

New Jersey



Quick Stats

10.9% ↑

New Jersey's unemployment rate** (National rate 7.9%*).

12.9% ↓

Overall vacancy rate.

\$30.70 ↑

Average Market Rent.

1.4 M ↓

12 month absorption (SF).

*August 2020
**September 2020

Vacancy Rates on the rise

Vacancy rates have risen 60-basis points since the first quarter of this year to 12.9 percent. Market rents rose \$.19 year over year to \$30.70/SF. Historically real estate usually trails the economy in a time of recession and we are starting to see a slowdown with net absorption being negative this quarter. As offices begin to reopen, it remains to be seen if this is the beginning of a downward trend or just a bump in the road.

Japanese pharmaceutical company makes a big splash in Nutley

In one of the largest deals of the quarter, Eisai Inc. signed a 306,471 square foot lease at Prism Capital Partners' 200 Metro Boulevard in Nutley. The Japanese pharmaceutical company, which focuses on oncology and neurology, will be taking all fifteen floors of the property and expects to transfer up to 1,200 R&D and corporate jobs by the end of 2021. Eisai will be leaving their

306,471 sf
SIZE OF EISAI INC.'S LEASE
AT 200 METRO BLVD

current headquarters at 100 Tice Boulevard in Woodcliff Lake, to join Modern Meadow, Ralph Lauren Corp., and Quest Diagnostics as well as Hackensack Meridian Health Center for Discovery and Innovation, the Hackensack-Meridian School of Medicine at Seton Hall University, and Seton Hall's Graduate College of Nursing and School of Health and Medical Sciences at the redeveloped former Roche Pharmaceutical site.

30 Hudson Street announces two big deals

As part of a chain of recent real estate transactions in both New York and New Jersey, AIG agreed to lease 226,852 square feet of space at the Goldman Sachs building in Jersey City. The 42-story building was opened in 2004, and is located at 30 Hudson Street, overlooking the Hudson River. The insurance company also announced that they would be moving their headquarters to 1271 Avenue of the Americas in Manhattan.

AIG's lease comes as Merck & Co's spinoff, Organon & Co. announced that they will also

occupy 110,000 square feet for its headquarters at 30 Hudson Street. The new company is anticipated to have a public offering next year and will be comprised of Merck's women's health, legacy products, and biosimilars businesses. The lease is expected to be signed in the first half of 2021 by WeWork, who will be managing the space, but will have Merck serve as the guarantor.

BNP Paribas renews in Jersey City while reducing their space in NYC

BNP Paribas signed a 20-year renewal for their space at the Newport Tower in Jersey City. The French Bank decided to keep its 152,488 square-foot presence in Jersey City while reducing its footprint at 787 Seventh Avenue in New York City. BNP's renewal comes at a time when ownership has begun a \$10 million renovation at 525 Washington Boulevard as part of their overall ESG strategy throughout their company.

Opal Holdings makes another purchase, this one in Metro Park

Opal Holdings has kept its foot on the pedal and has made it three for three in 2020. The New York City-based investment firm acquired 194 Wood Avenue South in Iselin for \$140 million (\$297.43/SF), making it their third large purchase in as many quarters for Opal. The 470,692 square foot property was purchased from AIG who acquired it in 2017. The property is anchored by IBM who occupies 153,394 SF.

Mack-Cali continues to divest its suburban portfolio

A joint venture between Onyx Equities, Taconic Capital Advisors LP, Axonic Capital LLC, and Machine Investment Group purchased a ten-property Morris County portfolio from Mack-Cali Realty Corp. The portfolio included nine properties in Parsippany (1, 3, 5, and 7 Sylvan Way; 4, 6 and 8 Campus Drive; 2 Dryden Way and 2 Hilton Court) and one in Madison (1 Giralda Farms) and totals 1,448,420 square feet. The total sale price was \$158 million (\$109.08/SF) and was financed by a \$147.72 million loan from Ares Management Corp. This sale by Mack-Cali is part of their strategy to divest their suburban office holdings and focus on their Waterfront assets in Jersey City. The new ownership group plans on making a series of capital improvements in the hopes of capturing tenants that are looking to relocate or expand from New York City.



