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**Report of the
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**Tax Equity and Tax Relief:
Property, Sales,
Corporation and Death Taxes**

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- *FOURTH REPORT, *Financing a State Bonus for Veterans of World War II*. (Trenton, N. J.: August 27, 1948.)
- PUBLIC HEARING, DECEMBER 14, 1949, Assembly Chamber, State House, Trenton, New Jersey. (Trenton, N. J.: 1950.)
- FIFTH REPORT, *Taxation and Public Policy in New Jersey*. (Trenton, N. J.: April 14, 1950.)
- SIXTH REPORT, *The General Property Tax in New Jersey; A Century of Inequities*. (Trenton, N. J.: February 1, 1953.)
- SEVENTH REPORT, *Public School Financing in New Jersey*. (Trenton, N. J.: March 22, 1954.)
- EIGHTH REPORT, *Financing School Buildings in New Jersey*. (Trenton, N. J.: May, 1955.)
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- TENTH REPORT, *Increased State Aid to Public Schools and Distribution of the Cost of Expanding Public Services*. (Trenton, N. J.: January 10, 1963.)
- ELEVENTH REPORT, *Railroad Taxation in New Jersey—The End of an Era*. (Including Interim Report on *The Railroad Tax Problem—Classes I and III Property Taxes*, May, 1964.) Trenton, N. J.: December 31, 1965.
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TWELFTH REPORT
of the
COMMISSION ON STATE TAX POLICY

*Tax Equity and Tax Relief:
Property, Sales, Corporation and Death Taxes*

STATE OF NEW JERSEY
TRENTON, MAY, 1968

STATE OF NEW JERSEY
COMMISSION ON STATE TAX POLICY
(52 N.J.S.A. 91)

DAVID BECK

FRANK J. DODD

J. EDWARD CRABIEL

DAVID KISLAK

C. MALCOLM DAVIS

THOMAS GLYNN WALKER

JOHN E. TOOLAN, *Chairman*

STAFF

WILLIAM MILLER, *Staff Director*

AARON K. NEELD

HENRY J. FRANK

ALLEN D. PORTER

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LETTER OF TRANSMITTAL

May 31, 1968.

His Excellency, Governor Richard J. Hughes and the Honorable Members of the Senate and General Assembly:

This is the Twelfth Report of the Commission. It is submitted in response to a joint resolution of the Legislature and to letters from Governor Hughes referring additional matters to the Commission. The resolution and reference letters appear in the appendix.

The report covers four subjects; one deals with the property tax and local finance generally, and their influence upon state revenue needs; the other three deal with specific taxes—the sales tax, the corporation business tax, and the transfer inheritance tax. The studies of these specific taxes may be considered part of a continuing review by the Commission of the operation and effect of the principal tax laws of the state, for the purpose of maintaining a fair and equitable distribution of the tax burden.

This year, as in the past, the Commission is indebted to the State Department of the Treasury, Division of Taxation, for its able assistance in providing data and information on various aspects of the subjects covered by the report. We are also pleased to acknowledge the valuable cooperation of the New Jersey Bankers' Association in providing the Commission with the results of its data-processing analysis of a large sample of transfer inheritance tax returns.

The Commission trusts that this report, its findings and recommendations will be of assistance in working toward a sound tax base on which to resolve the extremely difficult fiscal problems facing the state today.

Respectfully submitted,

DAVID BECK,
J. EDWARD CRABIEL,
C. MALCOLM DAVIS,
FRANK J. DODD,
DAVID KISLAK,
THOMAS GLYNN WALKER,
JOHN E. TOOLAN, *Chairman.*

SUMMARY OF THE REPORT

THE SCOPE OF THE RECOMMENDATIONS

This report comes at a time when the nation's economy is strained by the forces of inflation, international monetary pressures, and the uncertainties of war. These are factors which have a vital influence on state and local revenue and expenditure patterns, but are beyond the control or effective modification by action of any state.

The report also is set in a state fiscal environment which includes in its simplest form major budget deficits resulting in the deferral of much-needed programs, and in its more realistic context, the major spending and revenue programs recently proposed by Governor Hughes in his special message on the crisis of the cities¹, and by the commission on capital needs in its report and recommendations.² In addition, various proposals within and without the Legislature further complicate what is bound to be a confused fiscal environment.

At this point in history, the state and its people may well be receiving more fiscal advice than they can digest, let alone accept. It is plain that the frustrating problems of our society could require large additional public expenditures, but neither this Commission nor any other public or private body can demonstrate beyond question where and how a state's resources can best be applied to achieve the generally desired results. This Commission recognizes, moreover, that it is currently but one of at least seven active official sources of advice to the Governor and the Legislature on fiscal problems.

The Economic Policy Council and Office of Economic Policy, in its 1st Annual Report (April 1968), considers various tax problems in its studies of economic aspects of current public policy issues. These include the problems of federal-state revenue sharing, the use of bond issues for capital financing, analysis of effective tax rates and of the income elasticity of the New Jersey tax system, and the economic effects of the inheritance tax in New Jersey.

The Commission to Evaluate the Capital Needs of New Jersey understandably viewed its responsibility to include an identification of the fiscal resources as well as the physical needs of the state. That Commission's recommendation of an individual income tax, as well as other tax proposals, may well recall this Commission's parallel analysis in its *Tenth Report* (1963), Parts V and VI.

¹ Special Message by Governor Richard J. Hughes to the Legislature: *A Moral Recommitment for New Jersey*, (April 25, 1968).

² Governor's Commission to Evaluate the Capital Needs of New Jersey, *A Capital Program* (April 1968).

The State Division of Budget and Accounting has long been engaged in a continuous forecast of state revenues and expenditures, and provided a detailed ten-year projection of these fiscal elements for the period 1962-1972 which appears in Appendix Tables 38(a) through 40 in this Commission's *Tenth Report*. That division, the Division of Taxation, and the other major departments, through the cabinet system of our state government, are constituted the continuing source of fiscal advice to the Administration, much of which is reflected in the Governor's annual budget messages.

The County and Municipal Government Study Commission, in its Interim Report, entitled "Creative Localism: A Prospectus" (March 11, 1968) declared that "the present localization of fiscal responsibility has created problems, has let them grow unchecked, and has caused serious inequalities among municipalities in the quality of basic services provided to citizens." That Commission's recommendations include substantial proposals for the transfer of fiscal responsibility from local government to the state and for further comprehensive studies toward readjustment of the areas of governmental services and functions. The report states:

"The basic conclusion of this interim report may be simply and briefly stated. New Jersey is in desperate need of a better allocation of the fiscal and governmental responsibilities for the planning, financing, and performance of the functions and services provided by its local governmental system—especially those of area-wide or regional scope."

The State Aid to School Districts Study Commission has been charged with a review of the present state aid formula and related matters, and it too could well come forth with recommendations having significant fiscal implications.

The Joint Legislative Committees on Appropriations are the focus of administrative and legislative efforts to reconcile spending and taxing proposals, and a source of continuing analysis of state needs, major policies, and specific legislative decisions.

The Commission on State Tax Policy is concerned lest its present report be construed as one more voice calling for immediate action on larger goals. This report is therefore directed primarily to the problems of maintaining a healthy tax base which can yield the required revenues in a fair and equitable manner, defining the appropriate role of property and nonproperty taxes in the state-local fiscal structure, and developing such additional revenue potentials as these studies may suggest.

THE PROPERTY TAX AND STATE-LOCAL FINANCE

The most pervasive problems of state-local finance still turn on the burden of the property tax. Over the course of the years, the Commission has given much attention to this

problem, particularly in its *Sixth Report*, The General Property Tax in New Jersey; A Century of Inequities (1953); *Seventh Report*, Public School Financing in New Jersey (1954); *Eighth Report*, Financing School Buildings in New Jersey (1955); *Ninth Report*, The General Property Tax in 1958; Toward a Balanced Tax Structure (1958); *Tenth Report*, Increased State Aid to Public Schools and Distribution of the Cost of Expanding Public Services (1963); and *Eleventh Report*, Railroad Taxation in New Jersey—The End of an Era (1965). Partly as a result of those reports, the Commission is gratified to find the property tax base has been placed in order to a large extent. The tax rate, however, has remained high, has been increasing, and has resulted in a per capita property tax burden in New Jersey which is one of the highest in the nation. This is primarily the result of the "localization of fiscal responsibility for the services of government." The property tax burden may well have come to the point where it is virtually self-defeating; an annual capital levy which discourages capital investment which is needed to provide the capital base for the tax levy.

Among the cities of this state, some literally face a fiscal crisis if they must continue to depend on the local property tax to meet the demands upon them. As the Mayor of Newark declared in a recent report, entitled "Recommendations to Resolve Newark's Tax Crisis" (January 1968):

"Newark faces immense economic problems. The current cost of schools, welfare, police, fire protection, hospitals and institutions, streets and sanitation, and the expense of rebuilding aged housing, school buildings, and other public facilities are of such magnitude as to overwhelm the present fiscal capacity of the City.

"These problems are not Newark's alone. The City has traditionally served as a first stop for the dispossessed, a basic training camp for the nation's poor.

"Newark did not create the problems of poverty which afflict so many of its citizens. They suffer from ills which have been permitted to fester for generations in our state, our nation, and our society.

"We in the City have been left to finance the problems of the nation, a situation which cannot continue if the City is to survive and our citizens to be served."

The needs of other cities of the state may be less dramatic, but are nevertheless pressing and large. Over the ten-year period 1955-1965, local property taxes levied rose over 130%, while the population was increasing only 25%, personal income was increasing 73% and the true value of the municipal tax base was increasing 84%. It is important to note that over this period municipal expenditures alone did not rise any more rapidly than the growth of the property tax base; it was thus a general increase in school and

county tax levies which caused the property tax burden to run so far ahead of the growth in the property tax base.

The Commission recommends—

Immediate measures to begin an orderly and systematic reduction of the local tax burden on real estate. This is required to eliminate one of the present major deterrents to the new investment required to rehabilitate urban areas, and to provide relief for older suburbs and struggling rural communities as well.

This goal obviously requires a careful re-examination of the ways and means of achieving such property tax reduction. The Commission has analyzed (in Part I of the report) six different approaches to this problem. These include:

- 1) A transfer of functions and their fiscal responsibility from municipal government to the county or the state;
- 2) Increased state financial aid;
- 3) Increased state sharing of its tax revenues with local governments;
- 4) Homestead property tax exemptions;
- 5) A local property tax credit under which the state would share the local tax burden above an established standard local property tax rate, as in Wisconsin; and
- 6) Local non-property taxes.

It is apparent that no one remedy will provide the property tax relief which is required. A combination of remedies, depending to a considerable extent on the availability of state revenues to finance them, will be necessary. This is especially evident when it is considered that the annual rate of growth in the property tax levied in the state as a whole has amounted to an average of \$87 million annually over the past six years. Of course, a considerable part of the annual increase in real estate tax levy is absorbed by new tax ratables and increases in the valuation of older properties.

It is at least clear, however, that the rate of growth in the tax base has thus far not kept pace with the rate of increase in the tax levy annually. If any substantial impact is to be made on the existing \$1.5 billion of annual real estate taxes, truly massive changes will be required in the state-local revenue structure.

The Commission accordingly recommends—

- 1) An orderly transfer of present responsibilities for municipal services, together with their financial obligations, to the optimum area of government to provide the particular service; that is from the city to the county, or to the state, or to the federal government, as the case may be. (See Part I) This should be ac-

completed as rapidly as state fiscal capacity will permit, and could include the following services which are presently financed from the property tax:

	<i>Municipal</i>	<i>County</i>
(a) Welfare:	\$12.3 million	\$44.8 million
(b) Hospitals:	20.3 million	43.5 million
(c) Mental Health:		33.9 million
(d) Roads & Bridges ...	81.2 million	30.7 million

Totals	\$113.8 million	\$152.9 million
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Welfare, Health and Hospitals data are for 1966-67. Roads and Bridges figures are for 1967-68; \$32.1 million of State Aid should be deducted to reflect actual property tax burden.

- 2) Increased state aid for schools through revision of the present state aid formula, especially to reflect the high cost of improving city school systems and of meeting the problems of rapid growth in younger areas. It is certainly shortsighted to assume that the state is sharing properly in the cost of education when it limits its participation to a \$400 per pupil program at a time when actual costs are above \$600 per pupil.

If New Jersey were to increase its aid to the national average of 40% of local school costs for current operations, the state would pay state aid of about \$320 million annually at the projected rate of current day school expenditures by the schools for the school year ending June 30, 1968. This would amount to an increase of \$120 million annually over present state aid for schools (exclusive of building aids). A 50% program, on the same basis, would require an additional \$200 million annually in state aid. The specific formula is a matter for the State Aid to School Districts Study Commission.

- 3) No further state tax sharing of its revenues with local governments. This is less selective than other available alternatives, and is therefore not recommended as a means to relieve the local property tax burden.
- 4) Rejection of homestead property tax exemptions as a possible solution, upon which the Commission has previously reported in its *Ninth Report* (1958), that homestead exemptions are not a desirable way of relieving the property tax burden. They provide no relief to the renter nor to commercial and industrial property; moreover, in 1967 the real property exemptions allowed veterans and senior citizens amounted to a total of \$33.7 million throughout the state.
- 5) Rejection of local non-property taxes as a means of providing property tax relief. The Mayor of Newark has proposed that the Legislature delegate such taxing power to his city. Municipal income taxes and municipal sales taxes, some in the form of a supplement on existing state levies, are currently used in more than

170 and 3,000 municipalities, respectively, and do have a record of providing some property tax relief.

However the difficulty with local non-property taxes as a solution to the problems of the cities of New Jersey, even in part, is that the marketing area usually extends well beyond the boundaries of any of our cities. For a city to attempt to make use of either of the major local non-property taxes, therefore, might only compound its competitive disadvantages with the surrounding areas. For this reason, except for the seashore resort cities, the county is probably the smallest local area which could consider use of local non-property taxes, and even as to counties, regional competition would be difficult to overcome in the more urbanized areas. The Commission, accordingly, does not recommend that the state look to local non-property taxes as a meaningful approach to city fiscal problems in New Jersey.

SALES TAX EXEMPTIONS

It is extremely important to recognize that the sales tax is a method of apportioning the cost of government in proportion to spending by individuals. In effect, they measure their own obligation by the spending patterns that they adopt. Any departure from this measure will necessarily distort the distribution of the tax burden.

The Commission was directed by Joint Resolution No. 8 of 1967 to study all proposed sales tax exemptions, including the total scope of the exemptions presently provided in the Sales Tax Act, and particularly proposals for the following additional exemptions:

1. Household supplies
2. Veterinary drugs
3. Non-prescription drugs
4. Pet food
5. Building materials sold to contractors and repairmen
6. Sales to civic groups, veterans groups, fraternal organizations, social clubs, and women's clubs, not now exempt.

The Commission is impressed with the necessity of dealing with the whole question of sales tax exemptions on the basis of some established principles rather than permitting one claim for exemption to justify another. It is a hopeless task to try to unravel the present exemptions solely on the basis of any apparent principle. The Commission's extensive studies (Part II of the report) show that New Jersey now has practically every exemption that any other state has adopted. The effects are irrational and often inequitable.

On principle, the reasons for departing from the strict spending measure may be classified under six legitimate headings and a seventh based upon experience. These are as follows:

1. Exclusions based upon the theoretical nature of the tax—to reach only ultimate consumption.
2. Exclusions based on constitutional limitations—to avoid burdening the federal government which is immune from state taxation.
3. Administrative convenience—this exempts trivial transactions and includes some others because of the practical difficulty of doing otherwise.
4. State and local government and charitable organizations—these are exempt because of the nature of the purchaser on the theory that to tax government purchasers would take money out of one pocket only to put it into the other; and to tax eleemosynary institutions would be to burden the public benefit activities in which they are engaged.
5. Avoidance of a “tax on a tax”—this somewhat spurious theory is supposed to justify the exemption of sales of gasoline, alcoholic beverages consumed on the premises and cigarettes, but it fails to recognize that all goods carry a substantial element of tax built into the price, and a sales tax is not concerned with what people are buying but rather how much they are spending.
6. Avoidance of regression—this is the theory upon which food and other necessities of life have been exempted under various sales tax acts, although other statutes in some of the states are very sparing of exemptions.
7. Exemptions because of other exemptions—these are the great variety of exemptions which are justified solely because some other exemption exists. They rarely represent matters of principle, and always overlook the social responsibility of the claimant to bear a fair share of the common tax burden.

The Commission has duly considered each of the specific proposals for exemption which have been referred to it. The details are more fully set forth in the body of the report (Part II). *The Commission recommends—*

No further exemptions should be extended to any civic groups, veterans groups, fraternal organizations, social clubs, women’s clubs, or others of like nature. These organizations which admittedly provide useful and significant contributions to society may well be requested to recognize a first obligation, small as it is, to contribute to the support of the very government that protects and encourages their good works.

No additional exemptions should be extended which depend upon the use of the goods sold (e.g. dog food versus human food, or household supplies versus business supplies) or require the item to be selected from a stock of taxable and non-taxable goods (e.g. sales in a super market).

