



PUBLIC HEARING  
BEFORE  
ASSEMBLY COMMITTEE ON TAXATION  
SUBCOMMITTEE ON BUSINESS TAX STRUCTURE

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MEETING ROOM  
COURTHOUSE, ANN ST.  
MORRISTOWN, NEW JERSEY

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I N D E X

|  | <u>Page</u> |
|--|-------------|
| Congressman Jim Courter<br>13th District, New Jersey   | 1           |
| Senator John H. Dorsey<br>Legislative District 23  | 4           |
| Assemblyman Dean A. Gallo<br>Legislative District 24   | 6           |
| Mr. Ed Flanagan, Vice Chairman<br>Tax Committee<br>Morris County Chamber of Commerce<br>330 South Street<br>Morristown, New Jersey 07960 | 7           |
| Assemblyman William J. Maguire<br>Legislative District 22  | 15          |
| Assemblywoman Barbara A. Curran<br>Legislative District 24   | 15          |
| Assemblywoman Rosemarie Totaro<br>Legislative District 23  | 19          |
| Mr. Robert Singer, Corporate Attorney<br>Automated Data Processing<br>405 Route #3<br>Clifton, New Jersey 08015                          | 21          |
| Mr. Andrew J. Rimol, Executive Secretary<br>NJ Tool, Die & Precision Machining Association<br>92 Broadway<br>Denville, New Jersey 07834  | 23          |

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Appendix:

1. Tax Survey submitted by Morris County Chamber of Commerce
2. Graph #2 - Comparative Employment Index - submitted by  
Assemblywoman Rosemarie Totaro

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A S S E M B L Y M A N M I C H A E L J. M A T T H E W S.

Good afternoon. I am Assemblyman Matthews. This is the first public hearing to be conducted by the Subcommittee on Business Tax Structure. To my right is Assemblyman Donald Albanese, Vice-Chairman of this Subcommittee, and to my left is Assemblyman Gerald Stockman who represents the 14th Legislative District (which is Trenton), and I represent the 2nd Legislative District which is Atlantic County and parts of Burlington and Ocean Counties.

The purpose of this public hearing is twofold. One is to look at present legislation and present taxes in the State to see how they can be modified or alleviated to encourage businesses that are within the State; and secondly, how can we make changes in our taxing structure to encourage other corporations, other businesses to come into the State.

We have a list of speakers but if there is anyone in the room who wishes to speak and whose name is not on the list, please come forward and give your name to one of our staff, either Mr. William Zuzzio or Mr. William Johnson. This hearing today is not to debate the issues. We want to hear your statements and thereafter I would encourage the members of the Subcommittee to ask questions. Our first witness will be Congressman Jim Courter.

C O N G R E S S M A N J I M C O U R T E R, 13th District, New Jersey.

Thank you Mr. Chairman, members of the Committee. I am honored to have this opportunity to speak to you about incentives for business and industry in the State of New Jersey. This is a complex issue, as you know. It is a serious issue for any decisions you may make will have a profound impact on the economy of the State of New Jersey and on the lives of the citizens of the State of New Jersey. I'll be talking about Federal laws and Federal initiatives in this area but truly what happens in Washington very often will have an impact in our various states.

Industry is caught between two terrible economic forces -- inflation on the one hand and recession on the other. Federal efforts to curb inflation have resulted in a slowdown in business activity. From 1969 to 1978, only three years registered productivity growth over the 2 percent mark, which is not very high, and two of those years actually registered a productivity loss. This slowdown in business activity is a clear indication that we are entering a recessionary period, and there has not really been a big boom or growth period in the past 10 years. The common remedy for a recession is an inflationary burst of government spending. We are caught, in essence, on the horns of a terrible dilemma.

One viable approach to this problem, and one I am supporting in the House of Representatives, is the Capital Cost Recovery Act of 1979. This legislation would scrap existing depreciation schedules for business plant and equipment, and rolling stock, and substitute in its place a simplified system of rapid depreciation for these assets. It provides for a more rapid recovery of capital investment in productive assets, by streamlining and simplifying the depreciation of plant and capital equipment.

The streamlining is achieved by separating an assets depreciation lifetime from its useful life -- normally we have used useful life as a benchmark for depreciable life -- and also it establishes three classes of depreciable property. The bill says the following:

- . Class I - Ten-year depreciation for buildings and their structural components.
- . Class II - Five-year depreciation for equipment and other tangible personal property.
- . Class III - Three-year depreciation for automobiles and light trucks, and other types of vehicles.

The existing concept of "useful life" and the asset depreciation range (ADR) work to inhibit investment and capital formation in our country, I do believe. Long depreciation periods erode capital investment and increase the amount of debt financing by businesses. This has resulted in a chronic low level of investment and in sagging productivity, sluggish production and faltering competitiveness in world markets.

The capital Cost Recovery Act is designed to encourage real economic growth by stimulating investment in better, more efficient plant and capital equipment. This is not a pro-business effort, it is a pro-capital formation action. Increased capital investment will create jobs, directly as well as indirectly. We estimate that the implementation of this program would create up to 1.2 million jobs in the next five years.

This is not, obviously, a quick-fix solution to the short-term problem of a stagnant economy. It is a long-range attempt to stimulate capital investment and make the United States more competitive in world markets. It is designed to lower the cost of capital to business and I think that is a laudible goal.

To many people, depreciation reform is not a dramatic issue nor a sexy issue, but to those of us concerned with the future of this Country's economic health it is the cornerstone, I believe, of increased productivity, real wage increases, lowered inflation, and a rational tax policy.

There are several other proposed Federal solutions to the productivity problem that we are all facing -- and what you are here this afternoon to address - and which I would like to briefly highlight for you.

1. Reduce the corporate income tax rate. The Revenue Act of 1978 provides for a graduated plan that cut the maximum tax applying to corporate income in excess of \$100,000 to 46 percent. This should be reduced to 42 percent within five years. A reduction scheduled several years in advance would give business greater certainty about the future, encouraging them to make more long-term investments.
2. We can do another thing -- eliminate the "double taxation" of corporate dividends. Corporate profits currently are taxed twice as we know -- first as corporate income subject to corporate income tax, and later as dividends subject to the individual income tax.
3. We can provide for the rapid depreciation of patents which we don't have in this Country, and I think the Congress should do something in that regard. Current Internal Revenue Service regulations require firms that capitalize research expenses to depreciate the unrecovered investments over a 17 year period beginning when they are granted -- the patent itself. This could be reduced, in my opinion, to as little as five years. In fact should be

reduced to a much shorter period of time.

4. Firms should be allowed time to write off losses -- more time than they have now. Current law permits firms to spread operating losses over 10 years in determining their tax liability, three years into the past and seven years, of course, into the future. That means a new firm can only write off its losses over a seven-year period. Operating losses incurred in the first three years of a firm's life could be allowed to be carried forward against tax liability for ten years under that particular proposal.
5. We could also extend the 10 percent investment tax credit to cover research and development expenses. I think one of the real problems we have in the United States today is the fact that this Country has not really spent as much, percentage-wise, as other countries in research and development. I think we are suffering from that today, and we have to make sure that we change our policy and our tax code to make sure that we don't suffer from that into the future.
6. We could also allow an increased tax credit or more rapid amortization of research equipment and structures.

Those of us in the U.S. Congress who are concerned about the decline in our economy -- and I am sure all members of Congress are concerned about the decline in our economy -- have given some serious thought about the role our government is playing in this decline. There is too much government interference, there are too many regulations, and there are too many taxes for a healthy system of free enterprise. Too much government is something that you and I as representatives of the people can do something about, I believe. I sincerely believe we have an obligation to do something about it, and very quickly. We can cut regulations, cut excessive taxes, provide tax incentives, and create an environment in which business and industry can thrive and live together.

Basically, to summarize my statement, I firmly believe that this country during the past number of years has been really going in the wrong direction. I as well as you, particularly in your distinguished committee, have talked to businessmen from all walks of life. Some are leaders of very large businesses; some, of course, own very small businesses. There's not one business person that I know, nor one conversation I've had with a businessman from the State of New Jersey, or from other states, while in Washington, that has not felt that we can make improvements in the tax code, we can reward incentive, we can have faster depreciation, and we should make sure that we have substantial capital investment because, gentlemen, we have just not had that to the degree necessary during the past number of years.

I know that you have a lot of good witnesses here. I have probably spoken too long already. If you have any questions I'd be glad to attempt to answer them.

A S S E M B L Y M A N   D O N A L D   J .   A L B A N E S E .

I would just like to comment that I think it is important to note that the Federal depreciation schedules, the life-rates, and so forth, are generally adopted by the State of New Jersey in its corporation returns, and business returns, and I think if the Federal government would make some changes, in accelerating the depreciation -- streamlining it -- we could certainly benefit on the state level.

MATTHEWS. Just two questions. The depreciation you are talking about, would this be an

option?

