain virtually the same. During that extended time period, New Jersey lost $18 billion in net adjusted gross income. This implies that during the 2004-2009 time period, the state lost $9.657 billion, or approximately $1.6 billion per year on average.

New Jersey Business Owner Profile: Retirement Economic Realities May Trump New Jersey Loyalty

About the Business: Company B*, an engineering firm with a focus on government contracts in the cyber security and explosives industry, and Company C* are both owned by a single South Jersey business owner. Company C is a property management business for the building the owner opportunistically purchased in the late 1990s. Company B operates out of this building alongside several other tenants.

Due to the government contacts Company B must make, employees reside in both Virginia and New Jersey. The owner lives in South Jersey and regularly commutes to Virginia and Washington, D.C.

Number of Employees: 40 and expected to increase in the next 12 months.

Employee Demographic: Highly educated, several years of experience in the field, and highly compensated.

New Jersey Business Challenges: Remaining price-competitive. The location, nature, and demographic of its typical employee requires Company B to pay its New Jersey employees higher-than-usual wages. (The high cost of living in New Jersey is a significant factor.) These higher-wage requirements increase the prices Company B needs to bid for government contracts and stay profitable. This often puts it at a disadvantage compared to its competition.

Ideal Alternate Corporate Location: Delaware or Virginia.

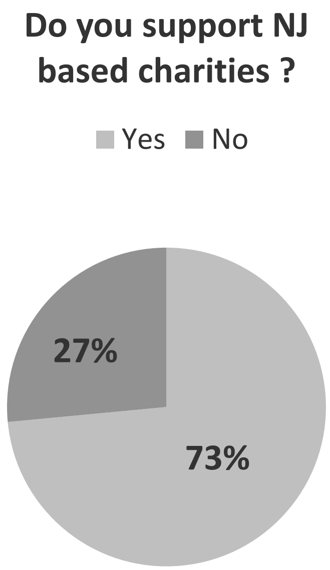
Retire in New Jersey? The owner is of two minds. Several years ago, her child was injured and needed a significant amount of occupational therapy. A government-assisted program in South Jersey ensured that her son got the care he needed, over many years, to make a full recovery. Because the state program saved the family from significant medical bills, the business owner feels a certain amount of indebtedness and loyalty to the state of New Jersey.

At the same time, the practical economics of the owner retiring in New Jersey look grim. The annual costs of living in the state, coupled with the state death and inheritance taxes, makes New Jersey a far less desirable state in which to retire in than many others. For these reasons, she is seriously considering Texas or Delaware.

** Company name has been changed for confidentiality.*

IMPACT ON CHARITIES

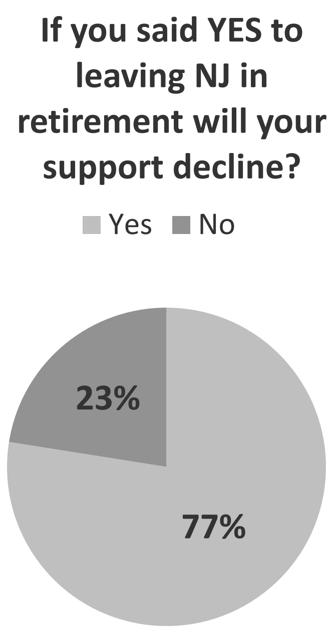
Charitable Giving and the Connection to New Jersey's Business Environment



Charities in New Jersey offer numerous resources to residents, including health services, educational assistance, and housing. The main source of funding for these charities and nonprofit organizations is donations from wealthy New Jersey residents.

When determining who makes these charitable donations, Hans Dekker, president of the Community Foundation of New Jersey (CFNJ) in Morristown, found that people with sizeable accumulated wealth (not necessarily sizeable incomes) make the greatest percentage of donations. However, after the 2004 New Jersey "millionaire's tax" went into effect, aggregate charitable contributions decreased — possibly as a result of wealthy residents leaving the state.