The Commission further recommends—

A complete re-evaluation of all existing exemptions to take into account the startling inequities and mal-distribution of the tax burden which they produce. For example:

1. A five-dollar tin of caviar is tax exempt, but a one-dollar toy is taxable.
2. A ten-dollar visit to the beauty parlor is tax exempt, but a two-dollar home permanent kit is taxable.
3. A two hundred-dollar suit of clothing is tax exempt, but an electric light bulb is taxable.
4. A twenty-dollar bar check is tax exempt, but a two-dollar meal served on the same premises is taxable.

These are but a few simple illustrations of the way in which exemptions upon exemptions have distorted the basic purpose of the sales tax in New Jersey, that is, to measure the individual's obligation by what he spends. The Commission has given this problem extensive consideration and has concluded that the only way to deal with it effectively is to substitute an entirely new system of exemptions, which will truly relieve the low-income family of the burden of the sales tax and avoid dissipating state revenues by granting high-income families tax exemption they neither expect nor need. *The Commission recommends—*

A new system of an annual tax refund of \$15.00 per person, with a maximum of \$60.00 for any family, in lieu of all of the present exemptions on purchases by individuals. This plan, which is described in detail in the report, would replace the present exemptions of food, clothing and prescription drugs. It would completely free any family with an annual income of \$5,000 or less from any sales tax burden on these items. In effect, it would transfer some of the exemption value of high-income families to the lower-income families, and would make it possible for the state to acquire an additional \$80 to \$100 million in sales tax revenue at the present 3% tax rate.

The Commission suggests that this approach will make it unnecessary to give further consideration to the multitude of product and transaction exemptions which will otherwise continue to plague the state and its fiscal structure. The Commission would go further and repeal all existing institutional exemptions, but it recognizes that this is a different question of policy, peculiarly within the legislative province. The benefit to the organization is usually trivial. For example, one statewide organization with a \$160,000 annual budget was found to be involved in \$120 of annual sales tax if it had no exemption. It may well take some time to persuade those who now receive this type of tax exemption, trivial as it is in their annual budgets, that it would be better for their public purposes to eliminate the sales tax exemption entirely, but the principle is plain.

CORPORATION BUSINESS TAX

New Jersey has both a corporate net worth tax and a corporate income tax, the combined effective rate of these taxes is generally favorable as compared with the rates imposed in neighboring states. The Commission concludes that the over-all structure of the present tax system does not place New Jersey at a competitive disadvantage, but it has found several deficiencies in the corporate taxes which discourage the location of corporate headquarters in the state. These can be rectified with a minimum readjustment of the tax burden within the business community. (See Part III).

Net worth is now taxed to some of the corporations with multi-state business by allocation of the corporation's net worth to New Jersey in proportion to its total assets within and without the state. If its assets include intangibles, i.e., accounts receivable, cash, investments in subsidiaries, they are all arbitrarily allocated to New Jersey if held by a corporation which has its headquarters in this state. This allocation formula was originally inserted in the net worth tax to meet conditions which no longer exist, and several recent legislative amendments have greatly reduced the significance of this factor. Its continued retention serves mainly to discourage corporations holding substantial intangible assets from locating their corporate headquarters in New Jersey, resulting in a loss of jobs and investment in the state. *Accordingly, the Commission recommends—*

- A. The total assets basis of allocating net worth to New Jersey should be eliminated. This will mean a revenue reduction of \$1.8 million.

Another aspect of the corporate business tax which the Commission has found to be an impediment to economic growth is the treatment afforded corporations which do business in New Jersey but also have substantial investment in subsidiaries, especially foreign subsidiaries incorporated in foreign countries and in other states. Under the present tax law such subsidiary capital is included in the tax base for the net worth tax and 50% of the dividends received by the parent corporation from the subsidiary are included in the tax base for the income tax. Even though the subsidiaries do no business in New Jersey, the allocation formula (based upon business done by the parent) at present is not designed to reflect the out-of-state operations of the subsidiary. The result is that major corporations will find a serious tax disadvantage in locating their corporate headquarters here especially if they do a national or world-wide business in which subsidiaries are often a required form of business organization. These same corporations can be a source of important economic development, jobs and tax base for the state. *The Commission recommends—*

- B. The treatment of subsidiary capital in the net worth tax should be modified to include only one-half of the net capital subsidiary stock less a pro rata portion of long term debt) values now required to be taxed; and

C. Dividends from subsidiaries should be excluded from taxable net income.

It is estimated that the changes recommended by the Commission (A, B, and C) could be accomplished with little or no revenue loss by raising the corporate income tax by 0.25%, to provide revenue of \$7.0 million annually. Accordingly,

The Commission recommends an increase in the corporate income tax rate from 3.25% to 3.5%, to offset the revenue loss of the above recommendations.

The Commission also studied the possibility of making the net worth tax and the income tax alternative taxes, with a corporation only paying the greater of the two. To avoid any revenue loss, this approach would require an increase in the income tax to 4.6%. The Commission recommends that no action be taken on this approach at this time.

DEATH TAXES

This report (Part IV) presents the most comprehensive analysis of death taxes in New Jersey which has thus far been available. The Commission has considered the entire death tax system as well as the advisability of a roll-back of the rate structure to the pre-1962 levels.

The report contains a great deal of statistical material which compares the various aspects of the New Jersey death tax with death taxes in other states. In addition, much of the material analyses internal aspects of the New Jersey death tax. The interstate comparisons include death tax collections in dollars, per capita collections, collections per \$1,000 of personal income, and death tax collections as a percent of total state tax collections. These figures show that death taxes in New Jersey are an important source of revenue and that the overall burden of the tax is high relative to other states. However, the materials also show that the extent of the burden depends on the way the estate is distributed.

With respect to internal aspects, the materials compare the present rate structure, by class of beneficiary, with the rate structure in effect prior to the 1962 rate increase. The fiscal effect of the proposed roll-back of rates to pre-1962 rates is examined as well as the effect of the higher rates on domiciliary shifting.

A thorough analysis of the present level of collection in terms of estate size and beneficiary class is also included. The effect of converting the present "inheritance" type tax to an "estate" type tax and retaining the present level of collection has also been explored.

Several specific questions relating to the equity of the present tax—treatment of tenancies by the entirety, treatment of designated beneficiary life insurance, and amount of exemptions for surviving spouses—were also studied.

Based upon these materials, *The Commission recommends—*

No reduction in the rate structure be made at this time, when the revenue needs of the state are so great. Moreover, the state's inheritance tax plays a small part in most people's choice of domicile. For those few individuals for whom this factor may be determinative, it is impractical for New Jersey to become competitive with such states as Florida. Certainly there is no fiscally feasible modification which would be sufficient to induce them to retain their New Jersey domicile.

No change should be made which would further aggravate the heavy burden already borne by those individuals with large estates, and this justifies retention of the present exemption of designated beneficiary life insurance proceeds.

No change should be made in the present flat rate dollar exemptions for Class A beneficiaries ;

It is impractical to consider a change in the state death tax to parallel the federal estate tax—due either to the major loss of revenue which such a step would entail or the high rates that would be necessary to maintain the present revenue ; and

Inequities arising from the present exemption of *all* property held in the form of a tenancy by the entirety should be eliminated by limiting the exemption to owner-occupied residential property of not more than four dwelling units.

PART I

THE PROPERTY TAX AND STATE-LOCAL FINANCE

Local finance in New Jersey has long been dominated by the use of the general property tax. In many respects New Jersey stands out as extreme in this respect (based on 1965-66 figures):

(1) New Jersey (64.6%) raises a greater proportion of combined state and local revenues from the property tax than does any other state except Nebraska (71.6%);

(2) The per capita burden of the property tax is greater in New Jersey than in all but two states (California and Massachusetts);

(3) Total property collections as a percent of total income payments received in New Jersey, however, rank twelfth as compared with other states;

(4) The average effective rate of the property tax in New Jersey (3.18% in 1967) is one of the highest among the states of the United States, as shown in *Table 1* for 1965 comparison.

TABLE 1

AVERAGE EFFECTIVE PROPERTY TAX RATES
ON FAIR MARKET VALUE

	1962 ¹	1965 ²
United States average	1.4%	1.7%
Massachusetts	2.7	3.3
New Jersey	2.6	3.2
New York	2.5	3.0
New Hampshire	2.3	2.8
Rhode Island	2.2	2.7
Vermont	2.2	2.7
Maine	2.1	2.6
Wisconsin	2.1	2.6

¹ As estimated by the Bureau of the Census.

² Estimate based upon rate increase calculated for Vermont and New Jersey applied to the other states.

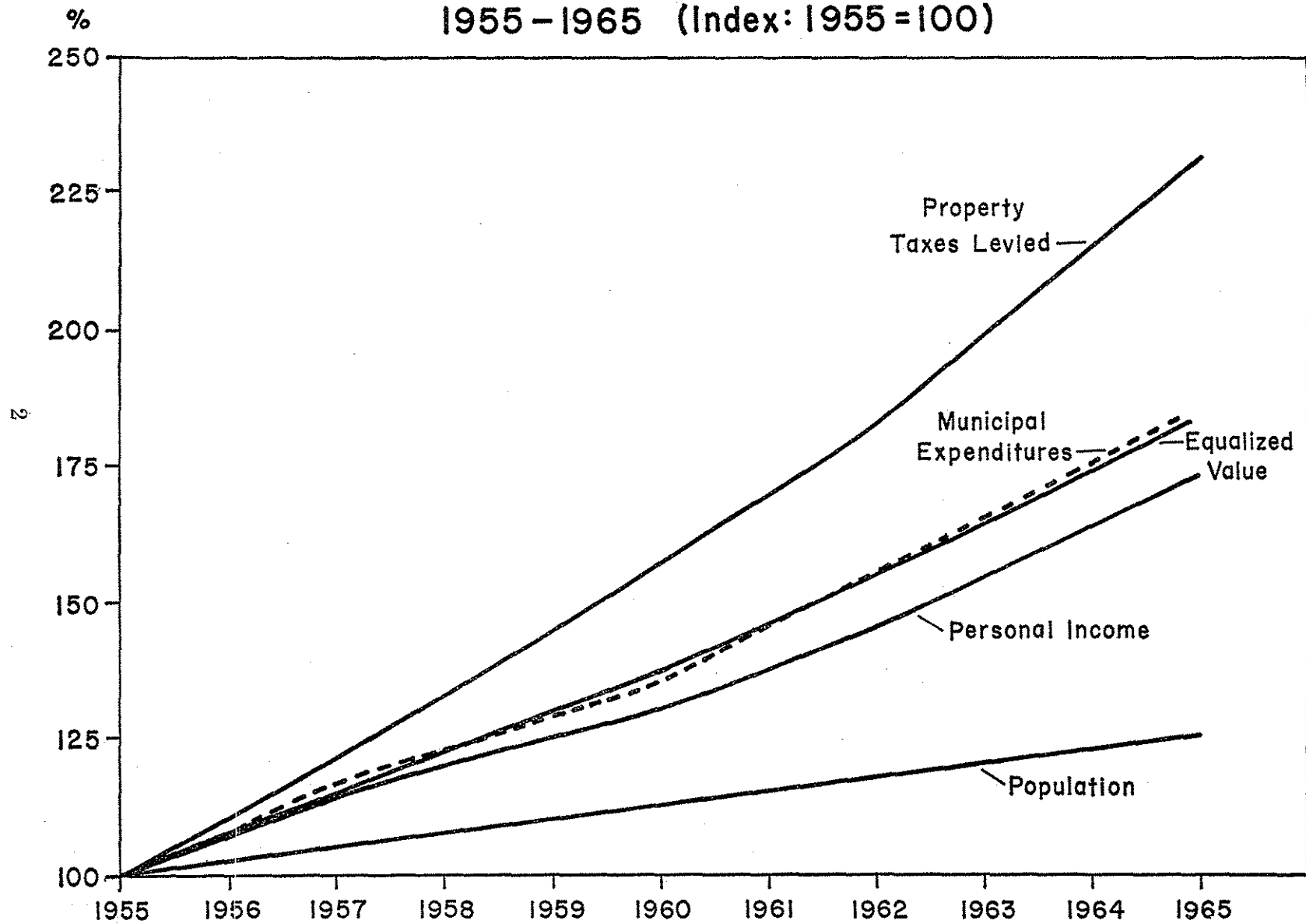
In recent months, a new dimension has been added to the whole subject of local finance in two aspects:

A. The relation of the property tax burden to riots in the cities;

B. The relation of the property tax burden to an unprecedented number of school budget rejections by the voters.

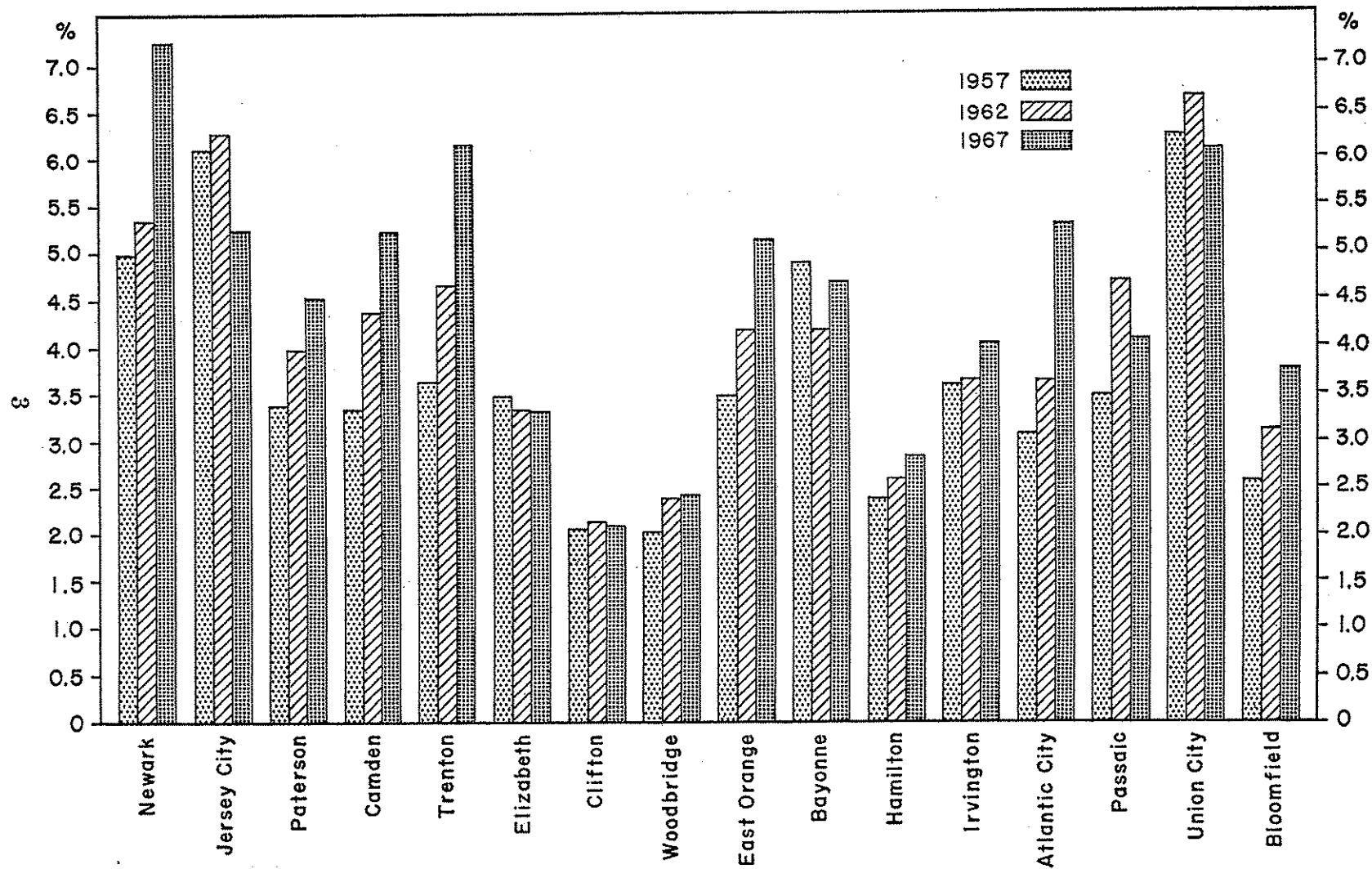
It is widely assumed that the burden of the property tax has been growing and has reached the point where it deters responsible governmental action by municipalities, counties, and school districts. Like all generalizations, this one is not entirely valid, although it does express a correct analysis of general trends. As shown in *Chart 1*, using 1955 as an index of 100, total taxes levied for local purposes (including schools) have risen more rapidly than the equalized fair market value of taxable real estate, over the past ten years. This is not entirely true for specific municipalities. For example, as shown in *Chart 2*, total taxes levied as a percent of the equalized valuation in the 16 largest cities in New Jersey increased substantially over the past ten years in such cities as Newark, Paterson, Camden, Trenton and Atlantic City, but in the other cities the increase has been moderate at most, and in a few there was actually a decrease. The increases have been sufficiently widespread in New Jersey as well as in other states, however, to produce a major new interest in ways of relieving the real property tax burden.

Chart I
STATE OF NEW JERSEY
COMPARATIVE TREND OF LOCAL PROPERTY TAXES LEVIED
1955-1965 (Index: 1955=100)



SOURCES: N. J. DEPT. OF THE TREASURY; U. S. BUREAU OF THE CENSUS; U. S. DEPT. OF COMMERCE.