COURTER. Yes, it would be a permissible accelerated new form, if you want to call it "accelerated depreciation." You could probably turn to your right and get a better answer than from me because I am not a CPA. There are certain methods of depreciation -- some straight line, some accelerated, etc. This is basically a new concept of depreciation. It is not tied to "useful life." In my mind there is no rational reason that it should be tied to "useful life" and therefore it is not under this new bill. By the way, this bill does have bipartisan support and I am certainly looking forward to the return of Congress in September or October when hopefully we will be able to have serious debate on this on the floor of the House, and that it would become law in the 96 Congress.

MATTHEWS. I think you have already answered my second question which was that it would not affect the investment credit because that is based upon "useful life."

COURTER. No.

MATTHEWS. Fine.

COURTER. Thank you very much, gentlemen, I appreciate the opportunity to be here.

MATTHEWS. Our next speaker is Senator John Dorsey.

S E N A T O R   J O H N   H .   D O R S E Y .

Thank you very much Mr. Chairman. It is a pleasure to appear before your committee having served on it for two years with Assemblyman Albanese -- he and I had a very exciting and enjoyable experience on the Assembly Taxation Committee. I thought at that time, and I think now as time goes on, that that was perhaps my most exciting experience in the Legislature. I also think it was one of the most informative from the standpoint of a legislator because it takes you into a great many varying aspects of the economy of the State of New Jersey. Having left your committee and gone on to the Senate, I have had the opportunity to serve on the Joint Legislative Economic Committee that put out a report earlier this year, as well as the Joint Committee on Tax Policy.

When I was on the Assembly Taxation Committee our greatest concern at that time was in developing a tax bill or tax bills which dealt particularly with a method of gathering revenue. I think we have gone through that phase successfully, and now in terms of your deliberation and your concern with effectuating some changes in the business corporation tax law, and other tax laws, I think we are now to the point where we want to turn away from the simple function of collecting revenues, to the function of perhaps trying to motivate, initiate other aspects and we know that that can be done by changes in the tax structure. We know for instance, that you can promote certain political aspects by way of tax measures such as the Homestead Rebate. We also know, from experience in other states who have delved deep into attempting to structure their tax policy to encourage business, that restructuring the business corporate tax can be a very great weapon and a very great incentive to keeping business in New Jersey and seeing that business is expanding.



As all of you are well aware, New Jersey in the last four or five years and perhaps even before that, suffered very deeply from the recession of 1974. Even though we have made a very steady comeback in terms of our economy, we still lag about 2 percent higher in terms of unemployment than the average throughout the country, and certainly we have not been attracting industry to this State or seeing industry within the State expand to the extent we would like to see it expand.

On the Joint Legislative Economic Committee, we have had to study with some concern what has been done in other states and in that connection we centered in on particular industries and on particular concepts which they developed in order to encourage expansion. I think it's interesting to note that the statistics show that the greatest amount of expansion, about 85 percent of commercial and industrial expansion in our State, comes from industries which are already here, and not so much from industries which are necessarily brought in from outside the State or from outside the Country.

We have discussed generally, tax policy, but I would like to take just two minutes now to talk about a particular industry and two particular bills which I'm concerned with, namely, S-1456 and S-1457. These bills are based on the concept that the idea of tax credits can be a very great encouragement to businesses to stay here and to expand. I think the concept is one which can be applied to any number of industries. I think, for instance, there are very many successful industries in New Jersey such as the chemical industry which doesn't really necessitate or need our help in terms of certain revisions in our tax policy to make ours a State in which they will stay, but there are a great many small businesses which can be greatly affected by some revisions in tax policy, and particularly by way of tax credits. My interest along with Senator Scardino from Bergen County has been in the area of the Tool and Die industry of the State which is relatively not a small industry small from the standpoint that there are a great many people employed in it, but most of the units that are involved are relatively small. We have proposed these two bills for the purpose of one, to change the Business Corporate Tax of 1972 to provide a tax credit of up to one-fourth of the amount which an employer in this particular field pays an apprentice who is enrolled in an apprentice program approved by the United States Department of Labor. Take one-quarter of his salary during the period of a year and let him apply that as a tax credit against his tax under his Business Corporation Tax of the State of New Jersey. I think there is a representative of the industry here who will speak more in depth on the industry, but I think that since we have gone through the phase of developing taxes for collection of revenue we now should turn ourselves to such concepts as tax credits to encourage industrial and commercial development in this State. I think this is important because we have lagged behind in those areas. I think it is an area which you can tackle and make some significant changes in, and I think it is an area which if done can be utilized by other departments of the State -- particularly the Executive Department -- to encourage industry to expand in the State, encourage industry to come into the State. I would like your consideration, in the near future when we go back into session, of S-1456 and S-1457.

Thank you very much. Are there any questions you would like to ask me about these two bills?

ALBANESE. I would just like to comment again that John and I had served for two years on the Taxation Committee and I know John's concern for the businessman in the State of New Jersey and the tax burdens upon him. I know you are concerned to try and do something about what seems to possibly be the unfounded image that New Jersey is anti-business. There are some areas, perhaps, in which such a comment is warranted but generally I think, as members of the Legislature, we are all concerned that reducing the tax burden upon business -- which, of course, would stimulate the economy in the State of New Jersey -- is your concern as well.

DORSEY. I have to advise the members, as you know, Don's a CPA and we used to have to be very careful what we said in his presence because he fills out these returns and none of the rest of us ever did.

ALBANESE. Well, Mike here is an accountant also.

DORSEY. So now you have companionship.

MATTHEWS. Next I will call on Assemblyman Dean Gallo.

A S S E M B L Y M A N D E A N A. G A L L O, Assistant Minority Leader.

Thank you Mr. Chairman and members of the committee. I would first like to thank the committee for holding these very important hearings, particularly for holding this first one in Morris County.

The holding of committee hearings itself, I think, points out something that we all realize -- that the business climate in New Jersey, to say the least, could stand some improvement.

Because of recent economic trends, not only in New Jersey, but in other parts of the Country, particularly the south, New Jersey has not in my opinion, been faring as well as it could. We all understand the effect that a State's attitude can have on the business environment within its boundaries. New Jersey has just not been competitive enough in attracting new business, in fact, many believe that our State has had an anti-business attitude. I certainly believe that much of this criticism is well deserved and that an immediate change in attitude on the part of the administration, along with some legislative suggestions for new approaches, are in order.

New Jersey's economic survival is dependent upon a strong and viable business and industrial environment.

There must be a policy partnership between State government and the business community. I, for one, do not believe that the dumping of tax dollars here and there is the solution. What we must do, in my opinion, is to legislatively provide incentives to encourage business dollars to come to our State and to insure as best we can that we halt the business exodus to the sunbelt areas.

Over the past six months, I have worked very closely with the Morris County Chamber of

Commerce and their Tax Committee. These individuals, who are the business community in Morris County, have the best interests of New Jersey at heart, and have taken a positive approach in developing eight bills which I have had the pleasure to co-sponsor with Assemblyman Van Wagner. We believe that these bills, if enacted, will correct inequities in the New Jersey tax structure which directly effects business operating in this State. We believe these bills are essential to make New Jersey's corporate tax climate one which will attract new business, and more importantly, retain existing business.

This can be accomplished by the enactment of these bills which will make New Jersey more competitive.

In summary, these changes are needed to make the corporate taxation system more equitable and economically realistic. I was going to go on and mention the particular bills which are A-1914 through A-1921 but in view of the time, and knowing that the Morris County Chamber of Commerce representatives will be speaking shortly, I would like to leave the particulars up to them. They have had a lot to do with the formation and initial leg-work of these bills, with their CPA staff and individuals in that field, so I think they are much more prepared to answer some of the questions that you may have. I do have copies of my statement and also the bills I'm referring to with a short explanation of each and what they will do. These I would like to leave with the committee.

MATTHEWS. Thank you. They will be put into the record. Next I will call on Mr. Ed Flanagan, Vice-Chairman of the Morris County Chamber of Commerce Tax Committee.

E D F L A N A G A N.

Good afternoon. My name is Ed Flanagan and I serve as Vice Chairman of the Morris County Chamber of Commerce Tax Committee. As a representative of the Morris County Chamber of Commerce, I urge you to support bills A-1914 through A-1921 which were introduced to the State Assembly through the efforts of the Morris County Chamber of Commerce and Assemblymen Dean Gallo and Richard Van Wagner.

Our Chamber, which represents over 400 businesses, feels these bills are essential not only to make New Jersey's corporate tax climate one which will attract new business but more importantly, retain existing business. We feel that these bills will make New Jersey more competitive in attracting new business and holding on to existing business by making the corporate taxation system more equitable and economically realistic.

To show you the support of our Chamber, today we have the President of our Chamber in the audience; we also have one of our Vice Presidents who is also a volunteer director on the Board of Directors, Mr. Ed Matthews.

What I'd like to do is briefly go through bills A-1914 to A-1921. I will try to avoid some unnecessary details but at the same time give you some background as to what the current law



is and why we feel these changes are needed.