New York Life sells the Offices at Bedminster

Northeast Capital Group purchased the Offices at Bedminster

this quarter for \$32.75 million (\$168.90/ SF). The New York-based investor purchased the two-building campus from New York Life, who purchased it in 2007 for \$43.7 million. The complex which consists of 500 and 550 Hills Drive in Bedminster is 193,900 square feet and is almost 16 acres.

Office Issue Spotlight - Working From Home brings some tax topics to the forefront

Covid-19 has led to many changes in the way companies and employees do business with a significant number of companies' employees able to sufficiently work from home, many are reevaluating the location and footprint of their offices. The pandemic has accelerated many trends, among them the discussion of two tax topics: The tax deduction for the home office and the "Employer Convenience Rule".

Under the IRS's Publication 587, a taxpayer may deduct expenses for the use of their home office. To take advantage of this deduction, the office must meet these two factors: 1. The location is used for the sole and exclusive use of your business 2. The location is a principal place of your business. Generally, the taxpayer would deduct the percentage of the home that is used for the business. (To view the full publication please click [here](#))

With many people working from their home offices throughout the pandemic, there might be a slew of people looking to take advantage of this deduction come tax time. For most of those people, they will be disappointed to learn that as a result of the 2017 tax overhaul, the deduction by employees for home office use was removed.

As a result of so many employees working from home, as well as plans by many companies to allow for more employees to work remotely even after the pandemic, there has been a push to make adjustments to the tax code to reflect the new business environment. Proponents of the change have argued that the "sole and exclusive use of your business" factor is an extremely high barrier to meet and unfairly discriminates against the less wealthy and apartment dwellers who cannot set aside a portion of their residence for the exclusive use of their business. A second argument for change has been the shifting of the cost of office supplies, electricity to power computers, and HVAC systems from closed offices to employees working from home. This is in addition to additional "wear and tear" people have put on their homes as a result of the shift to work from home.

While a change to the tax code does not seem imminent, as the dust settles and the world moves past Covid-19, that tax code will

hopefully adjust to meet the new realities of the work environment.

A second tax concept that is getting additional scrutiny is the “Employer Convenience Rule”. This rule states that if a person has a job that is based in one state, but lives and works in another state out of convenience and not because the employer requires it, they will owe income taxes to the state where their office is. Since, in general, states tax income for work done in their state, taxpayers are at risk for being double-taxed if their home state does not give a tax credit.

New Jersey residents who work in New York, in general under Section 601 (e) of the New York State Tax Law pay income taxes to New York for the portion that they work in New York. The basic formula is the total number of “working days” in New York divided by total “working days” both within and out of New York. A caveat to the rule is that the days worked out of New York need to be out of necessity or for convenience of the employer and not the employee. For a “workday” to count as out of New York the employee must be working at a bona fide employer office.

As a result of Covid-19, many New Jersey residents who work in New York are now working from home. This brings up the question if they will need to pay taxes to New York while working in the home office. After many years of confusion and inconsistent rulings by the New York State Courts, in 2006 the New York State Departments of Taxation and Finance issued a Technical Service Bureau Memorandum (TSB-M-06(5)i) clarifying the rules on the application of the “Convenience of the Employer Test”. The Memorandum outlines a series of factors that must be met to for a home office to be considered a “bona fide employer office”.

For a home office to be considered a “bona fide employer office” it must either meet:

- a) The primary factor OR
- b) At least 4 secondary factors AND 3 other factors

The Primary Factor is:

- a. The home office contains or is near specialized facilities

Secondary Factors are:

- a. The home office is a requirement or condition of employment.
- b. The employer has a bona fide business purpose for the employee’s home-office location.
- c. The employee performs some of the core duties of his or her employment at the home office
- d. The employee meets or deals with clients, patients, or customers on a regular and continuous basis at the home

office.

- e. The employer does not provide the employee with designated office space or other regular work accommodations at one of its regular places of business.
- f. Employer reimbursement of expenses for the home office.

