

New Jersey Gets about 75 cents on Each Dollar that It Sends to Washington

September 2, 2021

Maia de la Calle and & Michael L. Lahr, *Rutgers Economic Advisory Service (R/ECON™)*

In January 2021, the Rockefeller Institute of Government released a report that was rapidly cited nationwide by newspapers and politicians alike.¹ This is despite the fact that it was written for a New York State audience. It reported each state's balance of payments with the federal government. In this report, we focus attention on outcomes for New Jersey and adjust findings in the Rockefeller Report by fixing some accounting issues that we discovered in the process.

A prime takeaway for New Jerseyans from the Rockefeller Report is it confirms that our state has received less from the federal government than it remits, a persistent phenomenon over the last 40 years now at least. The 2001 Rockefeller Report pegged the State's relative returns to a high-water mark of \$0.91 received per dollar sent. Although the relative returns to New Jersey have ebbed and flowed overtime, a 2007 report by the Tax Foundation quotes it being as low as \$0.57 in 2005 and perennially among the worst 3 performing states among all 50 states on this measure,² if not the worst. In any case, we were curious about what vastly improved New Jersey's apparent performance on this measure over the past decade and a half. It turns out that it has not actually improved so much and remains in line with its returns from the early 1980s and late 1990s.

It is well known that the U.S. federal government does not operate on a balanced budget. For example, in *calendar year 2019*, the federal government spent \$4.761 trillion and received \$3.729 trillion, according to national accounts reported by the U.S. Bureau of Economic Analysis. It is less well known that some federal revenues are not attributable to states, e.g., customs duties, excise taxes paid to the Alcohol and Tobacco Tax and Trade Bureau, and taxes paid by citizens living or working elsewhere in the rest of the world. The same goes for some federal expenses—foreign aid, interest payments, social insurance payments, for example. Regardless, an upshot of such federal fiscal imbalance, as well as differences in demographics and in federal investments across states, is that most states receive more than they give to the federal government, and just a handful or so of states pay more than they get.

This is no new news. It has been well known for some time by interested parties that federal allocations by state have not been proportional to states' contributions to federal revenues. Through 2005, The Tax Foundation³ reported such the imbalanced balance of payments for states until federal spending data became a quagmire for analysts when the U.S. Census Bureau stopped publishing its Federal Consolidated Federal Funds Reports.⁴ Since then, The Pew Charitable Trusts has done its best to wade through that quagmire but since 2016 has not reported the entire set of expenditures by state in a single report.⁵

¹ Schultz, L. (2021). *Giving or Getting? New York's Balance of Payments with the Federal Government*. Rockefeller Institute of Government. Retrieved from <https://rockinst.org/wp-content/uploads/2021/01/2021-Balance-of-Payments-Report-web.pdf>

² Dubay, C.S. (2007). *Federal Tax Burdens and Expenditures by State*. Tax Foundation Special Report No. 158. <https://taxfoundation.org/federal-taxes-paid-vs-federal-spending-received-state-1981-2005/>

³ Ibid.

⁴ U.S. Census Bureau (2018). *Consolidated Federal Funds Reports*. U.S. Government Printing Office. Retrieved from <https://www.census.gov/library/publications/time-series/cffr.html>

⁵ Schroeder, I., A. Stauffer, P. Oliff, M. Robyn, R. Thiess, C. Foard, J. Theal, M. Goodwin, & K. Hillary. (2016). *Federal Spending in the States, 2004-2014*. The Pew Charitable Trusts. https://www.pewtrusts.org/-/media/assets/2016/03/federal-spending-in-the-states-report_final.pdf

In fiscal year 2019 according to the IRS, the federal government’s state-based revenue collections were \$3.56 trillion,⁶ while authors of the Rockefeller Report estimated federal allocations to states for that same period to be \$4.4 trillion.⁷ Note the slight discrepancies with total federal revenues and allocations that are reported above, some of which is the difference between the fiscal and calendar year.