The first bill I would like to address is A-1914 which relates to estimated tax payments. The New Jersey Corporation Business Tax Act currently requires a prepayment of the following year's estimated tax equivalent to 60 percent of the current year's tax. This is a fixed formula with no deviations permitted. There is no mechanism in the current law to provide taxpayers the opportunity to base the estimate on expected operational results for the year. This results in inequities when a corporation generates a large nonrecurring profit in any given year. By incurring this profit they have to make a large estimated payment, or 60 percent, for the following year. If the following year is a normal year, or a bad year, they end up having to wait almost two years for a refund. That is, twelve months to file the tax return and then another twelve months just to get the refund from the State. Bill A-1914 is designed to correct this situation by providing that the estimated tax payment can be 60 percent of the expected tax for the current year or using the old rule of 60 percent of the prior year's tax liability.

MATTHEWS. Do you mind if we interrupt to ask questions.

FLANAGAN. Not at all. Perhaps that would be easier if you'd like to ask questions as I go along.

MATTHEWS. On this particular bill, what are your views on the same system that the Federal government has on payment per quarter of estimated tax?

FLANAGAN. I would more strongly support that than the current bill. To make it more economically realistic, I think that something similar to the Federal government -- that is whatever the total tax payment must be whether 60 percent or 80 percent -- be paid on a quarterly basis. So if we're talking about 60 percent, 15 percent would be paid each quarter. If that's the case, in order to protect State revenues, however, and you are trying to be fair about this thing, you would probably have to put in some type of penalty provisions if there were under-estimations.

MATTHEWS. I was thinking of 100 percent, 25 percent per quarter.

FLANAGAN. If it's based strictly on the prior year's tax...

MATTHEWS. No, it's based on the current year. What would be the penalty for under-estimation?

FLANAGAN. I think the reason the Federal government has 80 percent is they realize that the way accounting works -- and you're working with estimations -- to require 100 percent would mean by the time the corporation files its tax return 100 percent would have to be paid in. During the year they may not know. That's why the Federal government allows a leeway, they require 80 percent.

MATTHEWS. What I am trying to discuss is the Federal government versus the State's 60 percent.

FLANAGAN. Right now I am only speaking for myself and for the other members of our Tax Committee when we discussed these various proposals. I believe that if the percentage were not

100 percent, but 60 or 80 percent, quarterly payments would be strongly supported by the business community as opposed to a one month's sum at the beginning of the year as we have right now.

A S S E M B L Y M A N   G E R A L D   R.   S T O C K M A N.

I have a couple of questions that come to mind, Mr. Flanagan, which perhaps you can answer. One, is the history of the law as it is written now. My limited experience in the Legislature -- only eight months -- is that from time to time bills are passed dealing with collection of taxes because of some felt need, or other considerations....

FLANAGAN. I do not know the history, I can speculate that most states require prepayment because they realize that revenues are lacking and instead of waiting until the end of the year they would like to get some of that revenue up front. Very similar to withholding taxes for individuals.

STOCKMAN. Do you have any kind of estimate for us as to the impact, dollarwise, collectionwise, of a bill like A-1914?

FLANAGAN. The net effect on State revenue would have to be zero because we're talking about estimated payments.

STOCKMAN. Ultimately. What about the income strain?

FLANAGAN. I do not have any estimates. However, I believe -- and if you don't mind I may refer to Joe Cironi who is sitting in the audience -- one State agency looked at this and their initial impression was this would have no affect on State revenues. I understand that everyone on the committee has a hand-out of our material. One thing that is not in there is we put together a short study of what other states require. We looked at the metropolitan area which we consider for attracting business, are our competitors, Pennsylvania and New York, Delaware and Connecticut. We also took the other major industrial states such as Massachusetts, California, Illinois, Maryland, Ohio and Michigan, and with estimated tax payments, estimated tax per year could be adjusted throughout the year -- this goes to the question of the quarterly payment. Pennsylvania allows it; Delaware and Connecticut allow it. As a matter of fact every state in the study, except New Jersey, allows quarterly payments.

In terms of where New Jersey stands in relation to other major states, and to our competitors, I think New Jersey is many years behind. (See chart in the appendix.) Are there any other questions on the estimated tax?

ALBANESE. I would like to make a comment. Prepayment in New Jersey is relatively new, probably within the last ten years. Undoubtedly as I recall at the time, when the money supply was rather tight not only in Government but for individuals, businesses would like to hold on to their money because of the rising interest rates, I think there was a movement to collect some of that money prior to the year actually due. That may also account for the fact that there hasn't really been any legislation setting forth amendments to that prepayment such as estimating or paying quarterly, so perhaps now this committee can address that particular problem and come up with

legislation, or adopt whatever legislation is currently in the hopper addressing that problem.

FLANAGAN. The next area addresses two bills, A-1915 and A-1917, and relate to interest. Under the New Jersey Corporation Business Tax Act as it presently stands, there is no provision for payment of interest on overpayments of taxes -- and this sort of relates back to the estimated tax issue. The State on the other hand has the power to levy and collect interest on all underpayments or deficiencies. This inconsistency results in inequities to the taxpayers. Two major ones.

1. The Division of Taxation appears to be in no hurry to process returns showing a refund. In some cases it takes almost a year for a corporation to receive a refund from the time it files its tax return. In addition, it is not uncommon for a refund to take as long as two years. Again, no interest being paid, we feel that the Division of Taxation is really not being pressed to process these returns.
2. By not paying interest on all the payments this has lead to a ludicrous situation where an adjustment made to a subsequent year which produces both a balance due and a refund to the taxpayer, results in interest being charged on the balance due and nothing being paid on the refund. For example, if in 1979 the Internal Revenue Service were to select a corporate return for audit and find that there was a \$10,000 deduction on the 1976 return that should have been on the 1977 return, they would increase the 1976 taxable income by \$10,000 and decrease the 1977 taxable income by \$10,000. As far as the State is concerned, the State of New Jersey will assess \$750 tax for 1976 and grant a \$750 refund for 1977. So in effect there's a natural wash of the tax liability. But along with those assessments will come an interest charge for 1976. Three years of interest at 9 percent on the \$750 balance due and even though there's a refund for 1977 there is no interest granted. So there is an out-of-pocket cost for three years where maybe it should have been one year.

Assembly Bill number 1917 is designed to eliminate these inequities by requiring that refunds be issued within 90 days of the due date of the original tax return. If this time period is not met interest of 6 percent would be paid by the State. The 6 percent interest would also be paid on claims for refund from the original due date of the return or payment of the tax, whichever is later.

Assembly Bill number 1915 permits the interest rate charged by the State on unpaid taxes to fluctuate according to the rate charged by the Internal Revenue Service. Right now the State charges 9 percent interest on any type of underpayment. The Federal government presently has 6 percent. A year ago it was 7 percent and the year before that it was 9 percent. That rate is adjusted just about every year and it is geared to the "prime" rate. What A-1915 is doing is basically saying whatever the interest rate the Federal government uses the State of New Jersey should also use.

As an aside, ideally what we would like to see is that the interest on refunds be the same as the interest rate charged on deficiencies. The way these two bills are drafted right now, in A-1917 we're asking for a 6 percent interest rate on refunds at a minimum. And if A-1915 is not enacted we will have 9 percent on deficiencies, but we feel that 6 percent is better than nothing. To be equitable the rates should be the same.

Referring to that large spread sheet which was passed out -- the comparison -- the third item down grants interest on refunds, of the states surveyed only two, New Jersey and Pennsylvania,



do not pay interest.

One other point. The State does grant interest on individual tax refunds but they do not do it for corporate refunds.

MATTHEWS. There was a bill passed in the Assembly, Assemblyman Hurley's bill, that does call for 6 percent but it was a compromise on the time-frame which was nine months. This was worked out with Sidney Glaser. That bill is presently in the Senate Revenue, Finance & Appropriations Committee, but I don't know what's happened to it since they received it on April 26th.

FLANAGAN. I think the business community would like to see interest on refunds. We can argue about the rate. We can argue about the timing of when it should be paid, whether it's 90 days after the return is filed or nine months, at least if interest is granted there would be some relief from the present system of not having any interest whatsoever.

The next area deals with net operating and capital loss carryovers. At present New Jersey law does not allow a net operating loss carryback or carryover deduction. This fact is one of the major deficiencies in the present corporate tax law and probably one of the major deterrents in attracting new business to the State. A newly formed corporation may generate losses in its early years of operation and may become profitable after the initial period. Under current law the corporation will be subject to tax in the profitable years but no relief will be given to the loss years. The Federal government has long recognized the cyclical nature of business and more importantly, the arbitrary accounting concept of using a twelve month period to measure profits and losses. The overall picture of how a business is doing is the sum of these accounting periods over time. To tax each one as separate and distinct from the other is ignoring economic reality.

Assembly Bills 1916 and 1919 are designed to permit deductions for net operating and capital losses via carryback and carryover in conformity with the Federal law. The Federal law presently allows for a net operating loss, three year carryback and seven year carryforward. We are asking that the State of New Jersey adopt the same rule.