Chart 2
STATE OF NEW JERSEY
TAXES LEVIED AS A % OF EQUALIZED VALUATION
FOR 16 LARGEST CITIES — 1957, 1962, 1967



SOURCES: N. J. DEPT. OF THE TREASURY; N. J. DEPT. OF COMMUNITY AFFAIRS.

NOTE: IN SOME CITIES THE 1967 FIGURE MAY REFLECT CHANGE IN THE TREATMENT OF RAILROAD PROPERTY.

There are various approaches to property tax relief, and each of them has been tried in at least one state. These may be catalogued as follows:

- (1) Property tax exemptions;
- (2) Transfer of functions from the municipality to the county or the state;
- (3) Increase in state financial aid to the municipalities and school districts;
- (4) Increase in tax sharing between the state and local governments;
- (5) The use of a local property tax credit financed from general state revenues;
- (6) The use of local non-property taxes.

The first of these approaches is an evidence of disintegration of the tax base. The next four require additional state revenue commensurate with the reduction in local burden. This is peculiarly an issue of tax policy at a time when the Governor is obliged to "defer" some \$80 million of expenditures. The sixth alternative alone would not present any need for additional state revenues. The technical and policy implications of these alternatives may be considered separately.

A TRANSFER OF FUNCTIONS

For reasons of both policy and finance there has been a growing tendency among the American states to transfer certain functions from municipal government to county, regional or state functional areas. To a growing extent also, the federal government has assumed at least some fiscal responsibility for various urban functions.

In a recent publication on the general subject,¹ The Advisory Commission on Intergovernmental Relations attempted to evaluate the optimum unit of government to handle typical urban services, and concluded that fifteen of the most important services should be ranked as follows (with the most local at the top of the list):

1. Fire protection
2. Public education

¹ Performance of Urban Functions: Local and Area Wide (September, 1963).

3. Refuse collection and disposal
4. Libraries
5. Police
6. Health
7. Urban renewal
8. Housing
9. Parks and recreation
10. Public welfare
11. Hospitals and medical care facilities
12. Transportation
13. Planning
14. Water supply and sewerage
15. Air pollution control

This ranking is probably intended to be illustrative rather than definitive. For example, a place in the order should be provided for streets and highways, snow removal, and some of the administrative functions such as assessments and collection of property taxes. It is at least clear, however, that major readjustment of the services, areas, and financing of local government can be justified as a matter of principle, and would be particularly timely as a matter of finance.

A sample of fiscally significant functions (and the amounts involved) which could most readily be transferred from municipal to county or state responsibility are shown in *Tables 2 and 3*.

The tables show that the state already has substantial commitments involved in locally administered welfare and mental health functions. In addition, some \$32.1 million in state and for county and municipal roads is currently applied toward local road expenditures which total \$81.2 million by municipalities and \$30.7 million by the counties. The case for greater state financial responsibility for welfare, health, hospital and road costs has been made in other reports. It is also a logical and necessary way to relieve the property tax.

The Commission recommends—

First, an orderly transfer of present responsibilities for municipal services, together with their financial obligations, to the optimum area of government to provide the particular service; that is from the city to the county, or to the state, or to the federal government, as the case may be. This should be accomplished as rapidly as state fiscal capacity will permit, and could in-

TABLE 2
STATE OF NEW JERSEY
EXPENDITURES ON WELFARE
1966-67
(Thousands of Dollars)

<i>Classification</i>	<i>Municipal</i>	<i>County</i>	<i>State</i>	<i>Federal</i>	<i>Total</i>
Old age assistance		1,058	3,172	9,938	14,168
Disability assistance		3,396	3,396	6,881	13,673
Dependent children assistance		22,703	22,703	39,412	84,818
Aid to the blind		251	251	640	1,142
Medical assistance for aged		4,193	6,290	11,238	21,721
Child care		7,153	5,347		12,500
General assistance	9,090		7,038		16,128
Food stamp program				50	50
Cuban refugee aid				2,100	2,100
Administrative expenses	3,162	6,068	7,738		16,968
Total	\$12,252	\$44,822	\$55,935	\$70,259	\$183,268
Percentage distribution	6.68%	24.46%	30.52%	38.34%	100%

Sources:

N. J. County and Municipal Government Study Commission, *An Interim Report, Creative Localism: A Prospectus* (Trenton, N. J., March 11, 1968).
N. J. Governor, *Budget Message for the Fiscal Year Ending June 30, 1969* (Trenton, N. J., February 13, 1968).
N. J. Division of Local Finance, *Twenty-Ninth Annual Report, 1966* (Trenton, N. J., October, 1967).

TABLE 3
STATE OF NEW JERSEY
LOCAL EXPENDITURES ON HEALTH AND HOSPITALS
1966-67
(Thousands of Dollars)

<i>Classification</i>	<i>Municipal</i>	<i>County</i>	<i>Less: State Aid</i>	<i>Net Local Expenditures</i>
Tubercular patients		20,181	174	20,007
Mental health activities		41,692	7,844	33,848
County aid to general hospitals		7,537		7,537
County hospitals and homes		16,059	100	15,959
Health services	13,765		1,634	12,131
Hospitals	20,289			20,289
Totals	\$34,054	\$85,469	\$9,752	\$109,771

Sources:

N. J. Division of Local Finance, *Twenty-Ninth Annual Report, 1966* (Trenton, N. J., October, 1967) pp. C45 and 568.
N. J. Governor, *Budget Message for the Fiscal Year Ending June 30, 1969* (Trenton, N. J., February 13, 1968) pp. 578-583.

clude the following services which are presently financed from the property tax:

	Municipal	County
(a) Welfare	\$12.3 million	\$44.8 million
(b) Hospitals	20.3 million	43.5 million
(c) Mental Health		33.9 million
(d) Roads and Bridges	81.2 million	30.7 million
Totals	\$113.8 million	\$152.9 million

Welfare, Health and Hospitals data are for 1966-67. Roads and Bridges figures are for 1967-68.

Second, responsibility for administration should go with the principal responsibility for finance—as a guiding principle.

INCREASED STATE FINANCIAL AID

State aid comes in various forms, but whatever the form it is based upon central financing of locally administered services. To the extent that it separates the responsibility for revenue raising from the decision to spend, state aid has a built-in weakness, but this is overcome largely by retaining a substantial local stake in the tax burden. The most common illustration of such a state-local relationship is in state aid for schools. The dimensions and purposes of state aid generally among the states and in New Jersey may be catalogued as shown in Table 4.

The present state aid formula, known as a "foundation program" type formula, varies the amount of aid in inverse proportion to the taxable valuation per pupil in each school district. In its *Tenth Report* (January 1, 1963), the Commission analyzed the present formula in detail and its recommendations as of that time were later adopted.

The basic deficiency in the present state aid formula is that the state shares only in the first \$400 of cost per pupil. In effect, the present formula makes inadequate provision for the high cost low wealth district (except that for the larger districts of more than 100,000 population, there is a size correction of an additional apportionment of \$27 per pupil). At the time the \$400 figure was adopted in 1966, it was already outmoded. For the school year 1965-66, the median current expense cost per pupil for all districts was \$538.72.¹

¹ N. J. Education Association, *Basic Statistical Data 1967 Edition* (July 1967).

In some 33 districts the cost per pupil ran over \$800.00, although none of the largest districts were that high. Costs have been increasing at approximately 7% annually, so that it is most likely that for the current school year the median cost per pupil will be \$615, while the foundation program remains at \$400 per pupil (plus \$27 for the six cities over 100,000 population). The obvious solution is a revision of the school aid formula which would take into account higher costs and thus enable the older urban centers to reduce class size and undertake more of the special programs required for the disadvantaged.

The Commission recommends—

Increased state aid for schools through revision of the present state aid formula, especially to reflect the high cost of improving city school systems and of meeting the problems of rapid growth in younger areas.

If New Jersey were to increase its aid to the national average of 40% of local school costs for current operations, the state would pay state aid of about \$320 million annually at the projected rate of current day school expenditures by the schools for the school year ending June 30, 1968. This would amount to an increase of \$120 million annually over present state aid for schools (exclusive of building aids). A 50% program, on the same basis, would require an additional \$200 million annually in state aid. The specific formula is a matter for the State Aid to School Districts Study Commission (Laws of 1966, ch. 31).

INCREASE IN TAX SHARING BETWEEN THE STATE AND LOCAL GOVERNMENTS

State aid and shared taxes are often looked upon as parallel fiscal devices in state-local relationships. State aid is used to identify a particular function which is to receive state support. Shared taxes identify a particular state tax to be distributed in whole or in part to local governments for use on any local function supported by general local revenues.

New Jersey has relatively few taxes collected by the state and shared with local units of government. The following may be included in this category:

TABLE 4
DISTRIBUTION OF INTERGOVERNMENTAL PAYMENTS
Per Capita, By Function
Selected States, 1966

State	Intergovernmental expenditure as % of total State general expenditure	Per Capita Amounts				
		Total	Education	Highways	Public Welfare	Other (2)
All States	36.4%	\$86.38	\$52.18	\$8.85	\$14.77	\$10.58
Median State	29.7	73.97	50.64	6.00	(1)	17.33
California	45.4	140.31	60.42	13.65	51.29	14.95
Connecticut	18.9	44.28	38.18	2.12	1.39	2.59
Florida	33.0	63.69	55.90	2.73	.....	5.06
Illinois	26.9	47.32	29.53	11.62	5.68	0.49
Indiana	38.1	81.69	52.19	15.70	9.27	4.53
Maryland	43.4	101.88	47.53	12.94	20.26	21.15
Massachusetts	39.1	84.24	16.72	2.70	40.33	24.49
Michigan	41.5	104.91	63.98	18.54	9.10	13.29
Missouri	36.4	50.71	44.03	4.17	0.08	2.43
New Jersey	32.9	44.53	24.17	2.30	13.77	4.29
New York	54.5	145.03	79.83	5.68	38.92	20.60
Ohio	38.0	66.67	29.79	15.20	13.68	8.00
Pennsylvania	39.9	62.61	50.61	4.86	2.45	4.69
Virginia	26.5	53.51	36.61	3.46	7.80	5.64
Wisconsin	50.9	140.97	35.21	21.10	16.19	68.47

(1) Not computed.

(2) Includes General Local Government Support, Hospitals, Health, and other miscellaneous expenditures.

Source: Bureau of the Census, *Compendium of State Government Finances in 1966*.

Shared Taxes, 1967-68

5% of inheritance tax to county of residence of decedent	\$3,100,000
Public utility gross receipts taxes on franchise (at 5%) in lieu of personal property taxation (at 7½%) are assessed by the state but are payable to local taxing districts except small part retained for state use.	
Franchise tax 1966	46,100,000
Bus receipts tax collected by state; balance (after state's share is deducted) is paid to municipalities through which franchised buses run	1,300,000
	<hr/>
	\$50,500,000

Tax sharing is much less discriminating in the direction of state funds to municipalities than the other available alternatives. Accordingly, any expansion of this device is likely to have less attraction than other means of reducing the tax burden on real estate.

PROPERTY TAX EXEMPTIONS

Growing pressures for property tax exemptions, particularly for a homestead tax exemption, are evidence of a breakdown of the system of apportioning the local cost of government on an ad valorem property tax base. As previously noted, in New Jersey, more than any other state except Nebraska, the property tax has been providing the major source of state and local tax revenues. While the percentage does not yet reflect the effect of over \$200 million in sales tax revenues, New Jersey's relative rank among the states is not likely to change materially.

Despite this heavy reliance of local government on the property tax base, the same base has been constantly reduced by legislative action over the past 20 years. In 1946 all intangible personal property was exempted. In 1961, \$118,356,300 in household furniture and effects was exempted. The following year an almost equal value of exemptions was granted senior citizens in addition to \$215 million of existing veterans' exemptions. Railroad prop-

erty and tangible personal property of business has also been removed from the local tax base in recent years, but were replaced in whole or in part from state revenues. In 1966, the value of veterans' and senior citizens' exemptions alone amounted to \$33,380,604. These exemptions have come about because of legislative decisions to lessen the burden of the property tax upon senior citizens, veterans, and non-profit organizations. The shrinkage in this tax base has been so great that there is serious question as to whether it can stand any further contraction.

The homestead tax exemption proposal was reviewed by this Commission in its Ninth Report (1958). The Commission there stated (at pages 86-88):

"This proposal has been carefully examined in light of the assignment set forth in the legislative resolution under which the Commission has conducted the present study, and with reference to experience in other states.

"Seventeen states have no statutory provisions which permit, to any extent, real property exemptions from tax levies. These States are as follows: Colorado, Delaware, Illinois, Kansas, Kentucky, Missouri, Nebraska, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Virginia, Washington, West Virginia and Wisconsin. The remaining 31 states have either veterans' exemptions or some form of more general real property exemption from the levy of taxes. Exclusive of veterans' exemptions the states which use general homestead tax exemptions are:

Arkansas (\$1,000)	Minnesota
Florida (\$5,000)	(\$4,000—rural)
Georgia (\$2,000)	Mississippi (\$5,000)
Iowa (\$2,500)	New Mexico (\$200)
Louisiana (\$2,000)	Oklahoma (\$2,000)

"It is notable that with two exceptions all of the homestead tax exemption states are located in the South. The Commission has nevertheless considered the possibility of such a form of exemption to property owners in New Jersey. Any such exemption would, of course, tend to be more valuable for lower assessed valuations of property.

TABLE 5
ESTIMATED EFFECT OF A \$2,000 HOMESTEAD EXEMPTION
NEW JERSEY COUNTIES—1957
(amounts in thousands of dollars)

County	Actual Taxes	Taxes on Residential Property Payable under 40, 40, 10% Assessment*		Shift in Taxes
		No Homestead Exemption	With Homestead Exemption	
Atlantic	\$6,710	\$7,561	\$6,355	\$1,206
Bergen	51,797	52,177	49,061	3,116
Burlington	6,572	6,016	5,189	827
Camden	17,589	16,844	13,616	3,228
Cape May	4,899	4,663	4,037	626
Cumberland	3,468	3,436	2,673	763
Essex	59,637	58,657	51,535	7,122
Gloucester	4,798	4,387	3,600	787
Hudson	20,149	25,679	20,912	4,767
Hunterdon	2,006	1,976	1,641	335
Mercer	14,774	13,822	10,325	3,497
Middlesex	18,322	19,667	17,588	2,079
Monmouth	18,817	18,642	16,632	2,010
Morris	17,428	16,378	15,058	1,320
Ocean	7,378	7,316	6,095	1,221
Passaic	21,172	19,664	16,821	2,843
Salem	1,736	1,578	1,302	276
Somerset	6,956	6,515	5,845	670
Sussex	3,116	3,293	2,854	439
Union	32,259	31,072	28,273	2,799
Warren	2,550	2,395	1,998	397
State Total	\$322,133	\$321,738	\$281,410	\$40,328

Source: Commission on State Tax Policy, *Ninth Report*, Table 4.5 of p. 87 (1958).

* Real estate assessed at 40% of market value, machinery and equipment at 40% of book value, inventories 10% of book value, and all household goods exempt.

“An estimate of the effect of a \$2,000 homestead tax exemption appears in Table [5] For the purposes of a more realistic presentation, the table has been constructed on the assumption that 100 per cent assessments would not become effective and that some form of fractional assessment, . . . [might be effective] for example, [one that] would assess real estate and machinery and equipment at 40 per cent of its value and inventories at 10 per cent of their value. Upon this assumption, a homestead tax exemption would cause a shift of taxes from residential properties to other properties amounting to over \$40 million each year. This net tax shift is after taking into account that part of the

cost would appear in the tax levied upon that value of the homestead in excess of the exemption. . . .

“As a matter of policy, this Commission is convinced that improvements in the State and local tax system do not lie in the direction of granting further tax exemption without any in lieu tax. Such adjustments as are required to reflect the differences in economic ability of taxpayers can and should be made directly rather than through the indirect process of exemptions not based on purely tax considerations. While the total of \$40 million is not large as tax sums go, this is a total for the State as a whole and does not reflect the

TABLE 6
RESIDENTIAL PROPERTY TAXES (AFTER VETERANS' EXEMPTION) AS
PER CENT OF TOTAL PROPERTY TAXES IN NEW JERSEY
MUNICIPALITIES
1957
(number of municipalities)

County	Under 10%	10%-19%	20%-29%	30%-39%	40%-49%	50%-59%	60%-69%	70%-79%	80%-89%	90%	All Muni- cipalities
Atlantic	1	2	1	4	3	4	3	3	2	..	23
Bergen	2	1	..	4	6	5	17	19	14	2	70
Burlington .....	..	2	4	8	2	7	10	3	3	1	40
Camden .....	..	..	1	..	4	2	9	11	8	2	37
Cape May .....	..	..	1	1	1	2	4	5	2	..	16
Cumberland .....	..	1	..	3	5	5	..	..	..	..	14
Essex .....	..	..	2	..	3	2	2	6	5	2	22
Gloucester	1	2	1	..	4	3	3	6	3	1	24
Hudson .....	..	3	6	2	1	..	..	..	..	..	12
Hunterdon .....	..	1	4	4	5	6	1	5	..	..	26
Mercer .....	..	..	3	..	3	..	4	1	2	..	13
Middlesex .....	..	..	4	5	1	3	8	3	1	..	25
Monmouth	1	1	4	3	3	7	7	14	9	3	52
Morris	1	..	..	..	5	8	8	9	7	1	39
Ocean .....	..	..	1	4	2	4	7	4	11	..	33 ¹
Passaic .....	..	..	1	..	1	..	7	6	1	..	16
Salem .....	..	1	4	2	2	3	2	1	..	..	15
Somerset .....	..	..	..	3	4	5	3	3	3	..	21
Sussex .....	..	1	3	3	1	6	7	1	2	..	24
Union .....	..	..	1	..	3	5	5	3	2	2	21
Warren .....	..	..	1	4	7	6	4	1	..	..	23
Total	6	15	42	50	66	83	111	104	75	14	566 ¹

Source: Commission on State Tax Policy, *Ninth Report*, Table 4.6 of p. 89 (1958).