State agencies compete with charities
An often-overlooked aspect of public policy is the role charitable organizations take in addressing and solving our society's most pressing issues. Instead of utilizing the work of charitable organizations, New Jersey currently has 71 agencies funded by state residents' tax dollars. This shows that the New Jersey government relies more on running and funding its own government programs than on taking advantage of the social work charitable organizations can accomplish.



This approach results in larger tax bills for residents and businesses, most of which is levied onto the wealthiest residents. New Jersey is already one of the most tax-unfriendly states in the nation. However, before we can improve the tax climate, it's important to understand how government policies interact with charitable organizations—a topic that seldom seems to be a consideration for lawmakers.

The Lack of a Charitable State Tax Deduction

Though proposed by legislators recently, New Jersey is one of 10 states that still do not permit residents to deduct the value of charitable gifts on their state income tax returns. The federal charitable giving tax deduction was created to encourage taxpayers to donate to charities and therefore increase those charitable organizations' capabilities. In turn, the federal government knew that successful charitable organizations could help reduce the federal government's burden by addressing societal needs — and in doing so, help balance the government budget.

In other words, charitable organizations often can more efficiently accomplish — without cost to the nation (or state) and taxpayers — what government programs strive to achieve.

That being said, New Jersey does nothing to incentivize its residents to help local charitable organizations via a charitable giving tax deduction. That means the role of government and taxes must increase because less charitable work is getting done.

The link between taxes and giving
While a state charitable deduction is a direct way for the government to encourage individuals to make charitable contributions, tax policy overall can help increase charitable giving and subsequently aid local businesses as well.

In "The Effect of State Taxes on Charitable Giving," a paper published by the American Legislative Exchange Council (ALEC), the authors examine the idea that state tax policy can encourage charitable giving apart from a charitable giving tax deduction. The authors of this publication found that when states raise taxes, they see a decline in charitable giving. On the other hand, when states reduce taxes, they typically see an increase in charitable giving.

Overall, the paper concluded that "allowing individuals and businesses to keep more of what they earn to save, spend and invest leads to higher rates of job growth, domestic in-migration and total economic output. The data suggests that in addition to those benefits, pro-growth tax and fiscal policy climates are conducive to higher rates of growth in charitable giving."

Qualified Charitable Distributions from an IRA

For federal income taxes, the 2015 PATH (Protecting Americans from Tax Hikes) Act made permanent the opportunity for individual taxpayers (age 70 ½ or older) to make up to $100,000 in qualified charitable distributions per year directly from their Individual Retirement Account (IRA) to a qualified charity. The provision allows the amount to satisfy required minimum distributions (RMDs) without creating any taxable income. However, no charitable income tax deduction is available in addition to this strategy.

Follow the IRS example?
Utilizing the qualified charitable distributions strategy is especially beneficial for individuals age 70 ½ and older who must take RMDs from their IRAs but do not necessarily need that money for personal spending. If New Jersey followed the federal government's lead and made qualified charitable distributions tax exempt, older New Jersey residents might be significantly encouraged to increase their charitable giving.

An interesting tweak to an outright exemption from taxation for charitable IRA distributions would be to allow the tax benefit only for financial gifts to New Jersey-based charities. This would help ensure that residents' funds benefit local causes.

New Jersey's Estate Tax and Charitable Giving

While individuals and families often identify favorite charities and support them during their lifetime, the monetary extent and scope of those gifts may be limited by the donor's competing needs and desires. Quite understandably, the costs of building a business, advancing a career, or maintaining a high quality of life in retirement in a high-cost state like New Jersey often places a cap on an individual's ability to be as philanthropic as they would otherwise like to be during life. Often, a person may be most interested and willing to make charitable gifts in his or her estate plan, after day-to-day financial concerns cease to exist.

Financial insecurity even at death

Despite some New Jersey residents' great philanthropic ambitions, the current structure of the New Jersey estate tax and particularly the $675,000 New Jersey estate tax exemption (which is widely known as the lowest in the country) ensures that many people's nagging sense of financial insecurity may persist even as they contemplate the passage of their wealth at death.