But major discrepancies also cropped up in our quick comparison of federal revenue data by state for fiscal year 2019 from the U.S. Internal Revenue Service (IRS)⁸ with what the Rockefeller Report used for that same year. For instance, the IRS data indicated that Minnesota’s internal revenue collections amounted to \$102.6 billion in fiscal year 2019, while the Rockefeller Report identified this figure to be \$60.1 billion. It turns out that the Rockefeller Institute of Government report acknowledges that it uses *preliminary* federal revenues and spending estimates for fiscal year 2019. So, we replaced their revenue estimates with “actual” collections as reported by the IRS.

We then, similarly, contrasted federal spending by state reported in a few of the main resources for a handful of states against those in the Rockefeller Report. Due to similarities in the results, as well as difficulties isolating federal spending from state and local spending,⁹ we opted to use the fiscal year 2019 estimates on federal spending by state from the Rockefeller Report. Nonetheless, in a future report we intend to revisit these estimates as well, although the last two years (2020 and 2021) pose anomalies for such analysis.

Table 1 below displays the state-by-state internal revenue collections and federal spending, as well as the amount of federal spending per tax dollar paid. Expanding on this, Table 2 (page 4) shows the per capita internal revenue collections and federal spending by state, as well as the per capita expenditure-revenue differential.¹⁰ It is almost immediately noticeable that, due to the discrepancies in revenue figures, Tables 1 and 2 deviate considerably from their equivalents in the Rockefeller report.

Table 1 reflects a wide range in both revenues collected from states and federal spending. Of course, the variation in amounts is affected by population size; therefore, for comparison purposes, one should pay attention to the per capita revenue and expenditure numbers displayed on Table 2. The per capita internal revenue collections range from \$3,777 in Mississippi to \$20,971 in Delaware. Given that approximately 90 percent of state’s revenue contribution comes from personal income and employment taxes, states with large high-income populations will generate higher levels of revenue.

Similarly, Table 2 indicates that the per capita federal expenditures range widely across states: from \$8,485 in Utah to \$23,854 in Virginia. There are various factors that explain these federal spending variations: States with high numbers of low-income individuals and retirees who qualify for social welfare programs, social security, and medical benefits receive more funds (e.g., Kentucky and Arizona). In addition, states that host military bases, research sites, federal agencies, and otherwise employ high volumes of federal employees have higher federal spending— such is the case for Virginia and Maryland.

Findings from Tables 1 and 2 suggest that in fiscal year 2019, New Jersey received \$0.75 in federal funding for every dollar paid in taxes. This is substantially less than the \$0.91 reported in the Rockefeller Report. But, consistent with other reports, New Jersey remains among the top ranked states in getting less than they send to Washington, D.C.

⁶ IRS (2019). *Gross Collections, by Type of Tax and State, Fiscal Year 2019*. Statistics of Income Division. Retrieved from <https://www.irs.gov/statistics/soi-tax-stats-gross-collections-by-type-of-tax-and-state-irs-data-book-table-5>

⁷ Schultz, L. (2021), see fn 1.

⁸ IRS (2019), see fn 6.

⁹ Pew Charitable Trusts (2014) *Federal Spending in the States: Methodology*. Retrieved from https://www.pewtrusts.org/media/assets/2014/12/federal_spending_in_the_states_methodology_web_final.pdf.

¹⁰ The 2019 population data that we used to calculate per capita figures were extracted from the U.S. Census Bureau’s American Community Survey. U.S. Census Bureau (2019a). Total population 2019. *American Community Survey 5-Year Estimates*. Retrieved from <https://data.census.gov/cedsci/table?t=Populations%20and%20People=2019>