¹ Excludes Island Beach Boro.

effect of the exemption on any specific municipality. In those taxing districts which are primarily residential communities, the exemption would have a drastic effect, and its cost would undoubtedly appear in the tax rate to be borne by the non-exempt part of homestead property. As shown in Table [6] in more than half of all the municipalities in the State, residential real estate accounts for 60 per cent or more of the local property taxes. The full benefits of homestead tax exemption thus would not be afforded to the homesteaders themselves. With respect to the special purposes of this report, such exemption could not facilitate any transition from the present to a new standard of value.

"The Commission concludes—

"That homestead tax exemption would not be a desirable modification of the general property tax at this time."

The situation has not changed materially since the above review written in 1958. Whatever the relative merits of the arguments pro and con about homestead tax exemptions, it is clear that they apply differently in different municipalities. Where the tax base is reasonably diversified, the homestead tax exemption would have the effect of shifting some of the property tax burden from residential to commercial and industrial property. Where the local tax base is

primarily residential, a homestead tax exemption could have the effect of shifting the tax burden from single-family dwellings to multi-family dwellings, or merely raising the tax rate on all residential property. In the older cities, where the pressure for homestead tax exemption has seemed to be most noticeable, many of the residents occupy two, three, and four-family structures. As to these structures, a homestead tax exemption could present difficult administrative problems. From the viewpoint of the general housing market, moreover, it is just as important to provide property tax relief for renters as for owners. In a major metropolitan area, such as this state, property tax relief geared to homesteads alone would be least appropriate.

A LOCAL PROPERTY TAX CREDIT FINANCED FROM GENERAL STATE REVENUES

A new approach to property tax relief has been developed in Wisconsin, in the form of a property tax credit financed by the state. This system was authorized by the state legislature in 1961 and property tax credits were first paid in 1963. For 1967-68, these credits have been estimated at \$110,621,000.

The basic principle of the system is that the state will recognize a standard tax rate on full value taxable, and it will share the local burden above the standard rate. The state will also appropriate a limited dollar amount which it will use for such sharing. The Wisconsin law provides for a formula for distribution to municipalities of the moneys in this sharing pool so that the higher the relative local tax rate, the greater will be the share received by the municipality. The program makes no distinction between a high tax burden resulting from being a low valuation area and a high tax burden because of high-cost governmental programs. The Public Expenditure Survey of Wisconsin has described the steps in computing the credits for each municipality sharing in the pool as follows:

“1. Determine the “average computed full value tax rate.”

Procedure: for each of the last three years, divide total tax levies (state, local, county,

school, occupational, forest crop, and woodland taxes plus special assessments) by the applicable equalized valuation and average the resulting three quotients.

2. Calculate the “net full value tax rate.”

Procedure: subtract 14 from the average computed full value tax rate.

3. Compute “municipality’s hypothetical levy in excess of 14 mills.”

Procedure: multiply net full value tax rate by the current year’s total equalized valuation, less property eligible for special personal property tax credit.

4. Determine “state’s hypothetical levy in excess of 14 mills.”

Procedure: add hypothetical tax levies of all municipalities sharing in credit.

5. Calculate “factor” for apportioning credit.

Procedure: divide total money available for nonutility credit (for the 1966 credit, \$53,000,000 less \$4,434,000 for utilities, or \$48,566,000) by state hypothetical levy in excess of 14 mills.

6. Compute “general property tax credit” to each municipality.

Procedure: multiply “factor” by municipality’s hypothetical levy in excess of 14 mills.”

By December 1 each year, the state taxation department notifies each local clerk of the amount of general property tax credits to be distributed the following year. This credit is then apportioned on each property tax bill according to the relative amount of taxes due from each taxpayer. (The specified personal property is excluded from this allocation.)

Net taxes are the responsibility of the individual taxpayers. General property tax credits are paid to each community before March 1.

Property tax credits available for nonstock personal property and real estate have remained generally static, but tax levies on these properties have increased. This combination means that the relative importance of the credit granted has declined. Where the credit approximated 10 per cent of the levy in 1963, the first year of the program, the credit portion of the 1967 levy is estimated at 7.5 per cent.

This experience contrasts with that of personal property, for which credit was paid up to the percentage listed by statute—50 per cent initially, and 60 per cent currently and subsequently, unless modified by future legislatures.

An adaptation of this credit system could well be developed for New Jersey, and could be applied to total municipal budgets, to municipal expenditures for particular functions such as police, or otherwise. Such a program would obviously require major additional state revenues to finance a program of credits sufficiently large to make a substantial reduction in property tax rates.

LOCAL NON-PROPERTY TAXES

A. *Income Taxes.*

Major property tax relief has been provided in many states through the use of local non-property taxes. The Tax Foundation recently reported that more than 18 million people live in cities which impose an income tax, and in addition, uncounted additional people who commute to those cities pay a tax on the income they earn within the city. The municipal income tax now provides substantial revenue in more than 170 municipalities including 21 cities with a population of at least 100,000.²

Municipal income taxes have been in existence since December 13, 1939 when Philadelphia imposed its present earned income tax, but it is only in the last twenty years that they have developed generally.

Local income taxes exist in eight states and the District of Columbia. They are generally imposed at a flat uniform rate on individuals' and businesses' net income, without exemptions, and by municipal governments. There are some, however, with graduated rates, with exemptions, and imposed by jurisdictions other than the city, such as the county or the school district. In 1965-66 all local governments collected \$472 million from their own net income taxes. See *Tables 7 and 8.*

The District of Columbia income tax has been in existence since 1939 and resembles a state graduated income tax and actually was patterned after such taxes. The New York City

income tax which came into existence in 1966 is slightly graduated, has different rates for residents and non-residents, and covers a jurisdiction of over 7,000,000 people, more than the population of all of New Jersey.

Municipal income taxes presently exist in one municipality in Alabama, Gadsden, two in Missouri, St. Louis and Kansas City, nine in Michigan, twenty municipalities and one county in Kentucky, 139 municipalities in Ohio, 1,500 local governments in Pennsylvania, and a special income tax supplement in Baltimore and all counties in Maryland.

In Alabama, Kentucky, Missouri, Ohio, and Pennsylvania the income subject to tax is the gross income of employees and the net income of businesses—similar to the adjusted gross income concept used in Federal and state net income taxes. Since the tax applies to earnings or income received as compensation for services, it excludes all investment income, capital gains, and transfer payments. The tax applies to the incomes of all individuals and to all businesses whether incorporated or unincorporated, except in Pennsylvania where corporations are excluded. In Alabama and Kentucky only the income earned within the geographical limits of the imposing local government is taxable, whereas in Missouri, Ohio, and Pennsylvania, all income earned within the jurisdiction as well as income earned anywhere by the residents of the jurisdiction is subject to tax. Both Ohio and Pennsylvania provide for the interjurisdictional allocation of income to an individual's district of residence when he is employed in a district also imposing an income tax, except for the City of Philadelphia, which has first claim on its residents' and non-residents' income. In St. Louis and Kansas City, Missouri, which have claims on income of residents and non-residents, there are no nearby localities imposing a similar tax. Tax rates, uniform in each city, vary from $\frac{1}{4}\%$ to 2%.

In Michigan, nine cities impose taxes under the Uniform City Income Tax ordinance. Detroit and Hamtramck adopted their taxes in 1962 but have since conformed them to the uniform code adopted by the State in 1964. Under Michigan practice all income of city

² Tax Foundation, Inc. *City Income Taxes* (1967).

TABLE 7
MUNICIPAL INCOME TAXES
COLLECTIONS AND TAX RATES
Selected Localities, Recent Years

State and Locality	Fiscal Year Ending	Collections \$000	Tax Rate	Population	Collections Per Capita Per 1% of Rate
Alabama:					
Gadsden	9/30/66	2,297	2.0%	65,300	\$17.59
District of Columbia:					
Washington	6/30/66	51,443	graduated	806,500	63.79*
Kentucky:					
Covington	12/31/66	1,103	1½%	60,376	12.18
Lexington	12/31/66	4,226	1½%	79,000	28.17
Louisville	6/30/66	13,912	1½%	396,000	23.42
Jefferson County	6/30/66	.....	1½%	.....	.....
Maryland:					
Baltimore	6/30/67	28,000	1.0%	926,500	30.22
Michigan:					
Detroit	6/30/66	45,176	1.0%	1,598,100	28.27
Flint	6/30/66	9,000	1.0%	206,200	43.65
Hamtramck	6/30/66	1,244	1.0%	32,200	38.63
Saginaw	6/30/66	2,292	1.0%	101,500	22.58
Missouri:					
Kansas City	4/30/66	10,157	½%	546,800	37.15
St. Louis	3/31/66	27,265	1.0%	711,800	38.30
New York:					
New York City	6/30/67	167,000	graduated	8,025,700	20.81*
Ohio:					
Akron	12/31/65	9,936	1.0%	295,000	33.68
Canton	12/31/65	4,015	1.0%	111,600	35.98
Cincinnati	12/31/65	17,313	1.0%	499,500	34.66
Columbus	12/31/65	15,720	1.0%	548,000	28.69
Dayton	12/31/65	11,689	1.0%	267,000	43.78
Toledo	12/31/65	10,735	1.0%	380,800	28.19
Youngstown	12/31/65	4,590	1.0%	165,000	27.82
Pennsylvania:					
Allentown	12/31/64	1,115	½%	108,900	20.48
Erie	12/31/64	1,139	½%	142,400	16.00
Philadelphia	12/31/65	90,867	1⅝%	2,053,600	27.23
Pittsburgh	12/31/65	10,273	1%	567,700	18.10
Scranton	12/31/64	668	½%	105,000	12.72

* Total tax collections per capita, not per 1% of rate.

Source: Bureau of the Census, *City Government Finances; Sales Management Survey of Buying Power*; state financial reports.

TABLE 8
MUNICIPAL INCOME TAXES
COLLECTIONS COMPARED TO
EFFECTIVE BUYING INCOME AND RETAIL SALES
Selected Localities, Fiscal Year 1966

<i>State and Locality</i>	<i>Tax Rate</i>	<i>Collections \$000</i>	<i>Effective Buying Income \$000</i>	<i>Retail Sales \$000</i>	<i>Collections ÷ Effective Buying Income</i>	<i>Collections ÷ Retail Sales</i>
Alabama:						
Gadsden	2.0%	2,297	129,879	105,461	1.77%	2.18%
District of Columbia:						
Washington	graduated	51,443	2,724,483	1,748,870	1.89%	2.94%
Kentucky:						
Covington	1.5%	1,103	106,944	94,894	1.03%	1.16%
Lexington	1.5%	4,226	181,613	187,132	2.33%	2.26%
Louisville	1.5%	13,912	975,730	729,296	1.43%	1.91%
Jefferson County	1.5%	.....	1,811,714	1,044,992	.....	.....
Maryland:						
Baltimore	1.0%	28,000	2,150,279	1,538,945	1.30%	1.82%
Michigan:						
Detroit	1.0%	45,176	4,906,934	2,809,919	0.92%	1.61%
Flint	1.0%	9,000	607,421	473,375	1.48%	1.90%
Hamtramck	1.0%	1,244	85,096	72,068	1.46%	1.73%
Saginaw	1.0%	2,292	266,462	203,476	0.86%	1.13%
*Missouri:						
Kansas City	0.5%	10,157	1,613,644	1,312,890	0.63%	0.77%
St. Louis	1.0%	27,265	1,731,174	1,120,547	1.57%	2.43%
New York:						
New York City	graduated	167,000	23,740,855	12,182,312	0.70%	1.37%
*Ohio:						
Akron	1.0%	9,936	760,614	453,253	1.31%	2.19%
Canton	1.0%	4,015	253,683	184,096	1.58%	2.18%
Cincinnati	1.0%	17,313	1,322,935	823,477	1.31%	2.10%
Columbus	1.0%	15,720	1,290,537	913,400	1.22%	1.72%
Dayton	1.0%	11,689	646,849	528,073	1.81%	2.21%
Toledo	1.0%	10,735	964,859	567,998	1.11%	1.89%
Youngstown	1.0%	4,590	350,929	257,920	1.31%	1.78%
*Pennsylvania:						
Allentown	0.5%	1,115	274,281	238,366	0.41%	0.47%
Erie	0.5%	1,139	306,144	207,694	0.37%	0.55%
Philadelphia	1 ⁵ / ₈ %	90,867	4,946,577	2,754,416	1.84%	3.30%
Pittsburgh	1.0%	10,273	1,442,131	1,074,917	0.71%	0.96%
Seranton	0.5%	668	207,972	166,643	0.32%	0.40%

* Fiscal Year 1965.

Source: Bureau of the Census, *City Government Finances; Sales Management Survey of Buying Power*; state financial reports.

TABLE 9

STATUTORY PROVISIONS GOVERNING IMPOSITION OF GENERAL SALES TAXES BY LOCAL GOVERNMENTS
January 1, 1967

<i>State and Type of Local Government</i>	<i>Statutory authority</i>	<i>Number using</i>	<i>Scope</i>	<i>Rate limits</i>	<i>Voter approval</i>	<i>Administration</i>
Alabama:						
Municipalities	Business and occupational license	121	Sales & use	None	No	Local option ¹
Counties	Specific ²	19	Do	1%	Yes ²	State ¹
Alaska:						
Municipalities	Specific	36	Sales	3% ³	Yes	Local
Boroughs	Do	5	Do	3% ³	Do	Do
Arizona:						
Municipalities	Business and occupational license	11	Do	None	No	Do
California:						
Municipalities	Specific	380	Sales & use	1% ⁴	Do	State
Counties	Do	58 ⁵	Do	1% ⁴	Do	Do
Colorado:						
Municipalities ⁶	Home rule	14	Do	None	Do	Local ⁷
Illinois:						
Municipalities	Specific	1,200	Sales	0.5%	Do	State
Counties	Do	86	Do	0.5%	Do	Do
Louisiana:						
Municipalities	Do	39	Sales & use	1% ⁸	Yes	Local
Parishes	Do	7	Do	1% ⁹	Do	Do
School districts	Do	21	Do	1% ¹⁰	Do	Do
Mississippi:						
Municipalities	Do	184	Sales	0.5 or 1%	Yes ¹¹	State
New Mexico:						
Municipalities	Do	35	Do	1%	No ¹²	State ¹³
New York:						
Municipalities	Do	7	Sales & use	3%	No	State
Counties	Do	6	Do	3%	Do	Do
Oklahoma:						
Municipalities	Do	17	Sales	1 ⁴	Yes	Local ⁷
Oregon:						
Municipalities ¹⁵	Do	....	Do	None	No	Local
Tennessee:						
Municipalities	Do	6	Sales & use	1% ¹⁷	Yes	State ¹⁶
Counties	Do	20	Do	1% ¹⁷	Do	Do ¹⁶

TABLE 9—Continued

STATUTORY PROVISIONS GOVERNING IMPOSITION OF GENERAL SALES TAXES BY LOCAL GOVERNMENTS
January 1, 1967

<i>State and Type of Local Government</i>	<i>Statutory authority</i>	<i>Number using</i>	<i>Scope</i>	<i>Rate limits</i>	<i>Voter approval</i>	<i>Administration</i>
Utah:						
Municipalities	Do	142	Sales	0.5%	No	State
Counties	Do	26	Do	0.5%	Do	Do
Virginia:						
Municipalities	Do	33	Do	1%	Do	Do
Counties	Do	90	Do	1%	Do	Do
Wyoming:						
Municipalities	Do	20	Do	0.5%	Yes	Do
Counties	Do	13	Do	0.5%	Do	Do

Source: A.C.I.R., Tax Overlapping in the United States, Table 46 (January 1, 1967 Supplement).

¹ In 1965 the State Department of Revenue was authorized, on request by a municipality, to collect local sales and use taxes. The municipal tax must parallel the State tax except for the rate. The Department of Revenue presently administers 63 of the 121 municipal sales taxes. The statutes applicable to individual counties usually (in 15 counties) require State administration.

² Specific statutory authority is given to individual counties. Voter approval is required in most cases.

³ First class cities, incorporated villages, and first and second class boroughs; otherwise 2 percent.

⁴ A city tax may be at any rate up to 1% (usually between 0.85% and 1%) and must be credited against the countywide 1% tax.

⁵ Includes the city-county of San Francisco.

⁶ Home rule cities only.

⁷ Cities may contract with the State for collection.

⁸ Baton Rouge 1¼ percent.

⁹ St. Bernards ½ percent and Jefferson 1½ percent.

¹⁰ St. Bernards and Jefferson ½ percent.

¹¹ Required for the 1% rate, but not for the 0.5% rate unless twenty percent of voters so petition.

¹² Not required unless a specified percentage of voters petition.

¹³ State may refuse to collect a city tax if the latter differs in coverage from the State tax. In three municipalities the tax is locally collected.