Faced with this potential future burden, an individual's response may be to reject their philanthropic vision or move to a more tax-friendly state such as Florida. A move like this means loosening their ties to New Jersey and lessening the likelihood that they will give to their communities and favorite local charities in New Jersey.

Reasonable reforms to the New Jersey estate tax would alleviate many of these stifling concerns. Simply raising the state's estate tax exemption, as many other states have recently done, could eliminate the sense among many New Jersey residents that the state's estate tax is confiscatory in its current construction.

New Jersey Business Owner Profile:
Competing Incentives May Lure Cutting-Edge Technology Out of State

About the Business: At the core of Company F* is a manufacturing facility related to the pharmaceutical industry. This facility has regularly grown at a fast pace — about a 40% profit increase per year. The manufacturing facility supports the research and development of nine other pharmaceutically related, cutting-edge technologies and/or products. Each of the nine subsections of the business are in different stages of their product life cycles.

One of Company F's technologies has recently gained significant traction. However, in order to grow this revolutionary technology, the firm will need to build a significantly larger manufacturing facility. The estimated cost of the new facility is $20-30 million. The owners are open to allowing Trenton or Camden to become the hub of this part of the business — as long as the state of New Jersey can help provide economic incentives in the form of property tax abatements and other assistance. Company F is already getting competitive offers from other states that would welcome the facility.

Number of Employees: 24 and expected to significantly expand in the next year.

Employee Demographic: Mixed education, age, and compensation levels.

New Jersey Business Challenges: The biggest difficulty is supporting the company's rapid growth, particularly in terms of land prices and property taxes. Company F says they badly need state subsidies to allow them to fully capitalize on the technology they've developed. If New Jersey is unable to come through for them, the company would need to begin migrating to a competing state that would offer what the firm needs.

Ideal Alternate Corporate Location: Pennsylvania. The company's owners originally founded it in Pennsylvania, but later moved the firm to New Jersey, where they lived. At that time, the two state's income taxes were fairly similar. Since then, Pennsylvania's taxes have remained flat, while New Jersey's taxes have increased significantly. In hindsight, Company F's owner say they should have kept the business in Pennsylvania.

Retire in New Jersey? This company's owners have multiple homes in New Jersey. They aren't New Jersey natives, but have resided here for many years and built their business here. However, New Jersey's high estate and inheritance taxes are enough to push the owners out of state in retirement. Their two leading alternatives: South Carolina and Pennsylvania — both of which have lower income and estate taxes, and costs of living than New Jersey.

** Company name has been changed for confidentiality.*

The Charity-Business Owner Connection

At the core of this paper's findings sit local business owners. These are the folks who would benefit both personally and professionally from higher rates of job growth, domestic migration, and total economic output. Business owners would benefit professionally for obvious reasons, but they would also benefit personally by being able to increase their savings, investing, spending, and/or charitable giving.

Whether business owners make connections with local charities personally or through their workplaces, it's likely that these strong connections would remain with them into retirement. However, according to the New Jersey Business & Industry Association (NJBIA) 2016 Business Outlook Survey, 66% of business owners plan to move out of New Jersey when they retire. Moving out of the state would obviously put these connections to local charities at risk, further perpetuating the need for an increased role of government and higher taxes in New Jersey.

What New Jersey Stands to Gain

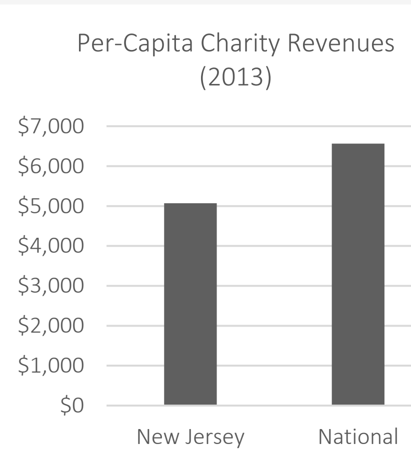
A charitable giving tax deduction and overall pro-growth tax policy clearly appears to help improve a state's social landscape and, in turn, lower the government's financial burden in this area. As a result, a state's overall business environment stands to improve due to higher rates of job growth, domestic migration, and total economic output.