Other factors are:

- a. The employer maintains a separate telephone line and listing for the home office.
- b. The employee’s home office address and phone number are listed on the business letterhead and/or business cards of the employer.
- c. The employee uses a specific area of the home exclusively to conduct the business of the employer that is separate from the living area. The home office will not meet this factor if the area is used for both business and personal purposes.
- d. The employer’s business is selling products at wholesale or and the employee keeps an inventory of the products or product samples in the home office for use in the employer’s business.
- e. Business records of the employer are stored at the employee’s home office.
- f. The home office location has a sign indicating a place of business of the employer.
- g. Advertising for the employer shows the employee’s home office as one of the employer’s places of business.
- h. The home office is covered by a business insurance policy or by a business rider to the employee’s homeowner insurance policy.
- i. The employee is entitled to and actually claims a deduction for home office expenses for federal income tax purposes.
- j. The employee is not an officer of the company.

For the full text of New York State Departments of Taxation and Finance issued a Technical Service Bureau Memorandum (TSB-M-06(5)i) please click [here](#).

As is evident from the Memorandum, the hurdle to classify a home office as a “bona fide employer office” is quite high.

With the (potentially) permanent shift to telecommuting for some employees, New Jersey stands to lose billions of dollars in tax revenue as they provide a tax credit to their residents whose income is being taxed by other states. One of the biggest proponents of change is

Senator Steven Oroho, who is the Senate Republican Budget Officer, and represents the 24th legislative district in the state senate. In a recent opinion article, Mr. Oroho outlines why it is so important for New Jersey to change these tax policies.

The challenge in creating a change is that New York has no incentive to make changes to its tax code, and recent efforts on the federal level have yet to be successful. Current federal law requires state tax cases to be contested in state courts. Even change via the federal court system has been unsuccessful as the Supreme Court has so far refused to grant certiorari.

There is no guarantee that New Jersey will continue to provide a tax credit for taxes paid in other states, as the state's coffers took a significant hit due to the pandemic. As New York-based companies assess their options as a result of the pandemic, deciding if they

should maintain an office in New York and/or implement a "hub and spoke model", the tax effect on their employees should be included in the decision making process.

Covid-19 has created havoc in the way business is being done. With these changes, pain points are being exposed in businesses and governmental policies. These two tax topics are just a few that are now being reevaluated as the world adjusts to a post-COVID world.

Disclaimer: Please contact your tax professional before making any tax planning decisions.



Market Data Points

New Jersey

Indicator	Q3 20	Q3 19
Vacancy	12.9%	13.1%
Rent	\$30.70	\$30.51

Northern New Jersey

Indicator	Q3 20	Q3 19
Vacancy	13.7%	14.5%
Rent	\$31.87	\$31.78

Central New Jersey

Indicator	Q3 20	Q3 19
Vacancy	11.7%	11.2%
Rent	\$29.09	\$28.78

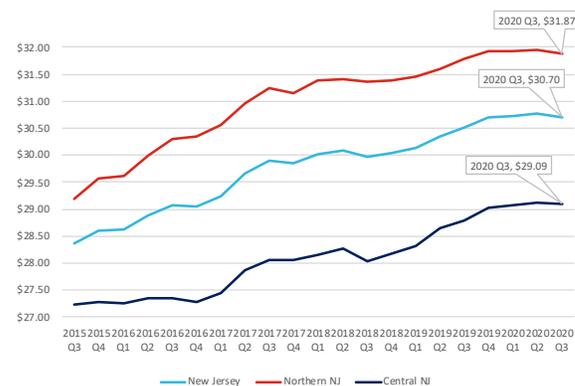
Select Office Sale Transactions

Building	Submarket/Market	Seller	Buyer	Sale Price	Price PSF	Size (SF)
194 Wood Ave South, Iselin	North Edison/ Woodbridge/Central New Jersey	AIG	Opal Holdings	\$140,000,000	\$297.43	470,692
Mack-Cali Morris Couty Portfolio (10 Properties)	Northern New Jersey	Mack-Cali	Onyx Equities	\$158,000,000	\$109.08	1,448,420
The Offices at Bedminster, Bedminster (2 Properties)	Rt 78 East/Central New Jersey	New York Life	Northeast Capital	\$32,750,000	\$168.90	193,900