¹⁴ Incorporated cities and towns are authorized to levy and collect taxes (except property taxes) to the same extent as the State legislature. The State sales tax rate is currently 2 percent. The rate in the 17 municipalities levying a sales tax is 1 percent.

¹⁵ Cities with population of 9,000-10,500 only, but none is presently using this authority.

¹⁶ Optional.

¹⁷ The rate is limited to 1/3 of the State sales tax rate and the maximum tax on a single transaction is limited to \$5.

residents, earned in the city, earned anywhere, and unearned (investment) income is taxable, the income earned within the city by non-residents is taxable, and the income of corporations allocated to the city is taxable. There is a personal deduction of \$600 per taxpayer per dependent allowed to resident and non-resident individuals. The tax rate is 1% on residents and on corporations and ½% on non-resident individuals.

In Maryland, beginning in 1967, there is a state graduated income tax, and each county and Baltimore city impose a supplement as a percentage of the state tax, varying from 20% to 50%. Baltimore city and four counties impose the maximum 50% surcharge, where as 13 of

the 23 counties impose the minimum 20% surcharge. For the year July 1, 1966-June 30, 1967, the city of Baltimore had an Earnings Tax similar in form to that imposed in Michigan. While there were no personal exemptions, the rate on all income of residents and the allocated income of corporations was 1%, and the rate on income earned within Baltimore by non-residents was ½%.

Among its conclusions, the Tax Foundation study states (at page 39):

“In general, per capita property taxes are lower in the major cities which impose income taxes than in those which do not. Moreover, in all but one case per capita property taxes and per capita total taxes have risen in

TABLE 10
LOCAL SALES TAX RATES, JANUARY 1, 1967¹

State and Type of Local Government	State tax rate (percent)	Local Government Tax Rate ²			
		½ Percent	1 Percent	2 Percent	3 Percent
Alabama	4	.....	.....	.....	.....
121 municipalities ³ .....	.....	7	108	6	.....
19 counties .....	.....	3	16	.....	.....
Alaska .....	.....	.....	.....	.....	.....
36 municipalities ⁴ .....	.....	.....	2	22	11
5 boroughs .....	.....	.....	2	2	1
Arizona	3	.....	.....	.....	.....
11 municipalities .....	.....	1	10	.....	.....
California	3	.....	.....	.....	.....
380 municipalities .....	.....	.....	380 ⁵	.....	.....
58 counties ⁶ .....	.....	.....	58	.....	.....
Colorado	3	.....	.....	.....	.....
14 municipalities .....	.....	.....	13	1	.....
Illinois	3½	.....	.....	.....	.....
1,200 municipalities (approx.) .....	.....	1,200	.....	.....	.....
86 counties .....	.....	86	.....	.....	.....
Louisiana	2	.....	.....	.....	.....
39 municipalities ⁷ .....	.....	.....	38	.....	.....
7 parishes ⁷ .....	.....	1	5	.....	.....
21 school districts ⁷ .....	.....	2	18	.....	.....
Mississippi	3½	.....	.....	.....	.....
184 municipalities .....	.....	31	153	.....	.....
New Mexico	3	.....	.....	.....	.....
35 municipalities .....	.....	.....	35	.....	.....
New York	2	.....	.....	.....	.....
7 municipalities .....	.....	.....	3	2	2
6 counties .....	.....	.....	.....	5	1
Oklahoma	2	.....	.....	.....	.....
17 municipalities .....	.....	.....	17	.....	.....
Tennessee	3	.....	.....	.....	.....
6 municipalities .....	.....	.....	6 ⁸	.....	.....
20 counties .....	.....	.....	20 ⁸	.....	.....
Utah	3	.....	.....	.....	.....
142 municipalities .....	.....	142	.....	.....	.....
26 counties .....	.....	26	.....	.....	.....

TABLE 10—Continued
LOCAL SALES TAX RATES, JANUARY 1, 1967¹

State and Type of Local Government	State tax rate (percent)	Local Government Tax Rate ²			
		¼ Percent	1 Percent	2 Percent	3 Percent
Virginia	2 ⁹	.....	.....	.....	.....
33 municipalities .....	.....	.....	33	.....	.....
90 counties .....	.....	.....	90	.....	.....
Wyoming	2½	.....	.....	.....	.....
20 municipalities .....	.....	20	.....	.....	.....
13 counties .....	.....	13	.....	.....	.....

Source: A.C.I.R., Tax Overlapping in the United States, Table 45 (January 1, 1967 Supplement).

¹ This tabulation includes only those local sales taxes about which authoritative information is available: The following cities with 1960 population of 50,000 or more impose a sales tax: Albuquerque, Baton Rouge, Denver, Huntsville, Jackson, Lake Charles, Mobile, Montgomery, New Orleans, New York, Niagara Falls, Ogden, Oklahoma City, Phoenix, Pueblo, Salt Lake City, Syracuse, Tucson, and all cities of 50,000 or over in California, Illinois, and Virginia. The District of Columbia, not included in this tabulation, levies a 3 percent sales tax.

² The rates shown are applicable to sales of tangible personal property at retail.

³ Thirty-one of these cities are in 13 counties that also have local sales taxes. In some cases the legislation authorizing county sales taxes takes account of any city sales taxes in the county. Sixty-one cities specify that the rate outside the city but within its police jurisdiction is ½ of the rate applicable within the city. The rate within the police jurisdiction of the city of Hamilton is ¼ of the 1% city rate.

⁴ Includes one city with a 2½% rate. Seven of these cities are located in the five boroughs that also impose a sales tax. Sales in these cities are subject to both taxes. The city and borough rates are: Douglas and Juneau, 2% city plus 1% Greater Juneau Borough; Fairbanks, 3% city and North Pole, 2 city plus 2% North Star Borough; Sitka, 2% city plus 2% Greater Sitka Borough; Ketchikan, 2½% city plus 1% Gateway Borough; Soldotna, 3% city (levied on utility services only) plus 3% Kenai Peninsula Borough.

⁵ A county and its cities must agree on the amount of tax that is to be received by each of the cities from the State administered local tax collections. Usually the agreed city rate is between 0.85 and 1%, and the city tax must be credited against the countywide 1% tax.

⁶ Includes the city-county of San Francisco.

⁷ Includes 1 city with a 1¼% rate, 1 parish with a 1¼% rate, and 1 school district with a ¼% rate. Because of overlapping, a 2% local rate is in effect in numerous municipalities and several parishes: municipal rate plus parish or school district rate in municipalities, and parish rate plus school district rate in several parishes.

⁸ The maximum tax on a single transaction is \$5.

⁹ The Virginia State sales tax is scheduled to be increased to 3%, effective July 1, 1968.

the last decade by markedly smaller percentages in the income tax cities. This fact suggests that, at least in the cities for which detailed financial data are available, the income tax has not been so much a supplemental revenue source as a substitute for existing taxes, taking some of the pressure off the property tax in particular."

B. Local Sales Taxes.

Local sales taxes are more widely used than local income taxes. Sixteen states authorize local sales taxes to be levied, as shown in Table 9.

This taxing authority is widely used. All cities of over 50,000 population levy sales taxes in California, Illinois and Virginia. In addition, Albuquerque, Baton Rouge, Denver, Huntsville, Jackson, Lake Charles, Mobile, Montgomery, New Orleans, New York, Niagara Falls, Ogden, Oklahoma City, Phoenix, Pueblo, Salt Lake City, Syracuse, Tucson, and the District

of Columbia levy sales taxes. See Table 10. In some states, the local sales tax is levied as a rate supplement on the state sales tax.

ESTIMATES OF PROPERTY TAX RELIEF POTENTIAL

It is apparent that a combination of optional local taxing powers, including both local income and local supplements to the state sales tax, could be used to provide major property tax relief. In many ways this would be the most direct and most selective way to achieve a substantial reduction in the property tax. Yields of a local earnings tax have been estimated for the six New Jersey cities of over 100,000 population and for the first- and second-class counties. A locally-administered income tax is probably not feasible (or is too expensive to administer) in cities of less than 100,000 population. Estimates for a local earnings tax were prepared on the following tax base at a rate of one per cent:

Adjusted gross income from employment received by individuals and earned by unincorporated businesses within the taxing jurisdiction. Income is taxed at the source, the residence of the recipient is immaterial. Adjusted gross income is taxed, there is no exemption for dependents or deductions for particular expenses. For individuals the tax applies to income from employment, bonuses, tips, commissions, fees, etc. For businesses, the costs of obtaining the income is deducted from gross receipts to arrive at adjusted gross income. There is no interjurisdictional allocation of income, except where the same individual or the same business earns its income in two or more taxing jurisdictions. Corporation income, as such, is not taxed, but the income received by the corporation's employees, is.

Estimates of the yield of such a tax for the Calendar Year 1966 were made for the six cities

and the ten counties, by taking a composite of estimates derived three different ways. The per capita estimate was made on the basis of receipts in other cities in the U. S., allowing for their type of tax base and allowing for the distribution of personal income. For cities, \$20 per capita was used, for counties, \$17 per capita was used. The relationship to Effective Buying Income was derived the same way. For cities, $\frac{3}{4}$ of 1% of E. B. I. was used, for counties, $\frac{1}{2}$ of 1%. The relationship to Retail Sales was handled the same way: one per cent of 1966 retail sales was used in all cases.

As shown in *Tables 11 and 12*, a 1% sales tax supplement would provide a property tax reduction which ranges from 3% to 9% in the cities and an average of 29% in the counties. The income tax provides much greater offset to the property tax.

TABLE 11
ESTIMATED YIELDS OF LOCAL NONPROPERTY TAXES
RELATED TO PROPERTY TAX COLLECTIONS
Selected New Jersey Municipalities, 1966
(Thousands of Dollars)

Municipality	Property Tax Collections	1% Sales Tax Supplement		1% Earned Income Tax		Both local taxes as % of property tax
		Yield	As % of Property Tax	Yield	As % of Property Tax	
Atlantic City	\$12,670	...	...	...	...	...
Bayonne	12,893	\$500	3.88	...	...	...
Bloomfield	11,046	350	3.17	...	...	...
Camden	13,996	1,200	8.57	\$1,950	13.93	22.50
Clifton	13,258	700	5.28	...	...	...
East Orange	16,674	700	4.20	...	...	...
Edison Twp.	10,541	750	7.12	...	...	...
Elizabeth	18,793	1,400	7.45	2,350	12.50	19.95
Hamilton Twp.	9,309	700	7.52	...	...	...
Irvington	10,627	650	6.12	...	...	...
Jersey City	46,993	1,600	3.40	4,500	9.58	12.98
Newark	86,550	5,000	5.78	7,500	8.67	14.45
Passaic	10,285	1,000	9.72	...	...	...
Paterson	22,194	1,400	6.31	2,500	11.26	17.57
Trenton	18,554	1,400	7.55	2,000	10.78	18.33
Union City	8,900	750	8.43	...	...	...
Union Twp.	10,039	650	6.47	...	...	...
Woodbridge Twp.	13,592	450	3.31	...	...	...

Source: Property Tax Collections: New Jersey, Department of Community Affairs, Division of Local Finance, *Twenty-Ninth Annual Report, 1966*.

TABLE 12
ESTIMATED YIELDS OF LOCAL NONPROPERTY TAXES
RELATED TO PROPERTY TAX COLLECTIONS
New Jersey Counties, 1966
(Thousands of Dollars)

Class	County	Property Tax Collections	1% Sales Tax Supplement		1% Earned Income Tax		Both local taxes as % of property tax
			Yield	As % of Property Tax	Yield	As % of Property Tax	
5th	Atlantic	\$6,903	\$2,200	31.87	.....	.....	.....
1st	Bergen	23,321	9,400	40.31	\$15,000	64.32	104.63
2nd	Burlington	5,187	2,100	40.49	4,000	77.12	117.61
2nd	Camden	15,232	5,400	35.45	7,300	47.93	83.38
6th	Cape May	3,093	750	24.25	.....	.....	.....
3rd	Cumberland	3,752	1,200	31.98	.....	.....	.....
1st	Essex	49,021	10,500	21.42	16,600	33.86	55.28
3rd	Gloucester	3,252	1,000	30.75	.....	.....	.....
1st	Hudson	27,425	5,000	18.23	9,000	32.82	51.05
3rd	Hunterdon	1,908	550	28.82	.....	.....	.....
2nd	Mercer	10,464	3,600	34.40	4,900	46.83	81.23
2nd	Middlesex	17,823	5,000	28.05	8,000	44.89	72.94
5th	Monmouth	12,043	4,000	33.21	.....	.....	.....
2nd	Morris	8,991	3,000	33.37	5,300	58.95	92.32
5th	Ocean	7,001	1,600	22.85	.....	.....	.....
2nd	Passaic	14,116	5,300	37.55	7,200	51.01	88.56
3rd	Salem	2,321	550	23.70	.....	.....	.....
3rd	Somerset	4,851	1,700	35.04	.....	.....	.....
4th	Sussex	3,155	550	17.43	.....	.....	.....
2nd	Union	15,612	6,000	38.43	9,600	61.49	99.92
3rd	Warren	2,528	600	23.73	.....	.....	.....
TOTAL 21 Counties		237,999	70,000	29.41	.....	.....	.....

Source: Property Tax Collections: New Jersey Department of Community Affairs, Division of Local Finance, *Twenty-Ninth Annual Report, 1966*.

Such optional local taxing power is an unlikely alternative in New Jersey, however, because of the substantial intermunicipal competition, and perhaps confusion, of a multitude of separate local taxes. This is more a matter of policy than of technical objection. It has not proved impossible in Pennsylvania experience, nor has it deterred the municipalities listed in *Tables 9 and 10*. In a review of the "imbalance between the revenue needs and revenue resources of local governments," the Advisory Commission on Intergovernmental Relations recognized this problem and set forth its findings:³

³ Local Nonproperty Taxes and the Coordinating Role of the State (September 1961), pp. 51-53.

"The revenue requirements of local governments will continue to mount as the quantity and quality of their programs is brought into better conformity with the further growth and urbanization of the population and with rising living standards. Significant adjustments in State-local fiscal relations will be required to prevent the aggravation of disparities between local needs and local resources. . . .

"Pressures to increase locally raised revenues will inevitably persist, however, because intergovernmental fiscal institutions are slow to change, tax diversification has much appeal, the inclination to exercise home rule is strong, and the need for additional financing resources at the local level is immediate and pressing. . . .

“Realism counsels that we proceed on the assumption that in the future, as in the immediate past, local governments will continue to have recourse to nonproperty taxes; principally general and selective consumer taxes and income taxes although most local jurisdictions are too small and their economies too sensitive to intercommunity tax differentials to permit effective use of them. We turn therefore to the ways and means by which States can help their political subdivisions to make reasonably effective use of them.

“The case for most local nonproperty taxes is strongest and the need for additional revenues most pressing in the large urban jurisdictions. The relatively large scale of their operations enhances (but does not insure) the feasibility of providing a fair quality of tax administration at reasonable enforcement costs. Moreover, the large city is likely to occupy a key role in the economy of the area of which it is a part. In most situations, however, the economic area extends beyond the territorial jurisdiction of the large city. It can therefore make effective use of local consumer and income taxes only in cooperation with its neighbors, only if the adjoining jurisdictions pursue complementary tax policies. In many situations, local jurisdictions presently lack authority to do so. States should make it available to them. They should provide them with uniform taxing powers and authority for cooperative tax enforcement, buttressed by State leadership in promoting the pursuit of coordinated tax policies and practices by the large city and the neighboring jurisdictions entwined with it economically.

“Jurisdictions comprising the economic area and pursuing coordinated tax policies would benefit also from authority to pool their tax enforcement resources. Where appro-

priate, the largest jurisdiction might undertake to perform the tax administration function for the surrounding jurisdictions, on a reimbursement basis. They should be provided with authority to do so.

“Where local sales, excise, or income taxes are relatively widespread within a State and duplicate a similar tax used by the State, the tax supplement is a potentially fruitful instrument of tax coordination. It affords local jurisdictions access to the superior enforcement resources of the State, permits some variation in local tax rates, and enables the State to prescribe uniform tax definitions for local jurisdictions, with commensurate benefit to taxpayers. . . .”

The Commission recommends—

The difficulty with local non-property taxes as a solution to the problems of the cities of New Jersey, even in part, is that the marketing area usually extends well beyond the boundaries of any of our cities. For a city to attempt to make use of either of the major local non-property taxes, therefore, might only compound its competitive disadvantages with the surrounding areas. The Commission, accordingly, does not recommend that the state look to local non-property taxes as a meaningful approach to city fiscal problems in New Jersey.

CONCLUSION

Immediate measures should be taken to begin an orderly and systematic reduction of the local tax burden on real estate. The above recommendations would eliminate one of the major deterrents to the new investment required to rehabilitate urban areas, and to provide tax relief for older suburbs and struggling rural communities as well.

PART II

SALES TAX EXEMPTIONS

THE NATURE OF THE PROBLEM

New Jersey is one of 44 states and the District of Columbia which imposes a consumers sales tax, and one of 14 such states which does not also impose a personal income tax. *See Table 13.* The New Jersey sales tax was enacted in 1966. Fiscal year 1967 (ending June 30) was the first year of yield, but it included only eleven months of actual collections. The 1967 Appropriation Act anticipates a yield of \$222.5 million for the fiscal year ending June 30, 1968, and the Governor's budget message of February 13, 1968 anticipates a sales tax yield of \$252 million for fiscal 1969. These yields, at a rate of 3%, are realized despite an extraordinarily large number of exemptions.