STOCKMAN. Mr. Flanagan. In listening to that proposal as well as the previous one -- perhaps I should have brought this up earlier -- they both sound very logical to me and they sound very fair, but the idea of not ignoring economic realities brings me again to the question of economic impact. Do you have any idea, for us, as legislators, what kind of economic impact in terms of tax revenues we would be dealing with if we passed A-1915 and A-1917 and then A-1916 and A-1919? I know under the earlier proposals we were really not talking about anything serious in that area because presumably sooner or later the taxes would all be paid, but here we are talking of something different.

FLANAGAN. To be honest I have no feeling for what the numbers would be. You would have to have access to the corporate tax returns that have been filed in the past for some type of comparison. We had been told that these do not have any economic impact. However, our committee feels that they would have an economic impact to State revenues.

STOCKMAN. I may be missing something because I don't know how they could say these bills would have no economic impact. We're talking about paying interest when heretofore we haven't.

FLANAGAN. True, there may be a loss of revenue by paying interest and maybe more by allowing net operating loss carrybacks. But I think something has to be balanced and that is if you are keeping business out of the State, or driving business from the State, the revenue impact in terms of the economy, personal income taxes being generated by the employees -- you have a big loss there -- I personally know the situation of a plant who moved out of the State of New Jersey with 500 employees because they just came out of bankruptcy with a large net operating loss carry-over. Because of forgiveness of indebtedness that took place they had a large Federal taxable income but because of their prior losses it was offset by what they paid in Federal tax. The State of New Jersey was going to hit them for \$2 million in tax so they moved to New York.

STOCKMAN. I see your point about this question of balance, but again, to balance something you have got to know what you're balancing. You're evaluating this business of losing revenue but I wonder if at least for our consideration, as legislators, we can get this question of just how much we're going to balance it against. How much revenue loss we're talking about if we enact these laws. I don't see how a legislator -- and I'll be very frank with you just speaking for myself -- could enthusiastically endorse a bill like this, which I might be inclined to do, unless at least I knew or had some general idea of what the revenue loss would be.

FLANAGAN. Our committee does not know what the revenue loss is. Perhaps this should be part of the study and I'm sure that our Chamber would be willing to assist in that type of study.

MATTHEWS. There's a bill, A-1842, that incorporates a lot of things that you've been talking about, carryforwards, carrybacks, estimated taxes, and also investment credit. But tied into this, to answer Assemblyman Stockman's question, was a revenue producing vehicle to offset initial losses, and the revenue producing vehicle came in from the standpoint of increasing the corporate taxes the same as the Federal guidelines -- up to \$25,000 profit would be 8 percent, then from \$25,000 to \$50,000 would be 8-1/2 percent, and over \$50,000 would be 9 percent. The theory being that you could deduct this from your Federal taxes so that the increase wouldn't be that great on the taxes. What Assemblyman Stockman is saying is the type of thing we get opposition for because before the Governor would sign a piece of legislation like this the obvious question is "where are we going to get the money from?" It is easy to say that while we are going to get increased business, another economist will come along and say they feel the taxes are perhaps 7 in a priority of one to ten. That is the priority that is going to bring a company into the State. You have to have some trade-offs, at least initially. I know Mr. Sid Glaser would be glad to give you statistics on how much we would lose.

On your tax survey, here, one thing that is omitted is tax rates. For a chart I think it would be helpful to see comparable tax rates because there are some trade-offs. Nobody likes to

see increased taxes but this happens, especially when you are going to be subsidized by the Federal government -- depending on what bracket you're in. I know in 1978 it was 20 percent for the first \$25,000; 22 percent from \$25,000 to \$50,000, then 48 percent above \$50,000. Congressman Courter was here earlier talking about changing these rates, so that whatever you would pay, that percentage of increase that the Federal government takes would be a deduction which means the increase would not be that much. That a consideration for legislation to fly, at least initially, because if the State loses revenue, be it \$5 million, \$20 million or \$30 million, as Senator Dorsey brought out with the new jobs credit. Once again, if you go to a new jobs credit that is going to cost so much money. How does the State make this money up because if they need money for the budget, and without going into some obvious things of streamlining the budget and making cuts here and making cuts there, they're looking for a one to one trade-off. I think what you are saying is absolutely true, we should have carrybacks and carryforwards. I think that a person who suffers a loss in previous years -- take the case you talked about -- they can lose a million dollars one year but still have to pay a minimum of \$25 plus a 60 percent prepay, they have to pay \$40 and lose a million dollars, and next year if they make a million dollars they have to pay 7-1/2 percent of that million dollars.

FLANAGAN? That's right. I think there's one thing you should bring out in your example. In that particular situation, even though they're paying 7-1/2 percent on that million dollars to the State of New Jersey they will not receive a Federal tax benefit because their Federal taxes are zero. So it is a pure cost.

MATTHEWS. You are absolutely correct.

FLANAGAN. If you would like I would be very happy to update this survey for the applicable tax rates in each state.

MATTHEWS. I would appreciate that.

FLANAGAN. As long as you keep one thing in mind and that is, you really have to look at the total package the State has and not just it's rate, as you mentioned. I understand there is no bill in the Assembly for consolidated returns yet most of these states, even though they have high rates, such as New York and California will allow consolidating or combining returns which, again has an affect on revenue.

The next area, Assembly Bill number 1918 -- and I maybe should point out from the start there is no revenue effect from this bill. New Jersey law permits a "Short Form" report for small corporations. The short form report determines the net worth tax using total assets. This saves taxpayers, practitioners, and New Jersey administrative personnel time and money in preparing, reviewing and processing returns. However, the short form report currently has a limitation on total assets of \$150,000. This limitation was established 20 years ago and has never been adjusted for inflation. In Assembly Bill number 1918 we are asking that this limit be raised to \$500,000 to afford more taxpayers the opportunity to use the short form report. Again, no tax revenue effect.



The next area deals with the Statute of Limitations and two bills, A-1920 and A-1921. Under present law the State has five years from the time a tax return is filed to audit the return and make adjustments. The taxpayer, on the other hand, if they discover an error in their return, only has two years to file a refund claim. We feel that the five year period is unnecessarily long and requires corporations to maintain detailed records longer than is required for Federal purposes.

Assembly Bill number 1920 would reduce the period for assessments by the State from five years to three years. A-1921 would increase the time in which a taxpayer may claim a refund from two years to three years. So, the State period for assessment and the taxpayer's period for asking for an adjustment would be the same -- both three years. This corresponds to the Federal law and if you look at the chart which was passed out (the fourth item down - Statute of Limitations), just about across the board the states allow themselves three years. And also for refunds. There's really only three exceptions, New Jersey being the biggest exception. Pennsylvania is an exception because of the way they process reports. So what we are asking for is a three year period to audit returns.

MATTHEWS. When corporations are first incorporated in the State, if they get incorporated say on March 15 and they decide, because of bank statements, that they are going to start their fiscal year April 1st, then about seven years later the State will say you owe us a partial return. Anytime a corporation is incorporated during the month, their first corporate return is a year plus those number of days that make up the balance of the month. I have experienced this where people go back seven years and they will get hit with the expense of coming up with a return for 15 days.

FLANAGAN. In the Statute of Limitations area we are not asking a flat three years for everyone. The present law and Federal law is that if you don't file a return the Statute doesn't start to run until you file that return. So in your particular situation the Statute didn't even start to run.

That's really it so far as the bills are concerned. We would ask you to take this survey that we have and make it part of the testimony. I will take it upon myself to update this schedule for corporate tax rates and if there is anything further you would like to see on this schedule, I will volunteer my services to give you some comparative data.

MATTHEWS. What we will do in return is get these proposals costed out. Mr. Zuzzio will give you a card to show you where to send your data.

FLANAGAN. Fine, thank you. On behalf of myself and the Morris County Chamber of Commerce I thank you for this opportunity and as I said, if we can be of any assistance in developing any of the data, we are all volunteers, we're all interested in coming up with a good tax system for the State of New Jersey as far as business is concerned because we want business here.

MATTHEWS. At this point we will have read into the record testimony submitted by Assemblyman William J. Maguire.

ASSEMBLYMAN WILLIAM J. MAGUIRE.

I am happy with the opportunity to encourage favorable consideration of A-1604, a bill designed to create tax relief for investment in pollution control devices.

New Jersey has been alternately applauded and criticized for its "business climate." Much of the "applause" comes from those in State government charged with the responsibility to foster industrial growth and expansion. And much of the criticism comes from those who have been discouraged, for whatever reason, from locating or expanding a business here. Noteworthy are the facts that New Jersey's unemployment rate exceeds the national average, that we have, in fact, lost business and industry to the so-called "Sunbelt states" and the fact that we pride ourselves in having environmental statutes that qualify as the "toughest in the nation."

In my judgment there is a direct relationship between business climate, environmental concerns and our tax structure. It was this relationship that prompted my authorship of A-1604 and the appeal that bill has for bipartisan co-sponsorship.