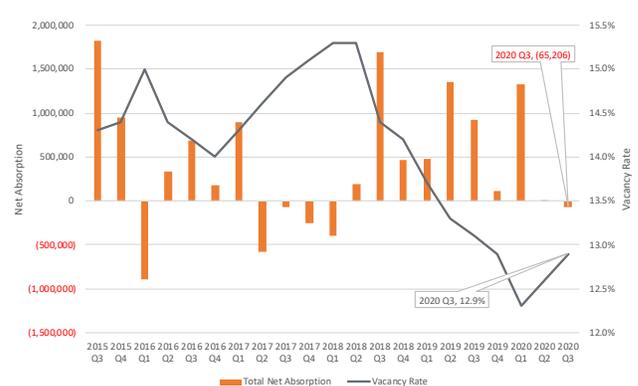
Select Office Lease Transactions

Tenant	Building	Submarket / Market	Type	Size (SF)
Eisai, Inc.	200 Metro Boulevard, Nutley	Newark/ Urban Essex / Northern New Jersey	Direct	306,471
AIG	30 Hudson Street, Jersey City	Hudson Waterfront / Northern New Jersey	Direct	227,852
BNP	525 Washington Boulevard, Jersey City	Hudson Waterfront / Northern New Jersey	Renewal	152,448

New Jersey Office Market Rent



New Jersey Office Total Net Absorption and Vacancy Rate



Trends to Watch



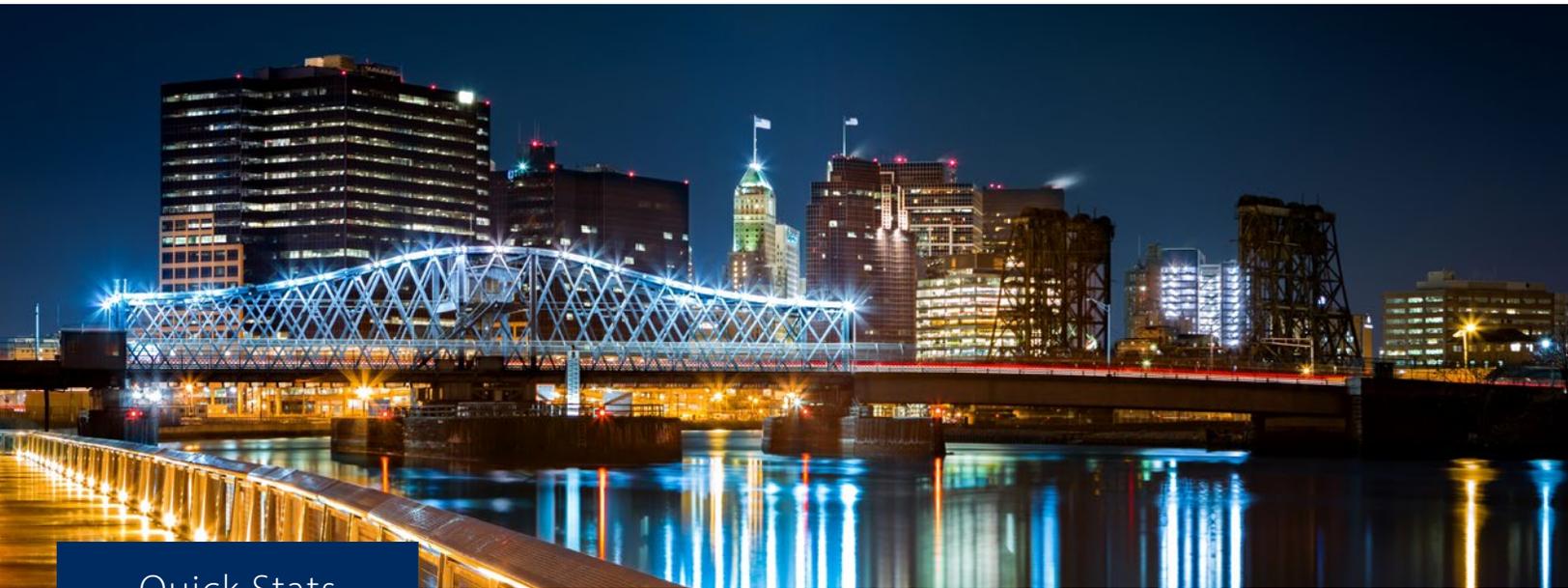
Companies are looking for more flexible office space that can quickly convert, as they develop long-term work from home strategies.