The problem in New Jersey, however, is that the state does not permit residents to deduct charitable gifts from their state tax return. New Jersey also has one of the worst overall tax policies in the nation. Improvements in both of these areas could have a significant impact on creating a better small business environment in the Garden State and encouraging charitably minded individuals — including small business owners — to remain residents of New Jersey throughout their careers and during retirement.

Facts about Charitable Giving in New Jersey

- **New Jersey is a wealthy state.** In 2013, total personal income in New Jersey was $57,809 per resident – **28% higher than the national average.**

- **New Jersey's nonprofits do not reflect its wealth.** As of 2013, New Jersey nonprofits collected $45.2 billion in revenue, or about $5,071 per resident. **That's 23% lower than the national average** of $6,566. (See below)



- **New Jersey's tax policies are likely affecting donations.** More than 20% of nonprofit revenues are bequests, gifts, and other contributions. New Jersey charities collected $9.8 billion in these kinds of contributions in 2013. That's $1,099 average per resident — below the national average of $1,132. If New Jerseyans contributions were proportionate to their higher-than-average incomes, **New Jersey nonprofits might gain $3 billion per year**.

Source: Internal Revenue Service, U.S. Census Bureau, U.S. Bureau of Economic Analysis

CREATIVE SOLUTIONS: VIEWS FROM PRACTITIONERS

We view business growth as the key to changing dire fiscal outlook for NJ and allow us to start repairing the damage that outmigration has caused. We understand that many of these ideas are not new and many legislators are working very hard on similar efforts. Based on our in depth conversations with small and medium size business owners and several of the top professional advisors to business owners we hope this collaborative list of solutions is helpful in prioritizing the changes that are needed to make us competitive again. The suggested solutions to New Jersey's business and tax challenges are summarized below and represent a collaboration of ideas from legal, accounting, economic, and other professionals.

The most obvious answer to New Jersey's business crisis is tax reform. RegentAtlantic and other professionals have been calling for tax changes for years. At the same time, there may be other solutions. For instance, if businesses were relieved of some of the regulatory burden and associates costs of doing business here in NJ, those changes could directly impact the bottom line and improve growth prospects. Additionally, if New Jersey would offer economic incentives targeted at entrepreneurial ventures and growth businesses (not just tax credits) for businesses choosing to start in, expand in, or move to New Jersey, the influx could aid in restoring balance.

Tax Reform

NJ has 8.9 million residents. 800,000 of them are either collecting a state pension or have worked for a state/local government long enough to have earned one. We understand that NJ has a lot of bills to pay and promises to fulfill. Our goal is to help make NJ competitive so there is a foundation to grow business and tax revenues over the long haul, not look for short-term fixes that destroy potential growth.

Every business owner would certainly love to pay less in taxes. However, in New Jersey, the core issue is how New Jersey taxes compare to other states in which companies could do business and be successful. Making NJ a more tax friendly state for business will encourage people to stay and ultimately lead to higher tax revenues for the state. Below we will list many areas of potential tax reform that are the source of common criticisms among the business community. We would like to see lawmakers prioritize this list and when appropriate find offsetting ways to generate income (e.g. increasing gasoline taxes) or cut costs. New Jersey will never be a low-tax state and doesn't have to be to thrive. However, having the state rank almost last in every tax-friendliness survey is unacceptable and destroys business confidence. It increases outmigration amongst wealthy individuals, business owners, and millennials.

Priority #1: Eliminate the NJ estate and inheritance taxes

This is the bold move that NJ must make now to signal that we are open to a better way of managing the state. The reputational benefits would be enormous. When eliminating these taxes that account for roughly 2% of total state revenue (or $755MM), NJ must do so in a way that instills the most amount of confidence that the taxes will never return. Confidence is the key to having families that have left, but still long to be in NJ, re-domicile here. This has the potential to not only stem the outflows of billions of dollars of taxable income but also bring revenue back to NJ in the form of income and sales taxes. Any multi-year phase in of the repeal is unnecessary given that the tax receipts roll in on a lag (estate tax returns are due 9 months after death). And a multi-year phase-out will leave doubt amongst many that the tax repeal will be cut short in a couple of years before the full phase in. Another potential misstep would be repealing the estate tax but leaving the inheritance tax. Families and businesses should not have to worry about sophisticated tax planning and being treated differently on details such as leaving money to a niece or nephew versus a child.