As shown in *Appendix Table A* (product and service exemptions) and *Appendix Table B* (organization exemptions), in most cases New Jersey already has every exemption that more than one or two of the other states have adopted. In addition, exemptions beget exemptions, and an alarming crop of additional exemptions were proposed and some adopted in the 1967 Legislature. In order to place a temporary quietus on the subject, the Legislature adopted an omnibus exemption bill (A-705), enacting Chapter 25, Laws of 1967. At the same time it adopted Joint Resolution No. 8, of 1967, requesting the Commission to study all proposed sales exemptions in various legislative bills pending in the 1967 session and not included in A-705. *See Appendix Table C.*

The Commission was particularly directed to study proposed exemptions for:

household supplies,
veterinary drugs,
non-prescription drugs,
pet food,
building materials sold by wholesalers to
contractors and repairmen, and

exemptions for civic groups, veterans groups, fraternal organizations, social clubs, and Women's Clubs;

and to study the total scope of the exemptions presently provided in the Sales Tax Act. The Commission was directed to report on or before July 1, 1968.

In order to respond to this legislative mandate in a systematic way, the Commission has examined sales tax exemptions from the viewpoint of their fundamental justification. As a basic principle, a fair distribution of the tax burden requires that any tax be applied comprehensively to the tax base, and that exemptions be granted only for compelling reasons of public policy, consistently applied. There are various legal niceties as to incidence and impact of the tax which make it difficult to apply the test of consistency, but these difficulties aside, there are seven different reasons for exemptions in a retail sales tax.

1. *The theoretical nature of the tax.*

The retail sales tax or consumer sales tax, as it is variously called, is intended to apply to the ultimate transfer of title to goods—this accounts for the exemption for services; and to avoid imposing the same tax at successive stages of production or consumption—this accounts for the "industrial processing" exemption. The theoretical argument can be complex, but for present purposes it is sufficient to recognize that these two items involve as much a definition of the tax base as they do an exemption from an established base.

2. *Constitutional limitation.*

A second type of exemption is required by the nature of the federal system, that is, that the state may not tax the federal government or vice versa. The whole subject of intergovernmental immunities from taxation has had a long history

TABLE 13
STATE GENERAL SALES AND PERSONAL INCOME TAXES
BY STATE AND DATE OF ADOPTION, JANUARY 1, 1968

	<i>Neither tax</i>	<i>Sales tax only</i>	<i>Income tax only</i>	<i>Sales and Income Tax</i>	
				<i>Date of adoption Sales</i>	<i>Income</i>
New Hampshire ¹	Connecticut 1947	Alaska 1949	Alabama	1936	1933
	Florida 1949	Delaware . . 1917	Arizona	1933	1933
	Illinois 1933	Montana . . 1933	Arkansas	1935	1929
Total 1	Maine 1951	Oregon 1930	California	1933	1935
	Nevada 1955	Vermont . . 1931	Colorado	1935	1937
	New Jersey ² . . 1966	Total 5	Georgia	1951	1929
	Ohio 1934		Hawaii	1935	1901
	Pennsylvania . . 1953		Idaho	1965	1931
	Rhode Island . . 1947		Indiana	1933	1963
	South Dakota . . 1933		Iowa	1933	1934
	Tennessee ³ 1947		Kansas	1937	1933
	Texas 1961		Kentucky	1960	1936
	Washington 1933		Louisiana	1938	1934
	Wyoming 1935		Maryland	1947	1937
	Total 14		Massachusetts	1966	1916
			Michigan	1933	1967
			Minnesota	1967	1933
			Mississippi	1932	1912
			Missouri	1934	1917
			Nebraska	1967	1967
			New Mexico	1933	1933
			New York	1965	1919
			North Carolina	1933	1922
			North Dakota	1935	1919
			Oklahoma	1933	1915
			South Carolina	1951	1922
			Utah	1933	1931
			Virginia	1966	1956
			West Virginia	1933	1961
			Wisconsin	1961	1911
			District of Columbia . . 1947	1939	
			Total 31		

Sources: ACIR, "State and Local Taxes, 1968."
CCH tax services.

1. Imposes an individual income tax but only on interest and dividends, 1923.
2. Also imposes an individual income tax but only on commuters, 1961.
3. Also imposes an individual income tax but only on interest and dividends, 1931.

of development in the United States Supreme Court, and may not yet be fully defined. At least it does account for the exemption of sales directly or indirectly to the federal government.

3. *Administrative convenience.*

Under this heading are occasional sales by private parties, and sales in which it is impracticable to separate the value of the tangible property transferred from the value of services with respect to that property. This approach works both ways; administrative convenience may dictate the inclusion of some transactions which are theoretically not intended to be reached, as well as the exemption of others. Administrative considerations are the most persuasive reasons for avoiding any exemptions. The cost of policing the tax system multiplies with each exemption. Exemptions which are based upon the nature of the purchaser (e.g. local governments) are generally easier to police than those depending upon the use of the goods sold (e.g. dog food v. human food) or those which select specific items from stocks of taxable and nontaxable goods (e.g. sales in a super market). From this point of view, the great variety of exemptions already in the New Jersey Act can become an administrative nightmare. Certainly the social and economic cost of proper policing may well outweigh the relatively small tax savings by the beneficiaries of many of these exemptions.

4. *State and local government and eleemosynary institutions and organizations.*

Sales to state and local governments in New Jersey are exempt on the theory that such a tax would merely take money out of one governmental pocket and put it into another. This reasoning does not support the parallel exemption of purchases by religious, educational and philanthropic organizations. They rest upon a public benefit theory which is used to justify the property tax exemption traditionally granted such organizations. The difficulty is that the existence of these exemptions encourages all manner of fraternal, benevolent, social, and other non-profit organizations to justify

claims for exemption. The purchases by these organizations are not large, but the cost of administration of any such exemptions could be great, and the potential for misuse of the exemption certificate is unfortunately serious.

Exemptions to non-profit organizations must be recognized as a transfer of a minimal tax burden of these organizations to society at large. The savings to the organizations are trivial compared to their leakage in revenue and potentially high cost of administration and policing. To extend the concept of exemption that has been worked out under the property tax to additional organizations would be to invite more and more claims for exemptions by those who identify their own interest with the public interest.

5. *Avoidance of a "tax on a tax."*

Sales of gasoline, alcoholic beverages and cigarettes are exempt in a number of states in recognition of the special excise taxes carried by these commodities. In New Jersey, all gasoline and cigarette sales are exempt from the sales tax, and alcoholic beverage sales for on-premises consumption are exempt (with a tax loss of \$9.0 million annually), while sales of package goods for off premises consumption are taxable.

The notion that the retail sales tax should not be applied to sales of gasoline and cigarettes because so much of the sales price represents an excise tax could be applied to a lesser degree to numerous other products. In fact, there is no product which does not have in its price structure the taxes paid, directly or indirectly, all the way up the economic ladder.

From a tax standpoint, a much more useful approach is to look upon the sales tax as a means of apportioning the cost of government in proportion to the spending by individuals. When they spend on gasoline or cigarettes or alcoholic beverages, they are spending just as much as they would on other goods of the same value. A fair apportionment of the tax burden would include all such expenditures within the measure of the sales tax.

6. Avoidance of regression.

Consumer sales taxes are usually attacked as being regressive, and it is therefore common to provide for certain exemptions of the necessities which make up a larger percentage of the family budget of lower income families than they do of upper income families. To this end, the New Jersey Act includes three basic exemptions, among others:

Item	Tax Revenue Loss
food for off-premises consumption	—\$70 million
clothing	—\$37.5 million
fuel oil for heating	—\$11.8 million

These exemptions are extended by additional exemptions for prescription drugs and prosthetic appliances and services on prescription, certain building repairs, items required for household operations, sales of materials and supplies used by the home dressmaker, and sales of the United States flag and the New Jersey flag. As an example of the attrition of the tax base which can result from such exemptions, the revenue loss estimated for sales of materials for homemade wearing apparel was \$1.3 million annually. Additional exemptions of like type have been referred to the Commission for study, including the following:

1. household supplies
2. veterinary drugs
3. non-prescription drugs

The notion that such exemptions help to reduce the regressive tendency of a sales tax is not supported by experience. This is shown by the startling inequities and mal-distribution of the tax burden which present exemptions produce. Just to cite a few examples:

1. A five-dollar jar of cavier is tax exempt, but a one-dollar toy is taxable.
2. A ten-dollar visit to the beauty parlor is tax exempt, but a two-dollar home permanent kit is taxable.
3. A two-hundred dollar suit of clothing is tax exempt, but a two-dollar can of cleaning fluid is taxable.
4. A twenty-dollar bar check is tax exempt, but a two-dollar meal in the same room is taxable.

An analysis of the various exemptions intended to reduce the regressive effect of the sales tax shows that they are as beneficial to the high income as to the lower income families. This is true, in particular, of the exemption of all manner of services and of clothing, and would be true of the proposed three additions to the exemption list. *The Commission recommends—*

No further product or service exemptions should be provided.

7. One Exemption Justifies Another.

A great many of the exemptions are based on a theory of social benefit which completely overlooks the social responsibility of the preferred organizations to contribute to general social costs through taxation. The Division of Taxation has issued approximately 10,000 Exempt Organization Permits in implementation of the general provisions of Section 9(b) (1). The Division reports that the major categories of organizations which have been deemed exempt include: churches, synagogues, non-profit private schools, 4-H Clubs, Boy Scouts of America, Girl Scouts of America, Opportunity Corps, YMCA, YMHA, YWCA, YWHA, Little Leagues, Babe Ruth Leagues, Midget Football Leagues, non-profit nursery schools, non-profit literary, symphony, historical, and opera groups, museums, Community Chests, United Funds, American Red Cross, Heart Fund, Cancer Fund, Salvation Army, non-profit hospitals, women's auxiliaries thereto, visiting nurse associations, non-profit cemeteries, and Coast Guard Auxiliaries.

As previously noted the tax savings to these organizations are trivial compared to the problems they create. Thousands of exemptions result in misuse of the exemption certificates by some individuals and unnecessary leakage of revenues. Administrative costs can be high, especially if the system is properly policed.

For example, one organization seeking to be added to the above list was found to have a budget close to \$160,000 per year and an exposure to sales tax of only \$120. With such small benefits, the exempt organizations might well prefer to make the small contribution to the

support of the very government which makes their good works possible. *The Commission Recommends—*

No further extension of organizational exemptions; and the elimination of the present exemptions as soon as feasible.

REVISION OF THE EXEMPTION SYSTEM GENERALLY

After reviewing the present system of exemptions for products and organizations, the Commission has concluded that our sales tax is both inequitable and inefficient. The exemptions have deteriorated the sales tax base, provided a wide avenue for leakage, and produced complex administrative problems. More importantly, instead of achieving their intended result—reducing the regressive effect of the tax they have produced the opposite result. Accordingly, the Commission recommends a thorough

reform of the sales tax in order to convert the present exemption system into one which will relieve lower income families of sales tax without conferring unneeded benefits on middle and upper income families.

Such a result could be achieved by substituting a refund system for the present exemptions. All retail sales of tangible personal property would then be taxed at the point of sale, and the buyer would be entitled to a cash refund from the state at the end of the year. Depending on state exemption policy, the amount of the refund could be adjusted to cover sales tax paid on all presently exempt items by lower income families without refunding tax paid on expensive luxuries (now exempt) bought by upper income families. This refund system would operate to eliminate the regressive effect of the sales tax. If a state income

TABLE 14
ESTIMATED ANNUAL SALES TAX PAYMENTS AT 3% WITHOUT EXEMPTIONS

Item	Average Annual Expenditures All U. S. Families 1960-61			
	\$4,000-\$5,000	\$5,000-\$7,500	\$7,500-\$10,000	\$10,000-\$15,000
After tax income class	\$4,000-\$5,000	\$5,000-\$7,500	\$7,500-\$10,000	\$10,000-\$15,000
Average after tax income	\$4,504.00	\$6,151.00	\$8,554.00	\$11,723.00
Total consumption expenditures	\$4,428.00	\$5,690.00	\$7,416.00	\$9,221.00
Taxable consumption as a % of total consumption, by items:				
Food at home	20.8%	20.1%	18.6%	16.4%
Food away from home	4.6	4.4	5.2	5.7
House furnishings	5.4	5.5	5.5	6.0
Household operations	5.1	5.5	5.5	5.5
Transportation	10.5	10.3	10.6	10.2
Clothing	9.5	10.2	11.2	11.9
Personal care	2.9	2.9	2.9	2.7
Drugs	3.3	3.2	3.2	3.2
Books	0.2	0.2	0.2	0.2
Recreation	3.6	4.0	4.4	4.9
Education	0.6	0.9	1.1	1.9
Alcohol and tobacco	3.6	3.6	3.3	3.1
Total	70.1	70.8	71.7	71.7
Taxable consumption in \$	\$3,104.00	\$4,028.00	\$5,317.00	\$6,611.00
Sales tax payable in \$	\$93.12	\$120.84	\$159.51	\$198.33
Tax payable as % of average after tax income	2.07%	1.96%	1.86%	1.69%

Source: B.L.S., Handbook of Labor Statistics 1967 (Bulletin No. 1555).

tax were enacted, as proposed by Governor Hughes, the refund machinery could take the form of an income tax credit. If no income tax is enacted, the same result could be achieved through a cash refund system.

The effect and operation of the proposed system can best be explained by reference to *Tables 14, 15 and 16*. *Table 14* analyzes family consumption expenditures for various income classes. It separates taxable consumption expenditures from total consumption expenditures by excluding expenditures for rent, services, insurance, and other non-taxable items. The taxable items are then expressed as a percentage of total consumption expenditures. The tax which each family will pay at the point of purchase is computed by multiplying the dollar total of taxable consumption by 3%. The last line shows the effective sales tax rate for each class by expressing the sales tax paid as a percentage of average after-tax income. It reveals that such a system without any exemptions would be regressive—2.07% effective tax rate for the income class \$4,000 to \$5,000, compared to 1.69% for the income class \$10,000 to \$15,000.

The idea behind the new proposal to replace the present exemptions with either an income tax credit or sales tax refund is that by this means the benefit can be selectively distributed by determining the amount of the refund with reference to purchases by lower income classes of the items for which reimbursement will be made. This can be seen in *Table 15*.

Table 15 utilizes the data in *Table 14* to show how the amount of the income tax credit or sales tax refund could be computed so as to achieve the desired result. *Table 15* shows the annual amount of tax which will be paid in the first instance for selected items by the various income classes. Thus, for example, families in the \$4,000 to \$5,000 income class would pay \$33.75 of tax on their purchases of food over the year, whereas families in the \$10,000 to \$15,000 income class would pay \$63.00 of tax on their food purchases. Like comparisons are shown for expenditures on clothing and drugs. The size of the families in the various income classes is also shown. Thus, the total annual taxes paid by these families for these selected items as well as the per capita annual expenditures can be shown (before the refund or income tax credit).

TABLE 15
ESTIMATED ANNUAL VALUE OF SALES TAX EXEMPTIONS ON FOOD, CLOTHING, AND DRUGS
BY INCOME CLASS AND
PER CAPITA

Income class	\$4,000-\$5,000	\$5,000-\$7,500	\$7,500-\$10,000	\$10,000-\$15,000
Family size	3.2	3.7	3.9	4.1
Value of Exemptions attributable:				
To food	\$33.75	\$41.80	\$52.98	\$63.00
To clothing	12.60	17.40	24.90	33.99
To drugs	4.38	5.40	7.05	9.00
Total	\$50.78	\$69.60	\$84.93	\$105.99
Per capita:	\$15.87	\$17.46	\$21.78	\$25.85
Food	10.55	11.30	13.58	15.37
Clothing	3.94	4.70	6.38	8.28
Drugs	1.38	1.46	1.81	2.20

Using this data it can be seen that in order to place a family in the \$4,000 to \$5,000 income class in the same position as it would be in if food, clothing, and prescription drugs were exempt at the time of purchase, it would be necessary to give them a tax refund in the amount of approximately \$15.00 per person. If only food and drugs were to be exempt, the amount would be closer to \$12.00 per person.

It will be seen that for this income group, in operation the proposal would be a kind of state "Christmas Club" whereby the pennies people (residents) pay in sales tax over the year are returned to them at the end of the year in a lump sum.

The same cash amount per person could be refunded to each family, with a maximum allowance of four units per family. This amount will be returned to all families resident within the state irrespective of their income class. This is where the plan would introduce an element of progressivity into the sales tax. *Table 16* shows how such a scheme would affect the effective tax rate of the sales tax assuming a tax refund of \$15.00 per person with a maximum of \$60.00 per family. The effective sales tax rate for families in the \$4,000 to \$5,000 income class would be 1%, and the rate would increase to 1.18% for the \$10,000 to \$15,000 income class

TABLE 16
EFFECT OF REFUND OF \$15 PER CAPITA¹
ON EFFECTIVE TAX RATE
BY INCOME CLASS

Income class	\$4,000-\$5,000	\$5,000-\$7,500	\$7,500-\$10,000	\$10,000-\$15,000
Average after tax income	\$4,504	\$6,151	\$8,554	\$11,723
Family size	3.2	3.7	3.9	4.1
Total sales tax paid	93.12	120.84	159.51	198.33
Tax refund: (\$15 per person with maximum of \$60 per family)	48.00	55.50	58.50	60.00
Net sales tax paid	45.12	65.34	101.01	138.33
Net sales tax paid as % of average after tax income	1.00%	1.06%	1.17%	1.18%

¹ With a maximum of \$60 per family.