As some companies leave New York City, will they skip over New Jersey to more tax-friendly southern states?

Market By The Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q3 20 Net Absorption	YTD Net Absorption	Current Under Construction (SF)	Market Rent Class A	Market Rent Class B
Bergen Central	6,913,777	897,459	95,614	14.4%	(43,222)	(57,520)	-	\$34.91	\$25.76
Bergen East	9,698,033	868,947	87,341	9.9%	253,886	242,390	51,750	\$34.60	\$25.15
Bergen North	9,140,982	962,594	43,599	11.0%	(121,346)	(35,164)	52,000	\$35.13	\$27.14
Hudson Waterfront	21,415,423	2,469,518	303,177	12.9%	(224,177)	117,769	245,997	\$42.35	\$35.30
Meadowlands	6,200,372	795,052	43,731	13.5%	102,835	47,585	250,000	\$35.19	\$27.94
Morristown Region	11,045,561	1,324,345	160,637	13.4%	(27,346)	(42,909)	-	\$33.04	\$27.50
Newark/ Urban Essex	18,369,380	2,047,542	29,963	11.3%	225,061	371,872	125,000	\$31.43	\$27.49
Northwest Frontier	322,495	15,308	0	4.7%	1,881	(1,989)	-	-	\$22.70
Parsippany	16,520,556	3,113,849	310,525	20.7%	99,139	324,844	-	\$29.17	\$23.44
Short Hills/ Millburn	3,528,573	181,573	75,739	7.3%	40,791	(121,995)	-	\$37.52	\$30.12
Suburban Essex/ Rt 280	11,039,526	1,011,435	187,780	10.9%	29,216	(147,874)	-	\$26.40	\$23.93
Wayne/ Paterson	6,379,437	619,600	13,000	9.9%	(32,404)	148,818	34,407	\$33.74	\$30.12
Western Morris	3,102,039	1,292,647	0	41.7%	10,851	23,951	-	\$26.16	\$21.84
Northern New Jersey	123,676,154	15,599,869	1,351,106	13.7%	315,165	869,778	759,154	\$34.24	\$26.84
Brunswick/South Edison	13,054,364	1,546,311	90,991	12.5%	(29,992)	207,052	40,000	\$33.49	\$26.45
Hunterdon Cluster	4,642,744	348,569	118,319	10.1%	(97,779)	(85,535)	-	\$26.85	\$23.15
Monmouth	11,640,057	997,260	103,881	9.5%	(95,854)	(11,280)	25,500	\$34.32	\$26.32
North Edison/ Woodbridge	6,266,937	766,880	99,532	13.8%	(90,288)	34,685	-	\$38.56	\$26.86
Princeton North	2,010,054	294,380	39,799	16.6%	(9,103)	(2,640)	-	\$28.18	\$26.33
Princeton South	17,969,122	1,292,573	235,064	8.5%	89,417	(123,286)	-	\$33.03	\$25.80
Route 22 West	5,161,284	320,378	428,450	14.5%	54,133	(2,709)	-	\$27.46	\$22.04
Route 287	9,472,155	1,315,791	55,548	14.5%	(61,893)	(64,407)	-	\$23.29	\$22.50
Route 78 East	16,023,458	1,841,657	263,710	13.1%	(100,399)	456,886	-	\$28.83	\$24.90
Union	4,487,031	442,441	24,263	0	-38,613	-5,999	205,111	\$25.14	\$23.44
Central NJ	90,727,206	9,166,240	1,459,557	11.7%	(380,371)	402,767	270,611	\$25.14	\$25.01
New Jersey	214,403,360	24,766,109	2,810,663	0	-65,206	1,272,545	1,029,765	\$32.95	\$26.05



Quick Stats

10.9% ↑

New Jersey's unemployment rate** (National rate 7.9%*).