Priority #2: Move the NJ income tax regime from a gross income tax regime to a system that starts with Federal adjusted gross income (AGI) and lower corporate tax rates to be more in line with other competing states.

The Federal tax code is a reasonably fair system when it comes to allowing business losses to offset other income. The NJ Gross income results in some unfortunate results, especially to entrepreneurs who are always at risk of incurring losses in the early years. Moving to this type of system would build more competitive balance with other states.

NJ has an income tax rate of 8.97% on all income above $500,000. This top bracket is the fifth highest in the country (tax foundation). However, when you take into account the lack of itemized deductions the effective tax rate can be even less competitive than this ranking implies.

Let’s look at an example for a business owner choosing between New York and New Jersey. There are many factors contributing to the personal and/or corporate business tax an owner must pay. The type of corporation, whether that be C-corp, S-corp, LLC, sole proprietorship, will have different tax impacts. Other factors determining tax is gross revenue of a company and net income. If we look at a hypothetical company and compare it to New York, one will see a drastic difference in the amount of taxes being paid. For purposes of this example, we’re assuming a business generates $1,000,000 of gross revenue and $300,000 of net income. Further, we’re assuming the business is a corporation.

	New Jersey	New York	Difference
Tax based on gross revenue	$1,500	$500	$1,000
Corporate Business Tax	$27,000	$19,560	$7,440
Total	**$28,500**	**$20,060**	**$8,440**
Tax Rate	**9.5%**	**6.7%**	**1.8%**

Setting up the business as a S-corp., partnership, LLC (single member or multi-member), or sole proprietorship will result in the same outcome- taxes paid in New York are considerably lower than New Jersey. While the New Jersey effective tax rate will be less with pass through entities, New York residents are allowed to take several itemized deductions that New Jersey doesn’t allow:

- Medical and dental expenses
- Gifts to charity
- Casualty and theft losses
- Other miscellaneous deductions
- Capital loss carryforwards

Taxes paid for New York can be further lowered depending on the industry the business is in. For example, if the business is a qualified New York manufacturer then their corporate business tax rate is 0.0%. Additionally, if the business qualifies as an emerging technology company the corporate business rate is 5.7% as opposed to 7.1%. Outside of being a qualified manufactured or emerging technology company, the taxes outlaid by a New York business can be lower if they qualify for any incentives outlined under the section of this paper labeled, “Business Incentives”.

To summarize, NJ tax rates for income and business need to be more competitive. This should be a medium to long term goal with a plan to accomplish this at a measured pace.

Only four states plus the District of Columbia have corporate tax rates of 9% or higher. In NJ, the Corporation Business Tax rate is 9% on adjusted entire net income or on the portion allocable to New Jersey. The rate is 7.5% for all corporations with entire net income of $100,000 or less. The rate is 6.5% for all corporations with entire net income of $50,000 or less (source: NJ Dept. of the Treasury).

Priority #3: Do more to slow the growth of NJ property taxes

As we stated earlier, New Jersey’s property taxes hypothetically could fall 25% and the Garden State would still have the highest tax bills in the nation. We need an airtight reform that locks property tax increase at a reasonable level. Significant progress has been made since 2010 with the Governor’s 2% property tax cap. However, there are several exceptions in this law such as tax hikes for spending on debt payments, public employee benefits and disasters. There may also be some special fees assessed by towns that circumvent the limits.

A good example of more stringent rule is Proposition 2 ½ (Massachusetts. Gen. L. c. 59, § 21C) says that property tax revenue cannot exceed 2.5% of the assessed value of all taxable property in the municipality. It also creates a 2.5% limit on annual property tax increases plus any amount from new property.

This type of reform would create clarity on the future direction of property taxes and instill confidence among homeowners that the situation will not get worse but rather slowly get better relative to other states as inflation rises.