By expressing the "sales tax exemption" in terms of a flat dollar amount per person per year, the inequities inherent in the present food (caviar) and clothing (mink coat) exemptions could be avoided. Moreover, the present situation of exemptions begetting exemptions could be eliminated, and the complexities of administration and impossibilities of enforcement could be rectified.

The experience in the states which have enacted comparable systems has been favorable. Sales tax programs implementing this approach on a limited basis are presently in operation in Indiana, Nebraska, Colorado, Hawaii, and Iowa. Although these states all have income taxes and

can thus utilize the income tax credit technique, no major obstacles would be presented if New Jersey's program were to operate without a state income tax under a tax refund procedure.

It is estimated that the proposal would substantially increase the yield of the sales tax, perhaps the equivalent of an additional 1% of sales tax—\$80 million. The present population of New Jersey is close to 7,000,000 people. If 6,000,000 of them were entitled to a refund of \$15.00, the total annual refund would not exceed \$90 million. This would be in lieu of all the exemptions under the present tax other than organizational exemptions and sales for resale. As has been seen earlier in this chapter, the

present exemption for food, clothing, and fuel oil for heating result in an annual revenue loss of about \$120 million. In addition, the elimination of the revenue loss from the exemptions for gasoline, cigarettes, on-premise consumption of alcoholic beverages and the myriad of other exemptions would surely produce another \$50 million. The net effect would thus be \$170 million in present exemptions replaced by \$90 of refunds, or a gain to the State of \$80 million. This could be further increased by eliminating the allowance for tax paid on clothing purchases.

The Commission has concluded that the proposed system would have the following advantages:

1. Substantially increased revenue from the sales tax, since the exemption cost would be geared to the spending pattern of a predetermined lower income level;

2. Substantially reduced administrative cost of policing the system (although the refund system could well absorb all of this saving);

3. A much more "honest" distribution of the tax burden due to the elimination of leakage caused by tax exemptions; and

4. An improved progressivity in the effective rate of the sales tax in relation to family income.

The Commission recommends—

A new system of an annual tax refund of \$15.00 per person, with a maximum of \$60.00 for any family, in lieu of all of the present exemptions. This plan would replace the present exemptions of food, clothing and miscellaneous items, and would completely free any family with an annual income of \$5,000 or less from any sales tax burden relating to these items and more. In effect it would transfer some of the exemption of high-income families to the lower-income families, and would make it possible for the state to acquire an additional \$80 to \$100 million in sales tax revenue at the present 3% rate.

PART III

THE CORPORATION BUSINESS TAX

TAXATION AND ECONOMIC DEVELOPMENT

Corporate taxation in the American states follows a reasonably uniform general pattern. They all apply the local property tax to business real estate, and most exhibit a growing tendency to treat business machinery and equipment and inventories under a special property tax or to exempt such property entirely,¹ similar to action taken in New Jersey in response to previous recommendations of this Commission. Some 13 states provide by constitution or statute for exemption from property tax of industrial plant, as well as equipment, for a limited number of years.² Forty states impose a corporate income tax (at varying rates), and these include New Jersey and all of its neighboring states.³ In addition, most states impose some form of minimum tax on capital in connection with the corporate income tax so as to require some contribution annually from every corporation regardless of its profit status, but few require a corporation to pay both the capital and income taxes for the same year, as does New Jersey. All states impose a variety of corporate license and privilege taxes.⁴

State payroll taxes complete the basic pattern. They are levied by all states to finance unemployment compensation systems, but under varying formulas which result in varying rates of taxation among the states, from year to year within each state, and among individual employers. The amount the average employer contributes, as a percentage of total wages paid in New Jersey, has ranged from 1.0% to 1.4% over the period 1950-1964, while the United States average for the same period ranged from

0.8% to 1.4%.⁵ New Jersey is one of only three states in the United States in which the workers also contribute to the unemployment compensation fund through a separate payroll levy.

A recent national review of state tax policies affecting business⁶ has noted a significant trend of recent years; that is, "the negative fear of driving industry 'out' is being replaced by the affirmative desire to bring industry 'in'." The A.C.I.R. has noted that efforts to create a tax climate favorable to industrial development have followed two general strategies:⁷

1. When additional revenue is required, they tend to place primary emphasis on those tax sources least apt to raise the hackles of the business community—direct consumer taxes such as general retail sales, cigarette, and alcoholic beverage taxes.

2. In order to enhance the States' favorable tax "image" while minimizing revenue loss, they (a) tend to restrict the benefits of business tax reductions to "new" or specially designated classes of business firms, and (b) initiate business tax reform, both structural and administrative, by actions that substitute State business taxes for the local personal property tax—policies designed to minimize tax compliance costs and enhance taxpayer certainty.

The same report has summarized "a striking variety" of legislative and administrative devices intended to attract and hold industry. See *Table 17*. In a similar vein, Governor Hughes requested this Commission to review the New Jersey corporate tax structure, with particular reference to its effect on the location of corporate headquarters—and their capital investment employment—in this state. (See letter of May 25, 1967, Appendix I.)

¹ A.C.I.R., *State-Local Taxation and Industrial Location* (April 1967) Appendix D.

² *Ibid.*, Appendix E.

³ See Table 21, *infra*.

⁴ See Tax Foundation, Inc., *Facts and Figures on Government Finance* (1967) p. 201.

⁵ A.C.I.R., *op. cit.*, Appendix F, pp. 111-112.

⁶ A.C.I.R., *op. cit.*

⁷ A.C.I.R., *op. cit.*, p. 42.

TABLE 17

STATE AND LOCAL TAX POLICIES DESIGNED TO ATTRACT AND TO HOLD INDUSTRY CLASSIFIED
BY TYPE AND CHARACTER OF ACTION

Type of tax	Type of benefit and character of policy or practice		
	¹ Legislative tax policies benefiting most or all firms	² Legislative tax policies benefiting certain groups of firms	³ Administrative tax practices benefiting particular firms
A Personal property tax	1A No tax (New York, Delaware, Pennsylvania, and Hawaii). Selective tax reduction action. ¹ State administration.	2A Selective exemptions and rate reductions: "Free port" tax exemption with primary benefits accruing to those firms with extensive interstate shipment (26 States). ²	3A Favorable assessment obtained through negotiation.
B Real property tax	1B Low effective tax rates. ³ Well-defined assessment standards.	2B 1. Reduced real estate tax load for "new" industry (example—Montana through classified assessments). 2. Tax exemption authorized by legislation for designated types of "new industry" (in 13 States local governments are authorized to grant exemptions for "new industry"; in Louisiana, a State board can grant exemptions from local property taxes).	3B Favorable assessment obtained through negotiation.
C Corporation income tax	1C 1. No tax (11 States). ⁴ 2. Low effective rate (examples—Indiana, Missouri, New Mexico, and North Dakota).	2C 1. Preferential "write-off" for selected types of investment (example—New York's accelerated write-off provision for R & D facilities). 2. Sales destination factor benefits home-State firms with extensive out-of-State sales (example—24 States with three-factor sales destination formula).	3C Favorable income apportionment obtained by multistate firms through negotiation.

TABLE 17—Continued

STATE AND LOCAL TAX POLICIES DESIGNED TO ATTRACT AND TO HOLD INDUSTRY CLASSIFIED
BY TYPE AND CHARACTER OF ACTION

Type of tax	Type of benefit and character of policy or practice		
	¹ Legislative tax policies benefiting most or all firms	² Legislative tax policies benefiting certain groups of firms	³ Administrative tax practices benefiting particular firms
D	1D	2D	3D
Sales vs. personal income tax issue	1. State use of sales taxes—no broad based personal income tax (13 States). ⁵ 2. Direct business use exemption from sales tax (Ohio has most liberal exemption provision).	Machinery purchases exempted from sales tax for "new and expanded" industry (example—Kentucky and Georgia).	
E	1E	2E	3E
Unemployment compensation tax	Below average tax rates. ⁶	Merit rating provides greatest benefit to those firms with the most stable employment record.	

Source: A.C.I.R., State-Local Taxation and Industrial Location, Table 14, pp. 43-44 (1967).

¹ Examples are: the exemption of wholesalers' and retailers' inventories in Arizona; the gradual phase-out of the tax on manufacturers' inventories in Connecticut; the exemption of special tools in Michigan; and the 60% credit against the tax on merchants' inventories and manufacturers' materials and finished products in Wisconsin.

² The 17 States that tax business inventories and do not have free port laws are: Alabama, Alaska, Arkansas, California, Colorado (except that property in transit will be assessed at 5% beginning in 1967), Florida, Georgia, Hawaii, Maryland, Montana, New Hampshire (but goods held for out-of-State delivery by a manufacturer when title has passed to the purchaser are exempt), New Mexico, North Carolina (but tangible personalty held at a seaport awaiting shipment to a foreign port is exempt), Rhode Island, Vermont, Virginia, and West Virginia. As noted in box 1A, four States (Delaware, Hawaii, New York, and Pennsylvania) exempt all personal property. In addition, Arizona and New Jersey exempt business inventories from property taxation, and Kentucky exempts personal property held in public warehouses for trans-shipment from local general property taxation but imposes a nominal State rate on such merchandise. The remaining 26 States, all of which tax business inventories, have free port tax exemptions.

³ Effective property tax rates (the amount of tax paid as a percent of the market value of the property) are particularly low (between 0.5% and 0.9%) in most of the Southern States, although some of the Western States (for example, Hawaii, Montana, Nevada, Washington, and Wyoming) also have effective rates that are well below the U. S. average of 1.4% (in 1962).

⁴ Florida, Illinois, Maine, Michigan, Nevada, New Hampshire, Ohio, South Dakota, Texas, Washington, and Wyoming.

⁵ Florida, Illinois, Maine, Michigan, Nevada, New Jersey, Ohio, Pennsylvania, South Dakota, Tennessee, Texas, Washington, and Wyoming.

⁶ The States with the lowest effective rates (total unemployment compensation tax payments as a percent of total wages), ranging from .4% to .7% in 1964 were: Indiana, Iowa, Minnesota, Nebraska, South Dakota, Texas, Virginia, and West Virginia. The U. S. average effective rate was 1.3% (in 1964).

EVOLUTION OF THE PRESENT CORPORATION BUSINESS TAX

Historical background of the present net worth tax. In 1851 intangible personal property became subject to the general property tax with assessment at the local level and taxation at the local rates. However, for many years the law was practically a dead letter. To enforce it at the existing local tax rates would have been confiscatory, not to mention the assessment problems. In addition, the system of exemptions, exclusions, and exceptions eroded the tax base and created confusion and uncertainty as to its provisions. Competition between assessment districts for the domicile of corporations resulted in an unwillingness to enforce the law. Describing the situation the *Commission on Taxation of Intangible Personal Property* in its 1945 Report found:

“These conditions might have continued indefinitely—to the slow detriment of the State, but without acute embarrassment to business or government—had not several of the State’s larger municipalities attempted suddenly and without warning to bring the long-neglected intangible tax to life. At this point, the now well known practice of ‘tax-lightning’ was born. It seems to have worked like this:

“A municipality moved to assess the intangible personal property of its taxpayers (mostly New Jersey corporations with registered offices within the municipality) on the bases of omitted assessments for the two prior years. The procedure was for the proper municipal official to file a complaint with the County Tax Board alleging that certain specific property of the taxpayer was not assessed. Each complaint recited a sum of money (arrived at from a perusal of balance sheets without consideration of exemptions, deductions or taxable value) which, it was stated, represented the value of the omitted ratables. . . .

“This practice caused the greatest apprehension among the business interests of the State. While taxpayers in many cases could not demonstrate that they were over-assessed, neither could they disclaim all liability. They faced the possibility of an exorbitant and even confiscatory tax levy legally applicable

under the law, or a compromise settlement at the direction of the local finance officer—a settlement that had no legally binding effect whatsoever. . . .”

To avoid the effects of “tax lightning” a device known as “colonization” was developed. Many corporations took steps to relocate their statutory offices in Flemington, Hunterdon County, which was chosen because of its low level of governmental expenditures for municipal, school and county purposes. The result was to greatly increase the ratables there, and thus substantially reduce the tax rate. Some of the greater names in corporate holding companies colonized there. The response to the general situation led to the enactment of the Net Worth Tax.

The Commission studying the problem in 1945 recognizing the urgent necessity of bettering the New Jersey Corporate tax climate:

“There can be no denying that the hazard of ‘tax lightning’—with respect to intangible personalty—may have been a real deterrent to the adoption of New Jersey charters by new corporations, particularly corporations likely to hold large amounts of stocks, bonds or other intangibles in the normal course of business; and this hazard has been a major threat to the security of hundreds of such corporations that are now located here. Because of this threat, New Jersey has developed the indiscriminate reputation, whether justifiable or not, of being hazardous in a tax sense to all types of business, and to foreign as well as domestic corporations.”

After reviewing the available alternatives, the Commission recommended that intangible personal property be exempted entirely from taxation under a *property* tax. However, in lieu of a property tax, the Committee recommended that such property be made to bear its fair share of the cost of government in *some other way*.

At that time one of the proposals which was presented to the Committee as a replacement tax was a revision of the Capital Stock Tax. New Jersey’s capital stock tax was enacted in 1885 as a franchise tax, and grew in importance dur-

ing the period in which holding companies were attracted to New Jersey. The tax continued in basically its original form and was expanded in 1937 to reach an allocated portion of the capital stock of foreign corporations doing business in New Jersey. Due to the system of exemptions from the capital stock tax, the judicial interpretation of the allocation feature, and the conduciveness of the tax to avoidance by recapitalization, the Committee rejected it as a suitable replacement tax stating:

“While the Commission feels that a corporate franchise tax offers a workable and equitable manner for taxing corporations in lieu of a tax upon intangible personal property held by them, it also feels that a new franchise base must be developed for this purpose. It is therefore unwilling to recommend the perpetuation of a tax which, in both theory and practice, is an anachronism; and which, under modern conditions, is unsound.

“A new base should reflect full corporation ownership, in whatever form it may exist.

“The portion of corporate ownership properly allocable to New Jersey for tax purposes should be determined by a fair and adequate formula, applicable to both domestic and foreign corporations alike.

“The yield must be such as to provide adequate coverage on intangible personal property now legally taxable but untaxed.”

The replacement tax recommended by the Commission was the corporation business tax measured by net worth. The tax would be in lieu of the tax on corporate-held intangible personal property and would also replace the existing capital stock tax. In arriving at this substitute the Commission had been guided by certain purposes:

- “1) To remove, entirely, the threat of ‘tax lightning.’
- 2) To establish a simple and defensible tax on corporate business in lieu of an ad valorem tax on intangible personalty and the present capital stock tax.

- 3) To provide a yield sufficient to justify the abandonment of the present authorized tax on corporate intangibles.
- 4) To provide a tax base that would tend to direct state tax policy away from a general property base; and, in doing this;
- 5) To have due regard for the tremendous tax burdens of the present day and for the competitive conditions that exist between New Jersey and its neighboring states.”

Allocation formulae were included in the proposal so that only a portion of net worth would be taxed in New Jersey. The “Massachusetts” formula was inserted as a measure of business activity within the state. The other allocation formula based on *total assets* in the state was “intended primarily to place a floor under the tax base of domestic corporations which conduct no operations in this State, or whose principal assets are intangible personal property.” This formula was the way in which intangible personal property was to be made to “bear its fair share of cost of government” and the corporations which would be subject to it were those benefiting most directly from the proposal to repeal the ad valorem tax on intangible personal property. Thus, under this allocation formula, *all intangible personal property of domestic corporations was deemed to be within the state.*

Income Tax—The net income tax feature of the Act was added by Laws of 1958, Chapter 63, which imposed the tax at the rate of 1¾% on net income in addition to the net worth tax. Laws of 1966, Chapter 134 increased the tax rate of 3¼% on net income. The net worth tax rate is 2.0 mills per dollar or \$2.00 per \$1,000 on the first \$100 million of allocated net worth; 0.4 of a mill per dollar on the second \$100 million; 0.3 of a mill per dollar on the third \$100 million; and 0.2 of a mill per dollar on all amounts of allocated net worth in excess of \$300 million. The Act also includes several minimum alternatives. See *Table 18*.