3.0% ↑

Overall vacancy rate.

\$9.05 ↑

Market Rent (NNN).

7.2 M ↑

12 month absorption (SF).

*August 2020

**September 2020

The vacancy rate seemed to have bottomed out, as rent continues to rise

The vacancy rate was 3.0 percent at the close of the third quarter this year. This is slightly higher than the 2.9 percent during the third quarter of 2019. While the historic ascent of market NNN rent has continued its historic rise to \$9.93 per square foot, the market has experienced its sixth straight quarter of positive absorption. Historically, real estate usually trails the economy in a time of recession but early indications point to e-commerce increasing its grip on the future of retail, resulting in the strengthening of an already strong industrial market.

AAA Wholesale Group leases converted retail center

In a deal that encapsulates the direction of the market over the past few years, AAA Wholesale Group leased 130,000 square feet at 370 Essex Street in Lodi. The owner, Urban Edge, announced in May that it planned to redevelop the former National Wholesale Liquidators location into a warehouse and distribution center. The redeveloped property is expected to be 103,000 square feet of warehouse space and approximately 20,000 square feet of retail space with a delivery date in late fourth quarter 2021. As the line between retail and industrial continues to blur, it is expected that we will continue to see redevelopments such as this one.

Transwestern Development Corp. looks to turn one property into two in Piscataway

In one of the largest industrial sale transactions this quarter, Transwestern Development Corp. purchased a 16.1-acre site in Piscataway. The site is located at 330 South Randolphville Road, and currently has an existing 146,505 square foot property located on it. The site sold for \$28.25 million and is expected to be converted into two class A properties. Building A is expected to be 146,505 square feet with 20 dock doors, while building B is expected to be 151,708 square feet with 22 dock doors. Both buildings will have 36-foot clear ceilings and have an expected delivery of the second quarter of 2021.

\$28.25 M sf
AMOUNT TDC PAID FOR THEIR SITE IN PISCATAWAY

Market Spotlight - Piscataway: In the center of the state and the center of the industrial boom

Located in the center of the state, Piscataway is at the center of the industrial boom going on in New Jersey and around the country. With great proximity to routes 287, 95, and 18, coupled with a strong labor pool and a constant demand fueled by nearby Rutgers University, Piscataway has all the ingredients for a great industrial property. When taking a look at its near-zero percent vacancy rate, it seems like many people share that sentiment.

The industrial market in Piscataway has witnessed a 740 basis point drop in vacancy rate since the third quarter of 2017, as well as a

19.3 percent growth in rental rate over that same time. This is a result of some major lease deals over that period including: 725,000 square feet by Best Buy (300 Ridge Road), 451,800 square feet by Cascades Containerboard Packaging (1 Turner Place), 296,750 square feet by SHI International (400 Ridge Road) as well as many more. The strength of the market has also led to major development as well. Since 2018, there have been eleven buildings built, and there are also three that are currently under construction consisting of over 4.4 million square feet.

0.8%
VACANCY RATE IN PISCATAWAY

This past quarter has seen a continuation of this development trend. Transwestern Development Corp. announced their purchase and planned redevelopment of 330 South Randolphville Road. Transwestern announced plans to build two class A buildings on 16.1 acres, which sit along Exit 7 on Route 287. The expected delivery of the properties is the middle of 2021. With the aforementioned low vacancy rate, this new development is a welcomed sight to users looking to enter this very desirable market.

Like many cities located in close proximity to the New Jersey Turnpike, Piscataway's industrial market has been very strong, leading to low vacancy and high rental rates. As more users look to enter the market, developers will keep an eye out for underutilized industrial, office, and retail products to redevelop to meet their needs.