Priority #4: Eliminate the NJ S Corporation Tax

New Jersey taxes these entities, while most other states follow the federal government’s lead and do not tax S-Corps. It is a relatively small tax but is particularly onerous on small businesses. The additional tax assessed on S-Corps, beyond the income tax owed based on net income, is based on the gross revenue of a business:

- Gross revenues less than $100,000 pay a $375 tax
- Gross revenue of at least $100,000 but less than $250,000 pay a $562 tax
- Gross revenue of at least $250,000 but less than $500,000 pay a $750 tax
- Gross revenue of at least $500,000 but less than $1,000,000 pay a $1,125 tax; and
- Gross revenue in excess of $1,000,000 pay a $1,500 tax

Businesses with gross revenues of less than $100,000 end up paying 0.375% to taxes while businesses of one-million dollars of revenue only pay 0.15% of their revenue to tax. This is an example of unnecessary fees and a favoring of higher revenue companies rather than smaller, entrepreneurial companies.

Regulations & Politics

Many municipalities have been around for multiple decades and are very proud of the communities they've created. Simply saying that municipalities should be consolidated is not the answer. Blanket statements such as these discounts the effort and individuality of what's been created by so many residents. However, municipalities need to be more active and open with discussing ways to share resources with their surrounding communities. Communities using their strengths to help their neighboring municipalities will improve the greater good.

Also, manufacturing technology has come a long way over the past few decades. New Jersey needs to throw out its old playbook and look for creative ways to encourage environmentally friendly manufacturers to the state.

- **Relax environmental regulations.** Safety considerations must always be addressed. Based on conversations we've had with business owners, lenders, developers, and other real estate investors are currently discouraged from doing business in New Jersey due to the harsh costs of compliance
- **Encourage manufacturing firms.** More than three decades ago, the state may have begun discouraging the startup of manufacturing facilities due to population density and environmental concerns. It's now time to create a welcoming environment for these important employers. This could require improvements to current environmental and land-use regulations
- **Merge municipalities and sharing resources.** Offer financial incentives for municipalities to merge and share services —and therefore cut governmental costs. This move could be expensive in the short-run, but communities unselfishly sharing resources will enable New Jersey to thrive and prosper in the long-run

The Red Tape Review Commission, a bi-partisan committee, is a great example of the type of regulation reform that will make NJ more competitive in the future and should be expanded upon.

Business & Employment Requirements

Starting a business here or keeping a business should be simple and strongly encouraged. Entrepreneurs should view New Jersey as the ideal place to be. It is natural to focus on native New Jersey businesses being economically weakened or choosing to move to another state. However, many recent buyers of New Jersey companies have been internationally based. After buying a local company and operating it for a short time, the new owners may tire of the Garden State's tax and regulatory constraints. These owners have no ties to New Jersey and can easily move the business to a more welcoming state. Business leaders and lawmakers should consider the loss of foreign-owned businesses, too, when looking for ways to improve the state's business landscape and making it an attractive place to stay.

- **Minimum wage increases.** There is great concern amongst business owners about recent legislative initiatives to increase the minimum wage to $15/hour. Many small and medium size businesses that we interviewed would be impacted by this change, prohibiting them from increasing employee headcount. This is one of the primary concerns on their mind and they are taking a "wait and see" approach

- **Balance paid sick leave and other benefits.** Excessive Garden State sick-leave allowances and other required benefits may encourage businesses to move to other states. Employee benefits are a significant expense to employers and should be kept in check. Also, labor and employment laws are not consistent throughout the state. At present, 15 towns have paid-sick leave laws, while other towns do not. This is extremely challenging for employers with workers in multiple locations, and could drive businesses out of the state

- **Reduce excessive unemployment payments.** Overly generous New Jersey unemployment benefits may encourage workers to stay out of work rather than take short-term jobs. This "dilutes" the workforce and hampers companies' ability to grow

- **Enact a uniform labor and employment code.** New Jersey labor laws could be made consistent with their federal counterparts, similar to the Uniform Commercial Code (UCC) for commercial transactions and dealings