The bill has appeal to all three concerns.

It would grant tax relief by amending our Corporation Business Tax Act by providing that investments made for buildings, machinery apparatus and equipment for pollution control, research and development or manufacturing be exempted from taxable net worth.

I submit that this is a logical reform to our tax structure. It would not only encourage anti-pollution and growth by reducing the total cost to the involved industrial concern, it has the potential to improve our employment climate and, in the long term, improve overall tax revenues by freeing up industrial investment capital for other purposes which are taxable.

I urge favorable consideration of the bill and its release from committee for Assembly consideration.

MATTHEWS. I now call on Assemblywoman Barbara Curran.

ASSEMBLYWOMAN BARBARA A. CURRAN.

Assemblyman Matthews, members of the committee. First of all, I would like to do something that nobody has done so far and that is welcome you all to Morris County. We are glad to have you here, especially for this meeting. I wanted to state before I began that those of us who have been working with some of the business leaders in this and other counties that surround it, move that the Chamber and some of the other people you have here today, will go into in great detail some of the questions you have already posed. Because of that I have decided really to talk just in general about these bills, perhaps more as a legislator than someone totally familiar with all the concepts of the tax laws we have now in the State. As an attorney who does not practice tax law, I find that these bills are particularly appealing because they are bills that are somewhat easy to understand by most members of the Legislature -- Assemblyman Stockman has already pointed out a number of questions that I had and some of the comments I wanted to make. I think that that makes them somewhat stand apart from the usual tax bills which perhaps only you two can answer

or can fully understand.

I think something that all of us realize is that from time to time in New Jersey the glaring inequities of the tax structure that we have developed over the years have stimulated the Governor and the Legislature to convene so-called Blue Ribbon Panels of leading citizens to make recommendations for tax reform. Inevitably, the reports of these committees and commissions include bold innovations, new taxes and new spending programs that render them politically untenable and destined to gather dust on the legislative shelf some place. I'm sure all of us are very familiar with some of those proposals. This was the case, unfortunately, in the early 1970s, with the so-called Cahill Blue Ribbon Tax Committee which, among other things, had recommended bold and necessary reforms in the State's antiquated business tax structure.

Because that report included a graduated income tax and a dramatic change in schools' funding, and because the new tax was the first of over 60 bills to face the legislative test -- and we all know exactly what that meant -- the whole program was laid to rest when the income tax was defeated by a vote of over two to one at that time.

Today, we have an opportunity to propel a package of business tax bills -- A-1914 through A-1921 -- that do not result from something as auspicious as a blue ribbon panel, instead they result from logic, the hard work of several business leaders, especially here in Morris County and I think all of us owe them a great deal of credit for that, and a group of legislators who recognize the obvious need for reform. I am proud to have been one of those legislators, as you have been, to be working quietly and slowly but nevertheless to be working in this area.

Most impartial observers rate New Jersey near the bottom of the list in terms of its business climate, and I think most of us have heard that over and over again. It seems that we are so obsessed with social reform and other legitimate concerns that such perhaps unpolitic subjects as the business tax structure are relegated to the balcony and rarely get the legislative attention they deserve. Of course, the tax structure is only a part of the "business climate" but it is an essential part in terms of our competition with the so-called Sunbelt states, and even our contiguous states. You have heard discussion from our last speaker in regard to such things as quarterly payments and the way the states around us handle those matters. These other states seem to be far more aggressive in terms of their willingness to appeal and work for private capital and business and industrial expansion and growth.

Taken by itself, any one of the tax reform bills which we are discussing today, would not be particularly stimulating to a prospective investor of private capital in New Jersey. Taken alone, none of them would have sufficient impact to tilt the decision making process to favor New Jersey rather than a competing state. I think you pointed out very rightly, that tax concerns are maybe 8 or 9 on a scale of one to ten.

There are certain other areas that we must face and we must face very soon. I do not by any means want to downplay the importance of reforming areas like workman's compensation and unem-



ployment compensation which all of us know are very very important. I also don't want to downplay the problems involved with the bills that you have discussed earlier which perhaps constitute some of the measures that would perhaps lower revenue in the current package, with a revenue raiser measure which, for me, would just be swapping dollars. Why we should go through this package of bills then come up with a revenue raiser by raising the corporate taxes -- I honestly don't see. As was pointed out, I think it's easier to say let's have a one for one discussion. If we lower it here how are we going to raise it there? I think with regard to these taxes, and my personal opinion as a legislator, that's not the way to go. I think all of us realize that there are cuts although we might disagree where the cuts could be made. There are cuts in State government that could and should be made, and that these projects or programs should be kept in the budget at the expense of bills like this which would, very likely, lower the revenues in certain areas. Certainly in some of the areas that Assemblyman Stockman questioned earlier.

To get back to the package of bills. Taken together, they represent not only reform but the intent of your committee and this Legislature to recognize the problem and to do something about it. Taken together they will demonstrate to national and international investors that New Jersey is anxious to clean up its act and put out a welcome mat for new or expanding job-producing business and industry. To say nothing of saying to the businessmen we already have in this State, and need very very much, that we are about to clean up our act and we want to appeal to you. We don't want to force you out of the State.

Support for these bills will not label a legislator a "business advocate." Rather, I think, it will label him or her as a "New Jersey advocate" willing to bite the bullet in behalf of the economic wellbeing of our State. If these bills become law, with perhaps some of the changes that have been and will be discussed by your committee, they will rectify existing inequities in the areas of tax prepayment, carryover of capital gains and losses, conformity with Federal tax law, applications for refunds in cases of overpayment, ease of filing and, of course, the interest charges that were discussed. One beauty of this package is its appeal to small businessmen as well as to large businessmen -- the little guy as well as the big guy will benefit -- the mom and pop stores as well as the corporate giant need, and I think deserve, these bills. Another beauty of the package as far as I see it is that it is largely administrative and its passage will not dramatically affect overall our State tax revenues -- despite the very important details that we have discussed today. Instead, I think they will make our tax law as it applies to businesses more logical, more fair, more equitable, more easily understood and more competitive with the states with whom we compete for job-producing businesses.

This committee with these hearings and with a favorable report to the full Assembly Tax Committee, and ultimately to the full Legislature, will have taken an important step in replacing much of the lip service we pay to our business climate with real service that can be helpful and effective. I pledge my support as one legislator, to each of these bills and I commend the Chair

and the committee for giving them the public exposure and, therefore, the opportunity for public support which I believe they deserve. An improved economic climate for our State will be the result if we pass this package of bills. Thank you.

MATTHEWS. Thank you very much Barbara.

STOCKMAN. I would just like to say to you, Barbara, that I'm impressed with your arguments and comments and I wish to echo your earlier sentiments about the attractiveness of these bills because they are common sense kind of arguments that touch reason and fairness. I have to say, again, that I must have some guesstimate as to the impact on revenue loss that these bills will cause. I am not saying that whatever that figure is that I would thereby automatically be dissuaded from supporting them, because I don't think I would, but I think it is a necessary part of a decision-making process for a legislator to know that. Obviously if those figures were too high I think we would have to face up to something along the lines that the Chairman has talked about, something to find some relief because it certainly doesn't appear to me where there is any room for major reductions in State spending at this particular time.

CURRAN: I agree with you. As I said, I do not practice tax law and because of that I am reluctant to get into an area I am not totally familiar with, but prior to today's meeting I did try to get from the Division of Taxation some of the answers to some of the questions you have raised because I felt those questions would be asked here today. I think that the proposals that have been made and the cooperation that has been pledged back and forth with the Chamber, is something that will result perhaps in an overall picture. One of the answers I got when I looked into it was, for example, let's take the interest in the overpayments. One of the reasons it was difficult for Mr. Glaser's people to come up with anything is that what we almost have to do is to take one case and say "in this case what would it be?" When you're talking about an overpayment that sits there for a year, two years or three years, we are using that money -- depending on how we're using it -- it is difficult to get a handle on how much we're really getting on that money. It's also difficult to get a handle from the Division's viewpoint on whether or not if they really had to pay an overpayment they would get that out of there in a year, or they'd get it out in a year and a half, or they'd get it out in the same three year period. So I think it is something that deserves an overall study and I commend all of you for offering that. I, as one legislator, really look forward to getting it.

ALBANESE. I would just like to point out that what Mr. Stockman says is very true, however, that's only half of the equation because, true, we are very much concerned with the revenue loss but on the other hand there's a factor that is very difficult to measure and that is the increased revenue by increasing business in the State of New Jersey with an expanding economy. I think we would have to also weigh that particular factor whenever we look at a revenue loss.

CURRAN. Thank you all.

MATTHEWS. Our next speaker is Assemblywoman Totaro.

ASSEMBLYWOMAN ROSEMARIE TOTARO.