Market Data Points

New Jersey

Indicator	Q3 20	Q3 19
Vacancy	3.0%	2.9%
Rent	\$9.05	\$8.62

Northern New Jersey

Indicator	Q3 20	Q3 19
Vacancy	3.2%	3.8%
Rent	\$10.36	\$9.86

Central New Jersey

Indicator	Q3 20	Q3 19
Vacancy	2.8%	2.0%
Rent	\$8.78	\$8.35

Select Industrial Sale Transactions

Building	Submarket/Market	Seller	Buyer	Sale Price	Price PSF	Size (SF)
2200 Secaucus Road, North Bergen	Meadowlands/ Northern New Jersey	Resources Warehousing & Consolidation Services	Prologis	\$59,000,000	\$368.75	160,000
330 South Randolphville Road, Piscataway	Exit 9- Piscataway/ Central New Jersey	330 S. Randolphville LLC	Transwestern Development Company	\$28,250,000	\$192.83*	146,505*
349-369 1 st Street, Elizabeth	Union/ Central New Jersey	Coach USA	CenterPoint	\$25,665,000	\$670.38	38,284

* Existing building only, development will include a second 151,708SF property

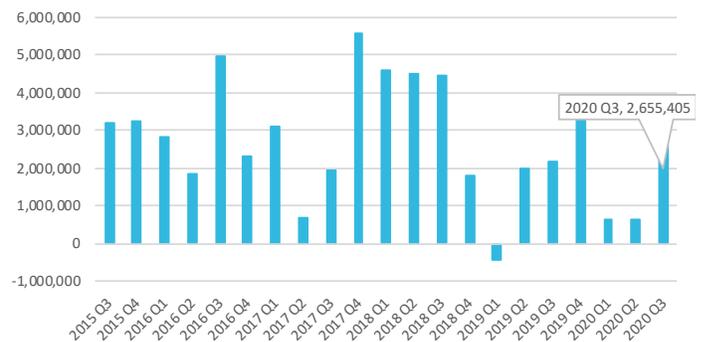
Select Industrial Lease Transactions

Tenant	Building	Submarket / Market	Type	Size (SF)
All Season Movers	909 Newark Turnpike, Kearny	Meadowlands/ Northern New Jersey	Sublease	205,600
Amazon	250 Gregg Street, Lodi	Bergen Central/ Northern New Jersey	New	200,385
AAA Wholesale Group	370 Essex Street, Lodi	Bergen Central/ Northern New Jersey	New	134,740

New Jersey Industrial Vacancy Rate vs. Direct Asking Rent



Total Net Absorption



Trends to Watch



The future of tariffs and trade relations as a result of the United States Presidential election coming up in the third quarter



The increasing need for both trailer and employee parking at industrial properties