- **Streamline business-startup requirements and costs.** Allow new business owners to access a single state agency and/or website to apply for licenses, permits, tax registration and more. Improve the state's online Business Portal to handle these tasks. Offer customized, one-on-one telephone support to new business owners. Eliminate the LLC fees that nickel and dime small business owners, for example the $150 annual filing fee for New Jersey Limited Liability Corporations (LLCs) and change of address fees

- **Amend bulk sale requirements.** Make New Jersey's requirements for bulk sales, also called "bulk transfers," similar to those in other states. A bulk sale is when a company sells its entire inventory to a single buyer — often to avoid creditors and dodge state tax liabilities. Possible changes: Allow the state to begin reviewing proposed bulk sales based on draft agreements or non-binding letters of intent. Also, narrow the statute so it applies only to the sale of a business, not real estate and other assets

Education & Community

New Jersey should be a top destination for talented millennials as the place to build their future. Creating an atmosphere they can afford to live and thrive is paramount to our future success. In addition, continuing to build strong partnerships between business and higher education will help keep our best and brightest at home.

- **Create incentives for first time home buyers.** This market is very depressed based on the high price of NJ housing costs and overall demographic trends. It could help stem the outflow of millennials to other states

- **Encourage urban development.** Continue to rehabilitate New Jersey cities and build of affordable housing options geared toward millennials' preferences

- **Better leverage New Jersey universities.** Develop a more robust program for encouraging the transfer of technology and intellectual property developed at New Jersey's universities/colleges to local businesses. Many states now provide capital and assistance to life-sciences and high-technology businesses. Similar programs make sense for the Garden State, given its long association with the pharmaceutical, science and telecommunications industries

- **Allow state tax deductions for Section 529 College Savings Plan contributions.** This deduction, which is available to taxpayers in many other states, would encourage residents' to invest in education and build New Jersey-based investment funds

- **Add incentives to 529 Plan tuition credits.** Create ways to financially encourage in-state students to attend New Jersey's quality colleges and universities. This might stem the outflow of top students to out-of-state institutions. In addition to keeping tuition income within the state, this change could encourage highly educated college graduates to remain in New Jersey after college, due to work and relationship ties

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A special thanks goes to New Jersey Business & Industry Association (NJBIA). RegentAtlantic truly appreciates the relationship we've had. NJBIA was instrumental in allowing concerned New Jersey business owners to voice their opinions through an extensive survey conducted by us.

Thank you all for your help and we look forward to continuing to help make New Jersey a prosperous state for all current and future residents.

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Stuart Brown is a co-founding member and serves as the managing partner of Brown, Moskowitz & Kallen. He also oversees the firm's corporate, commercial and transactional practices. Stuart provides comprehensive business counseling, with a particular emphasis on the needs of privately owned businesses. He is experienced "quarterbacking" all aspects of financing, debt, acquisition, disposition, merger and joint venture transactions. In addition, he assists entrepreneurs and businesses in all phases of growth, including formation, organization, capitalization, financing, partnership or shareholder issues and ongoing business and commercial matters. Stuart regularly serves as outside general counsel to many businesses for their daily legal matters.

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Alan has been engaged in corporate finance, commercial and central banking, and investment banking, specializing in mergers and acquisitions and business strategy since 1985. He is now the owner and director of Alan I. Goldman & Assoc. Working primarily with privately held businesses, Alan has helped sellers of companies determine strategy and valuation and has also advised buyers on acquisitions. Alan has served on the boards of several private and public companies.

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Nick Jalowski is the founder and has been the Managing Director of Cambridge Financial Services since its inception in 1985. In addition to his role in overseeing the management of the firm, he is a practitioner specializing in strategic consulting to firms in need of guidance in turnaround management, corporate revitalization, financing negotiations, loan restructuring and/or workout management. In addition to his duties at Cambridge, Nick is currently the Chairman of the Board of Directors of the New Jersey Turnaround Management Association, and a member of the Institute of Management Consultants and the New York Institute of Credit.

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* * *

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