Thank you. The national economic forecast states that we have entered a recession that may possibly deepen into a depression. I believe it is essential that the Taxation Committee address legislation that would provide relief and assistance to our business community and the people of our State. A series of bills that have been introduced by the Chairman of your Committee, Richard Van Wagner, addresses some major areas of inequity. In the series of bills, A-1914 through A-1921, we note that the business community is burdened with having to file a long tax form if their assets exceed \$150,000. Assembly Bill number 1918 would raise the limit to \$500,000 and eliminate paper work for the business community and the Treasury Department.

Conforming is also necessary to bring us in line with the standards that the Federal law requires. Assembly Bills 1916 and 1919 would permit deductions for net operating and capital losses via carryback and carryover. This addresses the financial problems that a new corporation faces in its early years of operation before they become profitable. It will also act as an incentive to entice new businesses into our State.

A major inequity exists in that the State levies and collects interest on under-payments or deficiencies while they do not provide any interest for over-payments. Assembly Bill 1917 would require that refunds be issued within 90 days and if that is not met, 6 percent interest would be paid. Assembly Bill number 1915 also addresses the interest rate charged by the State on unpaid taxes, so that they may fluctuate according to the adjusted rate established for Federal income tax purposes. Again, conformity is necessary. The State, by not conforming to the Federal government, imposes additional burdens on the business community. Assembly Bill 1920 would reduce the period for assessments from five to three years, and Assembly Bill 1921 would increase the time in which the taxpayer may claim a refund, from two to three years. A three year statute of limitation for both the State and the taxpayer will conform to the Federal laws. Although our tax program has reaped stability in the State of New Jersey, it also is riddled with unjust hardships for the citizens of the State and our business community. An example that needs immediate redressing is the fact that we impose an income tax on our older citizens and students who earn taxable incomes of less than \$4,000. In fact, a taxpayer who has this low income -- which is poverty level -- pays \$80 to the State of New Jersey but nothing to the Federal government. It is essential that as we consider revisions in our present tax policy, this area of inequity be studied and changes be made for conformity. Assembly Bill 3286 is a very important factor, particularly in this time of inflation and recession.

As we look at the total economic picture for the State of New Jersey, it is crucial that we be aware of the serious impact that energy and energy supplies have upon our citizens and the business interests of the State of New Jersey. The Tax Committee should be prepared to address the areas of incentive for conservation and innovation in New Jersey by eliminating sales tax

and providing tax credits to both the citizens and business community, so that we may be able to increase new resources of energy and lessen our dependency on foreign oils. The series of JCP&L's rate hikes due to a dependency on petroleum to generate electricity is an example of why we must seek other energy resources. It is my hope that the Federal government will provide funds for a wind generated project, thus providing for the partial replacement of lost energy from Three Mile Island. It would also be essential that our Taxation Committee and the PUC, and our senators and congressional delegation, direct their attention to assist in this State crisis.

As a member of the Labor Committee, I understand the need for reform of the workers' compensation bill that would benefit both the workers in the State and our business interests. The bill in question should be released and acted upon prior to the close of the session.

It is my firm belief that a sound economic program which assists the business interest will provide a sound job market -- thus employment for the people of New Jersey. And when you put a cost factor on the question of the bills that have been presented today, you really do not evaluate the number of jobs, the number of taxes that will be paid in income, and the less amount of money that will go into support of the welfare system.

The State's strongest economic performance can be seen in the Comparative Employment Index (graph #2 which you have). Since the first quarter of 1977 this Index has been growing faster than the national economy. It out performs the states of New York, Pennsylvania and Massachusetts. It indicates that we are providing more jobs in New Jersey because our economic climate is better in New Jersey, and we have done this through our legislative powers.

Another item that will be brought up today and discussed in greater depth is an incentive program to provide tax credit for training programs for apprentices. I totally support that because, again, it is moving people into the job market thus giving us additional revenues if your committee is so concerned about that aspect of it.

Our economic future is seriously dependent upon the actions of your committee and we seek your assistance. Do you have any questions?

MATTHEWS. I agree with you. I really feel that these incentives will give more jobs and bring more companies into the State. However, trying to get these bills passed and signed, these are the obstacles that we have to justify before we can really get legislation like this signed into law. We may be fortunate to get them through both Houses but I think until we can show that there are some economic trade-offs -- that the State would not be losing money but, in fact, would gain because more people would be employed.

TOTARO. I think that is a factor that has to be looked at very closely. What do these economic incentives do to us? If they put us in a competitive position to entice new industry that gives us a larger job market, and quite truthfully gentlemen, with the forecast for the next five years predicting a deep depression, we should be spearheading a movement in our State to safeguard it. We saw when that aspect of business interest was not addressed we had such a terrible decline

in our economy and we are just pulling out of it. I have to say that it has been the Department of Labor and Industry's innovative ideas, and the Economic Authority going out and helping the business interests that have created a better job market. That is why I can support measures like this knowing full well that it is going to cost some State dollars but I believe people's lives and the ability to work is just as important.

STOCKMAN. Perhaps it is inevitable that when I ask a question about what the likely revenue loss is going to be that some people conclude that I am at the same time assaulting the concept that these bills -- or bills like them -- can keep more business here and thereby produce more revenue. In my own mind those are two very distinct issues or concepts. When we talk about balancing, I simply say that if you are going to balance you have to know the items that you're balancing. I just want to make it as crystal clear as I can that I am not for a minute suggesting I don't appreciate, and am not overly-sensitive -- or will become more sensitive as I serve on the Taxation Committee -- of this item of increasing business by virtue of a better business climate. I think they are two distinct things, and I just want to make that clear.

TOTARO. I think what we need is an economic statement on these bills that will project if it is a revenue loss. Also, the type of economic benefits that could be derived from them. That, I think, is the best selling tool that we have. I think it is a known measure to use some type of tax incentive in time of recession and depression and that is why I think it is necessary at this time for us to address these areas. While it might lose us some dollars in one sense it might excel us in others. Thank you very much gentlemen.

#### R E C E S S

MATTHEWS. Our next speaker is Mr. Robert Singer.

R O B E R T S I N G E R.

My name is Robert Singer. I am a Corporate Attorney with Automatic Data Processing and we're located principally in Clifton, New Jersey and we do have other offices in the State and throughout the Country and the world. The business we are in, Automatic Data Processing, Inc. ("ADP") is the world's largest independent computing service company and serves more than 60,000 clients worldwide, several thousand of which are located in the State of New Jersey. ADP provides essential computing services to virtually every area of industry, finance and government.

ADP's corporate headquarters are located at 405 Route 3, Clifton, New Jersey. ADP employs in the aggregate 10,000 people of which approximately 1,700 are employed in the State of New Jersey. In addition, worldwide, for the fiscal years ended June 30, 1977 and June 30, 1978, ADP spent in excess of \$42 million for new facilities and equipment in each year. For the fiscal year ending June 30, 1979 it is anticipated that ADP will spend \$55 million for new facilities and equipment. At least \$10 million has been spent in the State of New Jersey during the last two years for new facilities and equipment. ADP pays significant sums to the State of New Jersey in the form of



Corporation Income Tax and other taxes. ADP has had a long history of sustained growth, generally approximately 25 percent per year. Its revenues for the current fiscal year are projected to be \$375 million. A decision by ADP about whether to expand in New Jersey or elsewhere obviously is influenced by the economic climate of the area and the availability of tax incentives, among other factors. This is especially true for computer service companies such as ADP for the following reasons:

1. Since the advent of large scale computer systems and sophisticated communication equipment, ADP is able to serve clients throughout the Country from any location.
2. If New Jersey wishes to retain computer service companies within its boundaries, it should consider making tax incentives available.

Assembly Bill number 1165 as presently written would only provide the tax credit option as an incentive for the establishment of new or expanded manufacturing or research and development facilities. ADP has made a careful study of the bill and thinks that it should be amended prior to its final enactment. We refer specifically to the statement set forth at the end of the bill which declares that the intent of the bill is to provide:

"A credit under the Corporation Business Tax and the Corporation Income Tax as an incentive for the establishment of new or expanded manufacturing or research facilities. The option is provided to attract capital intensive and/or labor intensive facilities with a view to improving the economic climate for both elements."

ADP thinks that the coverage of the bill should be expanded to include computing services firms like ADP as well as manufacturing and research firms. The limitation restricting application of the bill to manufacturing and research type organizations may have had application many years ago before there was a computing services industry. The computing services industry has many aspects similar to manufacturing and research and development. It is labor intensive and computer equipment requires large capital expenditures. Nationwide the computing services industry includes approximately 2,500 companies and in 1977 their aggregate revenues were approximately \$7 billion. To exclude such a large industry from these tax credits would be counter-productive and would not be consistent with the intent of the bill.

ADP believes that the bill should be amended to include the computing services industry. This would require a change in section 2.a. on lines 10 through 13 to include in addition to manufacturing etc., computing services companies. If the purpose of this bill is to encourage labor intensive industries to locate and/or expand in the State then there is no reason why a large segment should be excluded.

MATTHEWS. I believe Assembly Bill number 1842 does exactly what you are talking about.