Market By The Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q3 20 Net Absorption	YTD Net Absorption	Current Under Construction (SF)	Market Rent
Bergen Central	21,881,975	783,799	22,200	3.7%	76,037	-25,544	-	\$11.95
Bergen North	19,750,746	538,491	50,620	3.0%	162,787	64,669	-	\$10.72
Eastern Morris	17,156,529	687,930	31,645	4.2%	(6,655)	-153,985	-	\$9.23
Hudson Waterfront	30,522,057	893,403	61,500	3.1%	(51,900)	136,254	-	\$11.20
Meadowlands	90,233,754	2,125,953	645,317	3.1%	(138,187)	1,021,116	589,338	\$10.63
Morris West/I-80	14,581,498	1,251,069	11,000	8.7%	616,476	419,174	49,500	\$8.22
Morristown Area	2,818,289	89,588	0	3.2%	45,000	47,813	-	\$9.72
Newark	37,233,433	548,125	0	1.5%	545,512	725,727	1,232,144	\$12.94
Northwest Frontier	2,522,132	14,856	0	0.6%	16,740	29,040	-	\$9.62
Rt. 46/23/3	48,520,316	1,416,073	210,964	3.4%	233,406	271,143	-	\$9.82
West Essex	20,110,038	451,277	37,517	2.4%	(92,452)	11,279	-	\$9.69
Northern New Jersey	305,330,767	8,800,564	1,070,763	3.2%	1,406,764	2,546,686	1,870,982	\$10.36
Exit 8 A	69,091,352	1,630,935	273,642	2.8%	(678,012)	-1,023,718	1,824,545	\$8.30
Exit 9- Piscataway	49,948,271	451,412	16,000	0.9%	(52,861)	792,706	2,197,295	\$9.48
Exit 10- Carteret Avenel	78,006,425	1,059,990	135,762	1.5%	1,358,446	1,263,373	1,701,047	\$9.95
Mercer	31,902,826	1,724,608	151,580	5.9%	(185,251)	-842,518	1,375,923	\$7.45
Monmouth	16,061,074	721,125	0	4.5%	67,874	160,648	104,272	\$8.27
Somerset	29,605,274	1,205,512	92,573	4.4%	794,325	1,847,336	409,762	\$8.53
Union	58,050,990	1,938,050	18,485	3.4%	(55,880)	-813,532	1,351,127	\$9.21
Central NJ	332,666,212	8,731,632	688,042	2.8%	1,248,641	1,384,295	8,963,971	\$8.78
New Jersey	637,996,979	17,532,196	1,758,805	3.0%	2,655,405	3,930,981	10,834,953	\$9.05

New Jersey Economy



The unemployment rate drop seems to indicate a path to recovery

As of August 2020, New Jersey's seasonally adjusted unemployment rate was 10.9 percent. This is a significant improvement from the unemployment rate in April of 16.3 percent when the pandemic-induced unemployment was at its highest. New Jersey has regained about 49.0 percent of the jobs lost in the four months since April.

The New Jersey unemployment rate remains 300 basis points higher than the national unemployment rate of 7.9 percent (September 2020), which has come down from its high in April of 14.7 percent.

Governor Murphy finally gets his "Millionaire tax", as corporate surtax gets extended

In April of this year, New Jersey made the unique decision to push its fiscal year-end date from June 30th to September 30th. This move was made in part to allow the governor and the legislature to assess the fiscal damage of the pandemic. As a result of this extension, the 2021 fiscal budget was recently released and passed by the Democratic-controlled legislature.

The budget is set at \$32.7 billion for the nine months from October 2020 until June 2021. (Bubble: \$32.7 Billion- NJ Budget for Oct. 2020- June 2021) The budget also calls for a \$2.5 billion reserve, put in place in the event there is another Covid-19 outbreak. The approved budget also includes a \$4.5 billion borrowing plan, to add to the current \$44.4 billion in



outstanding bonds, which places New Jersey with the highest debt per capita in the country.

Two of the highlights of the budget are the new "Millionaire tax" and extension of the 2.5 percent surcharge on corporate taxes for businesses with over \$1 million in profit.

The 2.5 percent surtax was added in 2018, raising the corporate tax rate on profits over \$1 million to 11.5%. The surcharge was in the middle of its wind-down period where the rate was reduced to 1.5 percent, until December 31, 2021, when it was scheduled to expire. The new budget deal extends the scheduled sunset to December 2023.

The "Millionaire tax" is something that Governor Murphy has been trying to get restored since he took office. The new tax will increase the tax rate on gross income between \$1 million and \$5 million to 10.75% (the rate on \$5 million-plus) from 8.97%. In a corresponding action, the budget calls for a \$500 tax rebate to all two-parent households that have less than \$150,000 in gross income, and at least one dependent child (and a \$75,000 gross income cap on the single-parent household). The rebates are expected to be sent out in the summer of 2021. When asked, Governor Murphy had stated that he plans on keeping both the "Millionaire Tax" and \$500 tax rebate beyond this year.



Opponents of these two measures have said this is the wrong time, as the state looks to attract new companies and their executives, as well as retain its current ones. Only time will tell if this was the right decision as the state prepares for the financial repercussions of Covid-19 and beyond.