Table 1. Federal Revenues and Expenditures by State, Fiscal Year 2019

State	Internal revenue collections (millions of dollars)	Federal expenditures (millions of dollars)	Federal expenditures per tax dollar
Minnesota	102,643	58,220	0.57
Delaware	20,074	13,208	0.66
Massachusetts	120,035	87,084	0.73
New Jersey	140,258	105,289	0.75
Nebraska	25,551	19,705	0.77
New York	304,993	236,775	0.78
Connecticut	57,093	46,246	0.81
Illinois	162,275	142,430	0.88
Washington	100,610	88,424	0.88
California	472,027	453,141	0.96
Rhode Island	14,326	13,890	0.97
Ohio	144,705	141,337	0.98
Texas	292,330	286,751	0.98
Colorado	59,961	60,655	1.01
Utah	24,335	26,277	1.08
Wisconsin	52,873	61,954	1.17
Missouri	64,149	75,775	1.18
Indiana	60,627	72,240	1.19
Pennsylvania	141,974	169,548	1.19
Arkansas	30,572	36,652	1.20
Georgia	94,306	114,022	1.21
Tennessee	69,769	85,574	1.23
Kansas	26,338	32,909	1.25
Florida	210,024	266,841	1.27
Iowa	24,915	32,339	1.30
South Dakota	8,029	10,469	1.30
Alabama	26,511	68,791	1.35
North Dakota	6,640	8,969	1.35
Michigan	81,583	113,317	1.39
North Carolina	87,778	122,127	1.39
New Hampshire	12,209	17,341	1.42
Nevada	23,770	33,779	1.42
Louisiana	39,430	56,394	1.43
Oregon	35,041	50,134	1.43
Maryland	78,473	116,689	1.49
Oklahoma	29,133	48,781	1.67
Wyoming	4,744	8,037	1.69
Idaho	11,343	20,931	1.85
Arizona	47,743	88,938	1.86
Vermont	4,505	8,486	1.88
Maine	8,131	17,578	2.16
Montana	6,357	14,130	2.22
Hawaii	9,246	21,512	2.33
Virginia	83,574	201,674	2.41
South Carolina	27,885	68,068	2.44
Alaska	5,395	14,351	2.66
Kentucky	35,595	96,706	2.72
New Mexico	9,270	29,966	3.23
Mississippi	11,273	39,989	3.55
West Virginia	7,040	25,764	3.66

Table 2. Per Capita Federal Revenues and Expenditures by State, Fiscal Year 2019

State/area	Internal revenue collections (per capita)	Federal expenditures (per capita)	Per capita expenditure-revenue differential
Minnesota	18,450	10,465	(7,985)
Delaware	20,971	13,798	(7,173)
Massachusetts	17,522	12,712	(4,810)
New Jersey	15,798	11,859	(3,939)
New York	15,583	12,097	(3,485)
Nebraska	13,346	10,292	(3,053)
Connecticut	15,970	12,936	(3,034)
Washington	13,588	11,943	(1,646)
Illinois	12,707	11,153	(1,554)
California	12,016	11,535	(481)
Rhode Island	13,550	13,138	(412)
Ohio	12,415	12,126	(289)
Texas	10,344	10,147	(197)
Colorado	10,688	10,811	124
Utah	7,858	8,485	627
Wisconsin	9,131	10,699	1,568
Indiana	9,095	10,838	1,742
Georgia	9,065	10,960	1,895
Missouri	10,508	12,412	1,904
Arkansas	10,193	12,220	2,027
Pennsylvania	11,099	13,255	2,156
Kansas	9,049	11,306	2,258
Tennessee	10,399	12,754	2,356
Iowa	7,936	10,301	2,365
Florida	10,048	12,767	2,718
South Dakota	9,222	12,025	2,802
North Dakota	8,775	11,853	3,078
Michigan	8,187	11,371	3,184
North Carolina	8,551	11,898	3,346
Nevada	7,997	11,364	3,367
Louisiana	8,454	12,090	3,637
Oregon	8,485	12,140	3,655
New Hampshire	9,056	12,863	3,807
Oklahoma	7,408	12,403	4,996
Idaho	6,604	12,185	5,582
Wyoming	8,165	13,832	5,668
Arizona	6,772	12,615	5,843
Maryland	13,038	19,387	6,349
Vermont	7,216	13,593	6,376
Maine	6,088	13,162	7,074
Montana	6,050	13,449	7,399
South Carolina	5,554	13,557	8,003
Hawaii	6,502	15,127	8,625
Alabama	5,437	14,107	8,671
Mississippi	3,777	13,399	9,622
New Mexico	4,430	14,321	9,891
West Virginia	3,874	14,177	10,303
Alaska	7,320	19,470	12,150
Kentucky	8,001	21,736	13,736
Virginia	9,885	23,854	13,969

Sources for Table 1 and Table 2: IRS (2019); Schultz (2021); U.S. Census Bureau (2019a); and own calculations.