SINGER. That bill did come to our attention. We are interested in the investment incentive whereas this bill, I think, has three ways that you would calculate either by dollars, by employees or whatever. We want an incentive bill. I know Director Glaser has commented on what one would cost over another, whether it should be in the inner cities or not -- things like

that. I don't really have the technical competence to get into the cost of each one but we think that it would be good, it would be an inducement for our company and companies like us who are considering expanding into the State. We are headquartered in the State and it is natural for us to expand in this State but if there are other considerations we would not do that. There are many many companies in the computer area that are in California that may or may not need East Coast regional headquarters so why shouldn't they come to New Jersey.

MATTHEWS. How much money are you talking about a year in the area of capital investment?

SINGER. I have it right here. We have spent for this past year ended, for facilities and equipment -- that includes land purchases -- and things like that, approximately \$55 million; the year before that we spent \$45 million. We estimate that in the past two years we have spent at least \$10 million in New Jersey and we have plans to spend at least that in New Jersey and elsewhere in the next few years. As I said, that includes land, new buildings, buying equipment -- the whole gamut of what you would call capital expenditures. Our company has sales of about \$375 million. Our largest processing facility is right here in Clifton, New Jersey. We pay to the State of New Jersey an income tax somewhere in the neighborhood of \$1 million a year.

MATTHEWS. Thank you very much. I now call on Mr. Andrew Rimol.

A N D R E W J. R I M O L, Executive Secretary, New Jersey Tool, Die and Precision Machining Association.

Thank you for the opportunity to officially present to you the views of the New Jersey Tool, Die and Precision Machining Association members regarding industry tax credit incentives designed to foster the development of new business and the growth of industry presently located in New Jersey.

I have been sitting through this whole hearing because I find these things very interesting and you have been hit with a lot of statistics. I am not going to do that. I am going to tell you a little bit about our industry and how we would use a tax incentive to improve our industry, and then this gentleman over here is going to ask me all kinds of questions about cost so I have put some fast figures together, because they are very valid questions. While I cannot give you specifics I am going to give you some answers and will be happy to provide whatever other answers you would like. I have already discussed this with Assemblyman Van Wagner and he has asked me if I would serve on the Advisory Panel to help provide some of these answers, and I have agreed to do that too. This is going to be kind of a talk about "What is the Tool and Die Industry and what does it mean to New Jersey?"

The Tool and Die Industry is unique in that everything in life has its start with a tool of some sort. Everything material depends on tools of one sort or another to make it happen or to become a reality, or to make it grow.

In New Jersey our association -- the New Jersey Tool, Die and Precision Machining Association -- estimates there are 14,000 machine shops, and of those there are perhaps 400

precision tool and die shops. As a point of information, the basic difference between a "machine shop" and a "precision machine shop" or "tool and die shop" is the tolerances to which work is performed. For example, a machine shop will regrind the wheel rim of your car so that it stops evenly and smoothly when you apply the brakes. In a precision machine shop we daily work to tolerances of tens of thousands and in special requirements up to millionths of an inch. In layman's terms, this precision is the equivalent of taking one hair of your head and splitting it into 750 equal parts -- representing a far greater degree of precision that can be achieved using a laser beam in the hands of the world's finest physician.

The training of persons to do this work involves 8,000 hours of supervised shop work and an additional 160 hours per year for four years of applicable mathematics. During this four year in-depth training program usually referred to as apprenticeship training, the apprentice learns such subject matter as blueprint reading, measuring instruments, machine theory, machine tool orientation, lathes, milling machines, drills, grinders, saws, inspection and many many more things. To the uninitiated these general categories may not seem like much but let's take a look for a moment at just one -- Lathes -- something we all know a little bit about. An apprentice spends a minimum of about 240 hours in in-depth practice and instruction on the basic lathe operations. Assignments include all normal operation such as facing, turning, boring, threading, drilling, reaming, knurling, form cutting and God knows how many other things. Six weeks, gentlemen, just to learn the basics, not counting instructions, and on a simple lathe -- not a numerical controlled or even the more sophisticated computer numerical controlled type. Over 400 hours are spent just learning the basic operation of a Bridgeport Milling Machine -- the basic machine of the tool and die industry -- and so on.

There are no places available to train these persons other than the contract tool and die plants, who also employ these people.

Although small in size, as Senator Dorsey mentioned, the majority consisting of ten employees or less, these contracting plants are a segment of the metalworking industry that collectively accounts for approximately \$4 billion of the gross national product. Another segment of the industry contains the captive plant. These are the manufacturers of the endless products on the market of our civilian and military economy. It is for these captive plants that the "contract" plant operators perform most of their tooling and precision machining. Prior to World War II many captive plants conducted registered apprenticeship programs, however, few of them have any program like that today.

The practical training given in the public education system fulfills only a limited requirement since only a portion of an overall curriculum is available to satisfy the many education requirements that exist in all industries. Therefore, responsibility to maintain a pool of highly skilled personnel falls squarely on the shoulders of the contract tool and die shop. Today, the New Jersey Tool, Die and Precision Machining Association has 46 members with 1-4 employees;

73 members with 5-10 employees; 36 members with 11-20 employees, and 24 members with 41+ employees. With the small shop size readily apparent you can see that the training of any apprentice represents a sizable investment over four years, especially when you consider that during the first year an apprentice is virtually unproductive as far as a profit is concerned, and in addition requires the supervision of a precision machinist approximately 75 percent of the first year -- a machinist who at today's wage scale earns up to \$10.00 per hour plus benefits.

Over the years, many apprentices have been lured away from the contract machine shop by the larger companies who have more to offer simply because their overall size usually means greater opportunity, quicker advancement, and things of that nature, and this is the major problem faced by the small 5-10 man shop who trains an apprentice. When an apprentice leaves after a year or so the small shop owner loses his investment permanently and because of these experiences in the past, there is a definite reluctance on the owner's part to invest in another apprentice.

A true incentive is needed to protect the contract tool and die industry and to guarantee its health and growth through the apprenticeship program. This help is presently available in Senate Bills 1456 and 1457 -- which are co-sponsored by Senators Scardino, Dorsey and several others. They provide for a tax credit for employers of apprentices in a registered Department of Labor, Bureau of Apprenticeship Training Program. This is that four year program I mentioned, 1,000 hours.

Last year, Lawrence Livermore Laboratories of Livermore, California desperately required \$190 million worth of development tool and die work to be done, and the tool and die industry in New Jersey was offered all of this work that we could handle. Gentlemen, we could not take one hour's work because we're so backlogged and desperate for trained precision machinists.

Recently Governor Byrne and a group of businessmen ventured overseas in search of industry to bring to New Jersey to continue to improve the economy and employment picture in the State. This was certainly fine, commendable and a bold step, and I submit that when we begin to see the results of his efforts we had better be prepared to support them by having the facilities and personnel required to service these investments.

The tooling and machining industry is the basis of this support. Remember, everything here starts with a tool and die, everything in this room, everything you see, everything you are wearing, this building -- nothing started before first the making of a precision tool and die. The apprenticeship program is the future of the tool and die industry and that's why I urge your support of S-1456 and S-1457 because they would be able to provide tax credit incentives that will insure the continued growth of industry in, and spell success for New Jersey.

You ask what it's going to cost. The first year apprentice gets an average of \$4.00 per hour. Our industry rates increase right now -- **as of our June wage survey which is just** about two months old -- at the rate of about \$1.10 per hour per year plus benefits. No shop is working less than 56 hours a week and many are working much more than that. I don't know if you

are aware that recently the Department of Labor in New Jersey gave us \$200,000 to start a second pre-apprentice training facility in New Jersey for the purpose of training all people who come from the CETA program who have no way of getting any kind of a career opportunity -- the welfare people, these are people who are a financial drain on the State. With our ordinary school which is run in Irvington, and this school combined, we are now turning out approximately 200 pre-apprentices a year to go into this program. I have 1,400 jobs awaiting 200 apprentices a year, and this doesn't even count what we are losing from natural attrition.

I made some fast calculations and in dollars and cents over a four year period with 1,000 apprentices involved, we are taking people off the welfare rolls and have put \$15-16 million into the economy on a yearly basis in usable cash and taxable income. So when you start thinking about what it is going to cost -- which is about \$1-1.5 million a year in tax credits -- consider the \$16 million a year that we are putting into the economy and then make your observations based on those facts.

We have right now in our industry a backlog of eighteen months. We are really not too concerned about weathering this so-called recession because we have such a small percentage of manpower available to do work, so we think we are going to come through this pretty well. However, that doesn't mean that we don't have to keep at it because without a source of supply you can't induce a company to come from Germany or Japan and build a plant in New Jersey and not have the manpower to put into it. I have been up to the Ford plant. We could bring more business in here but I don't have any time to put on it. Every bit of business we could bring in here is taxable income. When the die is made and they call someone in to make a thousand parts, you need the people to pack it, to wrap it, to ship it, to handle it -- everything else starts after we get finished that original tool and die which may go for half a million dollars, the master die.