Table 3 presents the breakdown of the state’s total internal revenue collection and per capita collections. Overall, New Jersey’s contribution of \$140.2 billion in taxes represents 4 percent of the total federal revenue collections. The per capita tax revenue from New Jersey’s businesses and residents amounted to \$15,789, which was \$4,819 above the U.S. average. This difference can be mainly attributed to individual income taxes paid, which was \$3,824 higher in New Jersey than the U.S. (per capita). These results should not come as a surprise, considering that New Jersey is notorious for being home to a high-volume of individuals with higher-than-average incomes. In fact, in 2017, only four states surpassed the national adjusted gross income cutoff for the top 1 percent in income distribution (set at \$516,714)— New Jersey was one of them, with a top 1 percent cutoff at \$672,113.¹¹

Table 3. Internal Revenues Service collections for fiscal year 2019, New Jersey and U.S.

IRS Collections	NJ		US		NJ		US	
	\$ millions	%	\$ millions	%	\$ per capita	\$ per capita	\$ per capita	\$ per capita
Business income taxes	15,844	(11%)	277,058	(8%)	1,785		853	
Individual income tax	119,735	(85%)	3,137,079	(88%)	13,486		9,662	
Employment taxes	365	(0%)	12,657	(0%)	41		39	
Estate, trust, and gift taxes	1,574	(1%)	57,034	(2%)	177		176	
Excise taxes	2,741	(2%)	80,757	(2%)	309		249	
Total	140,258	(100%)	3,564,583	(100%)	15,798		10,978	

Sources: IRS (2019); U.S. Census Bureau (2019a); and own calculations.

Table 4 presents a breakdown of federal spending in New Jersey, as well as the national averages for comparison purposes.¹² Figures in Table 4 identify that federal spending in New Jersey was \$497 below the national per capita average. The bulk of the federal funds in New Jersey are spent in direct payments to individuals for retirement and non-retirement programs (e.g., Social Security, Veteran Benefits, and Supplemental Nutrition Assistance). Low levels of spending in the salaries/wages can be explained by the state’s lack of military facilities and presence of sizeable federal agencies. A lack of contractors and vendors for federal agencies and military institutions also weighs heavily.

Table 4. Federal expenditures for fiscal year 2019, New Jersey and U.S.

Federal expenditures	NJ \$ per capita	US \$ per capita
Retirement and non-retirement direct payments	8,338	7,672
Formula grants and project grants	2,005	2,145
Federal government procurement contracts	946	1,706
Salaries and wages of federal employees	570	833
Total	11,859	12,356

Sources: Bureau of Economic Analysis (2021)¹³; Bureau of Economic Analysis (2020)¹⁴; Schultz (2021); U.S. Census Bureau (2019a); USAspending.org; and own calculations.

¹¹ IRS (2018). *Adjusted Gross Income Percentiles by State, Tax Year 2017*. Statistics of Income Division. Retrieved from <https://www.irs.gov/pub/irs-pdf/p5398.pdf>

¹² Figures presented in Table 4 should be interpreted with a great deal of caution inasmuch as the calculations incorporate data from USAspending.org, an official U.S. government spending data source that has is known to be less than perfect. Also, we modified the reported numbers to separate federal spending from state and local spending, as well as avoid double-counting in overlapping categories. The report by Pew Charitable Trusts, which is identified in footnote 9 above, notes the issue with respect to USAspending.org data:

¹³ Bureau of Economic Analysis (2021). GDP and Personal Income: Wages and salaries by NAICS industry. Retrieved from <https://www.bea.gov/data/employment/employment-by-state>

¹⁴ Bureau of Economic Analysis (2020). State Personal Income and Employment report: Personal current transfer receipts. Retrieved from <https://apps.bea.gov/iTable/iTable.cfm?reqid=99&step=1#reqid=99&step=1>