I really urge that you give very serious consideration to the support of these bills. We have worked with Commissioner Horn, Senator Scardino and have discussed this with Assemblyman Van Wagner who has given his whole support to it, and since this legislation is actually going to be a plus instead of a minus -- considering our zero based budgeting in the State of New Jersey -- I think it deserves your very strong consideration.

One final remark I'd like to make, and I don't want to go against everything all these very fine people have said, but I am getting kind of down on this business of hearing that New Jersey is anti-business. I'm getting kind of sick of hearing that. I was one of the first ones who would have agreed with this five or six years ago but I happen to think that our Legislature and our leaders in Trenton have done a terrific job trying to improve this climate and I'd like to start hearing people say that New Jersey is really going one hundred percent plus for business. The people I deal with all think that way and I believe it's time we forgot this negative approach and started thinking positively.

I'd like to thank you for the opportunity to be here and if you have any questions I'll



try to answer them.

STOCKMAN. I have a couple Mr. Rimol. I have to say I am particularly fascinated by your comments. My Dad retired just a few years ago after fifty years as a pattern maker which, of course, is not at all the same as a tool and die maker, but I have often heard him talk about the tool and die industry.

RIMOL. And he was never out of work a day, right?

STOCKMAN. Absolutely right. He talked to me about how it really is a trade that is sort of drying up in some ways. I have a couple of questions for you. I wonder what is the analogous situation with this trade in other states. Is New Jersey one of the centers for this trade? Is what you said largely true in New York, Pennsylvania and California?

RIMOL. It is true throughout the industry but New Jersey suffers mostly because you see we go back a long way in the tool and die industry. We have the distinction of having been really the basic number one people in tool and die and I'll tell you why. It is not because I am any better at my job than your father is in Ohio. The thing is that New Jersey, for many years, was the silk city and center of the world, in Paterson, and when they brought these people from Holland and Germany and all over, they were brought primarily to service and build the machines and equipment that were necessary to sustain production in silk city and because of that New Jersey became the first most developed area of the tool and die making industry, 70 percent of which is centered throughout the Union County area. Across the board in the five major tooling centers in the United States, everyone is facing the same problem. It is really primarily because for many years people thought that a college education meant instant success -- you go to college, you come out, you'll be a big man, and this was terrific. And it was terrific for a while after the war, then all of a sudden came the realization that we need tool makers, die makers, plumbers, carpenters, electricians, etc. and you found out that there weren't fifty people interviewing each college graduate for a job and there was a certain lull in that area until the reality hit everyone that a college education is not an answer to instant, complete and total success. That's why this lull exists. People are just now beginning to realize that we need people to work in the computer field, we need dental assistants, we need cosmetology technicians -- they suddenly realize we need other people to sustain industry. That is why we have this problem throughout the industry in the United States if that answers your question. You had another question.

STOCKMAN. Yes, but you've already answered that one too.

MATTHEWS. Is there anyone else in the audience who wishes to testify?

Our next hearing will be in Atlantic City on Tuesday, August 21st beginning at 2:00 p.m. in the City Hall. I want to thank the staff for their excellent assistance and competence. Thank you. This hearing is now officially closed.

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A P P E N D I X



MORRIS COUNTY CHAMBER OF COMMERCE

TAX SURVEY

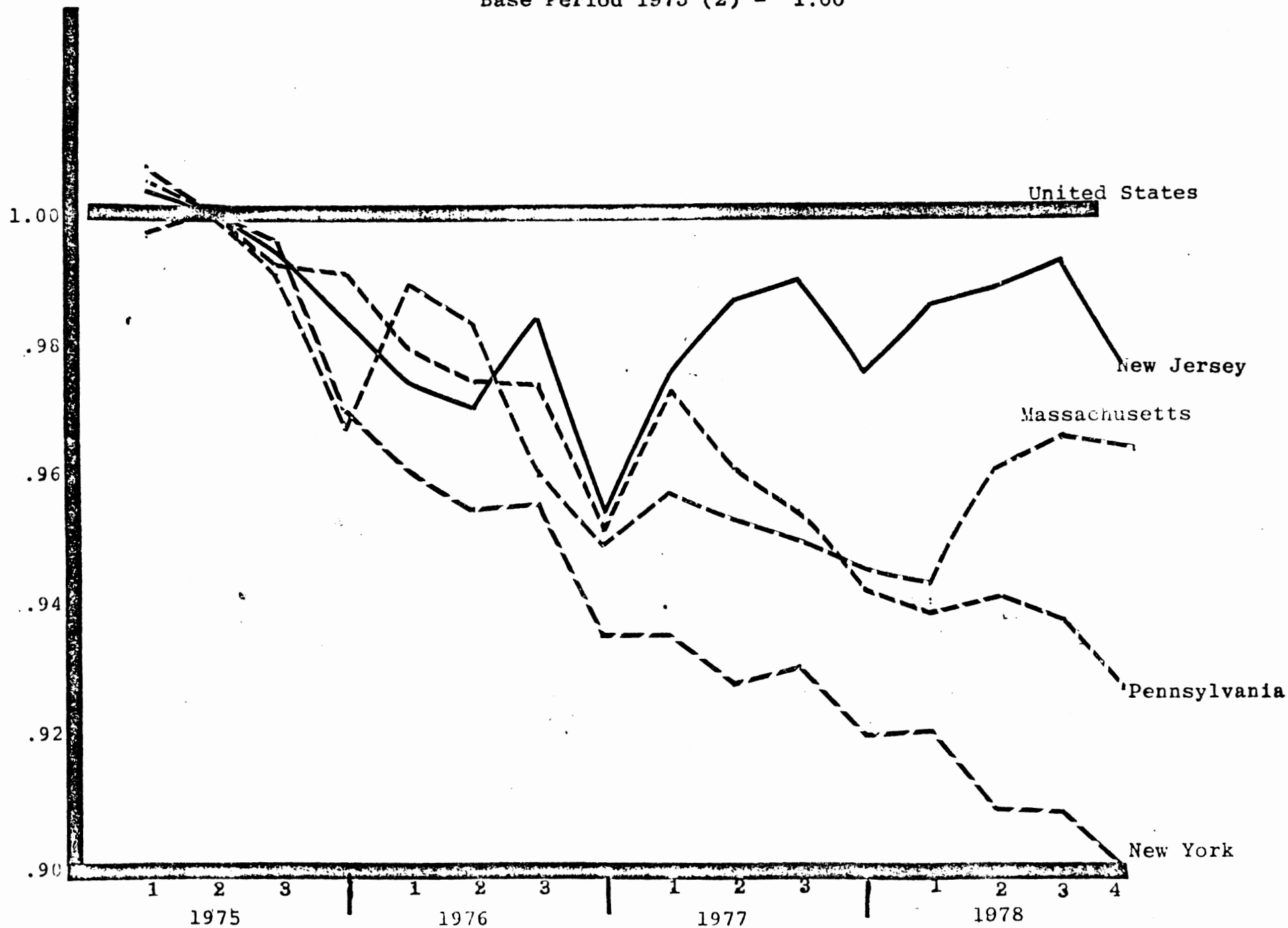
|  | <u>Metropolitan Area</u> |            |           |             |              | <u>Other Industrial States</u> |               |             |            |             |              |
|--|--------------------------|------------|-----------|-------------|--------------|--------------------------------|---------------|-------------|------------|-------------|--------------|
|  | <u>New<br/>Jersey</u>    | <u>PA.</u> | <u>NY</u> | <u>Del.</u> | <u>Conn.</u> | <u>Mass.</u>                   | <u>Calif.</u> | <u>Ill.</u> | <u>MD.</u> | <u>Ohio</u> | <u>Mich.</u> |
| Permits net operating<br>loss carryback or<br>carryforward         | No                       | No         | Yes       | Yes         | Yes          | Yes                            | No            | Yes         | Yes        | Yes         | Yes          |
| Estimated tax for year<br>can be adjusted through-<br>out the year | No                       | Yes        | Yes       | Yes         | Yes          | Yes                            | Yes           | Yes         | Yes        | Yes         | Yes          |
| Grants interest on<br>refunds                                      | No                       | No         | Yes       | Yes         | Yes          | Yes                            | Yes           | Yes         | Yes        | Yes         | Yes          |
| Statute of Limitations:  |                          |            |           |             |              |                                |               |             |            |             |              |
| Assessments by state   | 5                        | (A)        | 3         | 3           | 3            | 3                              | 3             | 3           | 3          | 3           | 3            |
| Refund by taxpayer   | 2                        | 2          | 3         | 3           | 3            | 3                              | 3             | 2           | 3          | 3           | 3            |
| Permits consolidated or<br>combined returns                        | No                       | No         | Yes       | No          | Yes          | Yes                            | Yes           | No          | No         | Yes         | No           |

(A) One year after report has been settled



Graph #2

COMPARATIVE EMPLOYMENT INDEX  
Base Period 1975 (2) = 1.00



MAY 3 1989