TABLE 18
CORPORATION BUSINESS TAX
(54 N.J.S.A. § 10A-5)

The present Corporate Business Tax is composed of the following:

Income Tax—
3¼% of entire net income allocated on basis of total business formula
AND

Net Worth Tax— business formula
the entire net worth or
X greater of total asset formula
taxed at
2 mills on first \$100 million
¼% mills on second \$100 million
¾% mills on third \$100 million
¾% mills on amount in excess of \$300 million

OR

[minimum alternatives to Net Worth Tax—
whichever is greater]

(i) Total Assets X total asset formula
taxed at
¾% mills on first \$100 million
¾% mills on amounts in excess of
\$100 million

OR

(ii) Short Form Tax
if total assets (no allocation) are less than \$150,000 at tax computed from a table which is at about the rate of 1½ mills

OR

(iii) Capital Stock Tax
in case of domestic corporation:
number of authorized shares
5,000 or less \$25.00
5,001 to 10,000 \$55.00
over 10,000 \$55.00
for first 10,000 shares
\$27.50 for each additional 10,000 shares.
(maximum tax \$100,000)

OR

(iv) Flat Tax
Domestic corporations \$25.00
Foreign corporations \$50.00

Allocation Formulae—After determining its net worth and net income a corporation is taxed only on the portion allocable to New Jersey as determined by one of several statutory “allocation formulae.” If a corporate taxpayer does not maintain a regular place of business outside

of the state (other than statutory office), the allocation factor is 100%. If the corporate taxpayer maintains a regular place of business outside of the state, it may allocate its net worth to New Jersey on the basis of the greater of the following two allocation formulae:

Formula 1 (total assets formula):

$$\frac{\text{Total assets in New Jersey}}{\text{Total assets everywhere}} = \%$$

Formula 2 (business or “Massachusetts” formula):

Average of

$$\left\{ \begin{array}{l} \frac{\text{Real and tangible personal property in New Jersey}}{\text{Real and tangible personal property everywhere}} = \% \\ \frac{\text{Receipts in New Jersey}}{\text{Receipts everywhere}} = \% \\ \frac{\text{Wages and salaries in New Jersey}}{\text{Wages and salaries everywhere}} = \% \end{array} \right.$$

The net income portion is allocable solely by the three-way business formula.

Yield—The present yield of the corporation business tax is indicated by the estimates in the appropriations acts as follows:

<i>Tax Base</i>	<i>Fiscal Year 1968</i>	<i>Fiscal Year 1969</i>
Net Income	\$49,000,000	\$60,500,000
Net Worth (including interest penalties and fees).	45,000,000	46,000,000
	\$94,000,000	*\$106,500,000

Revision of the Tax Act—Revision of the Corporation Business Tax Act has taken place over a number of years. Some of the changes were largely administrative such as Chapter 190 of the Laws of 1959, providing for a short rate table. Others were directed toward the peculiar problems of special business—such as investment companies. Amendments of substantial fiscal effect have been few, but important. Those adopted have included changes in the allocation formulas as follows:

Business formula. Sales attribution is now to the state of destination of shipments (L. 1967, c. 51). The revenue loss is not clear.

Total assets formula. There has been a gradual reduction in the mandatory intangibles allocation. The last amendment cut out the mandatory allocation of 40% of domestic corporations' intangibles to the New Jersey numerator (L. 1966, c. 134). Revenue loss: \$3.5 million.

The effect of these two changes in the allocation formula has been to remove inequities claimed by major employers in sales attribution, and to respond to the complaints of major holding companies headquartered outside New Jersey.

Industry spokesmen are now urging that improvement of the corporate tax be continued, so as to encourage large corporations to locate or retain their headquarters, employment and

plant investment within this state. The proposals may be described as follows:

- (1) Repeal net worth tax and convert to a Delaware-type capital stock tax.
- (2) Repeal total assets allocations of net worth tax.
- (3) Eliminate subsidiary capital from taxable net worth.
- (4) Provide an exemption for manufacturing and research capital.
- (5) Exempt intercorporate dividends from the income tax.

EQUITY AND INDUCEMENT

The focus of this review of the corporate tax is primarily on economic development, but this includes the elimination of inequities. In view of the state's fiscal stringency, however, the need to maintain at least the existing revenue yield is considered by the Commission as a fixed requirement.

As a point of beginning, it is helpful to examine a relevant indicator of comparative economic growth. While taxes may or may not affect such a broad comparison, the comparison is at least useful to illuminate the scope of the problem. Various indicators are available but for this purpose the comparative trend of value added by manufacture in this and other states is most pertinent. *Table 19* shows that this state has done better than some and not as well as others. From a tax policy standpoint, this would indicate no crisis. It would merely reaffirm the general advisability of state action at this time to protect the state's competitive position within the limits of tax equity and fiscal feasibility.

Tax aspects of corporate location. A basic consideration in the current study is whether the New Jersey corporate tax climate places New Jersey corporations at a competitive disadvantage vis-a-vis corporations based in neighboring states. If such a climate exists, it might encourage existing domestic corporations to relocate out of state and discourage new domestic industry from locating within the state. Whether or not it is true that the state corpo-

* Does not include \$31 million allocated to municipalities pursuant to Laws of 1966, Chapter 135.

TABLE 19
INDEX OF VALUE ADDED BY MANUFACTURERS
Selected States, 1949-1964
1949 = 100

Year	<i>New Jersey</i>	<i>New York</i>	<i>Pennsylvania</i>	<i>Delaware</i>	<i>Maryland</i>	<i>Connecticut</i>
1949	100	100	100	100	100	100
1950	115.7	110.3	117.0	121.7	120.9	126.8
1951	126.3	125.3	135.7	142.2	133.2	154.4
1952	137.0	138.0	139.5	161.7	141.8	167.5
1953	153.4	151.2	155.5	164.8	154.2	190.7
1954	150.5	148.4	143.1	153.5	157.0	171.9
1955	163.4	154.6	159.8	182.2	171.1	182.9
1956	175.7	163.3	173.1	163.5	184.8	262.2
1957	179.1	168.9	181.0	203.5	188.9	208.7
1958	178.3	166.8	164.6	182.6	199.0	191.2
1959	198.6	183.8	182.2	224.8	219.5	227.2
1960	203.6	189.1	185.9	224.4	222.8	226.1
1961	208.6	189.3	178.1	201.7	225.8	232.3
1962	225.7	200.7	189.1	235.7	234.6	251.5
1963	236.7	205.3	202.3	286.1	249.4	268.6
1964	242.3	212.5	222.9	313.9	283.2	284.5

Source: U. S. Department of Commerce. The index for years after 1957 is based on adjusted figures.

rate tax climate places New Jersey corporations at a competitive disadvantage, the importance of state and local tax consideration to the location decision should be explored.

An interesting case study of an attempt to pinpoint the effect of the state tax climate on the decision of whether to locate within the state is presented by the experience in North Carolina between 1958 and 1960. In 1957 North Carolina reformed its corporation income tax allocation formula to improve what was thought to be relatively harsh treatment on multi-state business. The reform was recommended by the North Carolina Tax Study Commission as a means of "providing a method of allocation which would encourage, or at worst, would not discourage industrial development in the state." A survey was made as to the effect of the tax change. The results were stated as follows:

"In an attempt to get some idea of the extent to which the change in the apportionment formula has influenced industrial loca-

tion, inquiries were addressed to senior officials of forty major corporations that had, from 1958 to 1960, located or proposed the location of new or expanded facilities in North Carolina. Replies were received from 35, with 33 or 82.5%, furnishing data. Of these, only one indicated that the 1957 revision influenced the location decision, one was uncertain, and 31 indicated that it did not influence their decision."

Other studies have also been made to find the effect of state and local taxation on a corporation's decision to locate or to refrain from locating its plant within a state.⁸ On the whole these studies show that the tax factor is but one of a host of minor factors ranking behind the major factors of manpower, markets, and materials.⁹

⁸ See materials cited in Ratliff, *Interstate Apportionment of Business Income for State Income Tax Purposes*, 72 n. 22 (Univ. of N. C. Press 1962).

⁹ *Id.* at 72-73. See also Forbes Marketing Research, Inc., a Study of the Factors Influencing Industrial Plant Location in Indiana Since 1957 (1960) (taxes relatively unimportant); Bergen and Eagen, *Economic Growth and Community Facilities, Municipal Finance* 146 (May 1961) (tax structure rated fifteenth of reasons given for choice of plant location).

These studies are fully in accord with the conclusion reached in 1945 by the Commission on Taxation of Intangible Personal Property.¹⁰

COMPARATIVE BURDENS

There is always much curiosity—and little real enlightenment—in comparative tax studies. This Commission has done some; and most

¹⁰ See Report of the Commission on Taxation of Intangible Personal Property 41 (1945).

states have looked into the problem from time to time.¹¹

The comparative tax studies themselves are bound to be nonconclusive because the impact of a given tax varies greatly upon specific taxpayers. For example, those with high capital investment are more concerned with property taxes; those with a high profit return on investment are more affected by income taxes. (See *Table 20*.)

¹¹ See Tax Foundation, *State Tax Statistics* (1968).

TABLE 20
SELECTED INCOME STATEMENT AND BALANCE SHEET ITEMS
FOR MANUFACTURING CORPORATIONS
By Asset Size
1st Quarter, 1967
(\$000)

<i>Selected Items</i>	<i>All asset sizes</i>	<i>Under \$5 million</i>	<i>Between \$50 million and \$100 million</i>	<i>Between \$250 million and \$1,000 million</i>
Net Sales	13,409	4,525	24,562	154,488
Net Profits before Federal income tax	1,114	210	1,933	12,876
Cash and Government Securities	2,610	776	4,515	27,156
Receivables	7,040	2,062	13,889	82,161
Total Current Assets	20,903	5,348	41,613	256,154
Net Plant	15,864	2,311	25,296	181,585
Total Assets	40,031	8,093	72,239	481,700
Total Current Liabilities	9,600	2,685	17,064	114,719
Total Liabilities	16,453	3,754	31,084	212,805
Total Stockholder's Equity	23,578	4,339	41,158	268,901
Total Liability and Equity	40,031	8,093	72,239	481,700
Annual rate of profits as a % of stockholder's equity	18.88%	19.36%	18.80%	19.16%

Source: Quarterly Financial Report for Manufacturing Corporations (FTC—SEC).

The taxes themselves also have built-in variables. Thus, rate comparisons alone are insufficient; some corporate income taxes tax income before federal tax; other allow the federal tax (which may amount to 50% of net income) as a deduction before applying the state

rate. (See *Table 21*.) Similarly the treatment of inter-corporate dividends varies substantially; some states follow the federal rule; others vary widely. (See *Table 22*.)

For present comparative purposes, the results of a continuing study by the Pennsyl-

TABLE 21
CORPORATE INCOME TAX RATES AND BASE, BY STATES, 1967¹

<i>State</i>	<i>Rate</i>	<i>Federal Income Tax Deductible</i>
Alabama	5%	Yes
Alaska	18% of 1963 Federal rate	No
Arizona	\$ 0- \$1,000 1.3% 1,001- 2,000 2.6% 2,001- 3,000 3.3% 3,001- 4,000 4.0% 4,001- 5,000 4.6% 5,001- 6,000 5.9% 6,001 and over 6.6%	Yes
Arkansas	\$ 0- \$3,000 1.0% 3,001- 6,000 2.0% 6,001- 11,000 3.0% 11,001- 25,000 4.0% 25,001 and over 5.0%	No
California	7%	Yes
Colorado	5%	No
Connecticut	5.25%	No
Delaware	5%	No
District of Columbia	5%	No
Georgia	5%	No
Hawaii	\$0-\$25,000 5.85% 25,001 and over 6.435%	No
Idaho	6%	No
Indiana	2% or the gross income tax, whichever is greater	No
Iowa	\$ 0-\$ 25,000 4% 25,001- 100,000 6% 100,001 and over 8%	Yes ²
Kansas	4.50%	Yes ²
Kentucky	\$ 0-\$25,000 5% 25,001 and over 7%	Yes
Louisiana	4%	Yes
Maryland	5.25%	No
Massachusetts	6.765%	No
Michigan	5.60%	No
Minnesota	8.50%	Yes

TABLE 21—Continued
CORPORATE INCOME TAX RATES AND BASE, BY STATES, 1967¹

<i>State</i>	<i>Rate</i>			<i>Federal Income Tax Deductible</i>
Mississippi	\$	0-\$3,000	3%	No
		3,001 and over	5%	
Missouri		2%		Yes
Montana		5.50%		No
Nebraska		20% of individual rate ³		No
New Jersey		3.25%		No
New Mexico		3%		Yes
New York		5.50%		No
North Carolina		6%		No
North Dakota	\$	0- \$3,000	3%	Yes
		3,001- 8,000	4%	
		8,001- 15,000	5%	
		15,001 and over	6%	
Oklahoma		4%		Yes
Oregon		6%		No
Pennsylvania		7%		No
Rhode Island		6%		No
South Carolina		5%		No
Tennessee		5%		No
Utah		6%		Yes
Vermont		5%		No
Virginia		5%		No
West Virginia		6% of federal taxable income		No
Wisconsin	\$	0- \$1,000	2%	Yes ²
		1,001- 2,000	2.50%	
		2,001- 3,000	3%	
		3,001- 4,000	4%	
		4,001- 5,000	5%	
		5,001- 6,000	6%	
		6,001 and over	7%	

Source: CCH, State Tax Handbook (Oct. 1, 1967).

¹ The following states have no corporate income taxes: Florida, Illinois, Maine, Nevada, New Hampshire, Ohio, Texas, Washington, Wyoming; South Dakota's tax applies only to financial corporations.

² Deductions limited.

³ Individual rate is a flat percentage of adjusted federal income tax set annually by Board of Equalization and Assessment.

TABLE 22
TAXATION OF DIVIDENDS RECEIVED BY CORPORATIONS
BY STATE, JANUARY 1, 1968

United States	100% of dividends from 80% owned corporations excluded; 85% of dividends received from other corporations excluded.
Alabama	Excludes dividends received from 50% owned subsidiaries whose income is taxed in Alabama.
Alaska	Same as Federal.
Arizona	Excludes dividends from corporations whose income is subject to taxation in Arizona and which have principal place of business attributable to Arizona.
Arkansas	No exclusion.
California	Excludes dividends received from corporations whose income is subject to taxation in California.
Colorado	Excludes 85% of dividends.
Connecticut	Same as Federal.
Delaware	Excludes all dividends.
District of Columbia	Excludes dividends received from corporations whose income is subject to taxation in District of Columbia.
Georgia	Excludes dividends when corporation receiving dividends is engaged in business in Georgia and its income is subject to taxation in Georgia.
Hawaii	Excludes 85% of dividends if the paying corporation is 95% owned by corporations doing business in Hawaii; or 15% of the paying corporation's income is attributable to Hawaii.
Idaho	Excludes dividends received from corporations which have more than 50% of their gross income taxed in Idaho.
Indiana	No exclusion.
Iowa	No exclusion.
Kansas	Excludes dividends received from 95% owned subsidiaries doing business in Kansas.
Kentucky	No exclusion.
Louisiana	Excludes dividends earned in Louisiana and paid out of income which has been taxed in Louisiana.
Maryland	Excludes dividends received from domestic corporations whose sales are subject to ordinary taxation in Maryland.
Massachusetts	No exclusion.
Michigan	No exclusion.
Minnesota	85% of dividends excluded; and if the paying corporation is 80% owned the remaining 15% in proportion to the paying corporation's earnings within the State.
Mississippi	Excludes dividends received from corporations subject to Mississippi income tax.
Missouri	Excludes dividends if parent files consolidated federal return including subsidiary's income and subsidiary is incorporated in Missouri; or where subsidiary is subject to Missouri tax.

TABLE 22—Continued
 TAXATION OF DIVIDENDS RECEIVED BY CORPORATIONS
 BY STATE, JANUARY 1, 1968

Montana	No exclusion.
Nebraska	Same as Federal.
New Jersey	Excludes 50% of dividends.
New Mexico	Same as Federal.
New York	Excludes 100% of dividends received from 50% owned corporations and 50% of other dividends.
North Carolina	Excludes that portion of dividends received from a corporation which is equal to the portion of the paying corporation's income allocated to North Carolina.
North Dakota	Excludes that portion of dividends received from a corporation which is equal to the portion of the paying corporation's income allocated to North Dakota.
Oklahoma	Excludes dividends received from corporations having 5% or more of their entire income attributable to Oklahoma.
Oregon	Excludes dividends received from 50% owned corporations.
Pennsylvania	Excludes all dividends.
Rhode Island	Excludes dividends from corporations whose income is subject to taxation in Rhode Island.
South Carolina	No exclusion.
Tennessee	Excludes dividends received from wholly owned subsidiaries paying Tennessee tax.
Utah	No exclusion.
Vermont	Same as Federal.
Virginia	Excludes dividends received from Virginia corporations to the extent that paying corporations' income is taxable in Virginia.
West Virginia	Same as Federal.
Wisconsin	Excludes dividends received from corporations whose income is subject to Wisconsin tax and which have principal place of business in Wisconsin.

vania Economy League may be indicative.¹² That study found that as of 1962, New Jersey ranked either second, third, or fourth among eleven states, in the *state and local* taxes that would have been paid by a selection of seven model corporations. New Jersey ranked ninth, tenth or eleventh among the eleven states, by *state* taxes alone that would have been paid by the same seven corporations. New Jersey ranked first among the eleven states in the

amount of *local* taxes that would have been paid by the same seven model corporations. Since that study was completed, this state has completely reformed its local personal property tax and has also increased its corporate income tax rate from 1¾% to 3¼%. The combined effect of these two changes would obviously modify the rankings substantially. Meanwhile, other states in the study (which included Pennsylvania, Delaware, Illinois, Indiana, Maryland, Massachusetts, Michigan, New York, Ohio, and West Virginia) also changed their tax laws and

¹² Pennsylvania Economy League, Inc., *Taxes Paid by Industry*, (1962).

tax burdens, and that too would modify the rankings. The point is that comparative tax studies have limited validity as to time, industry, and, particularly, as to the local taxing jurisdiction which is selected for comparison. The Pennsylvania study was based on 50 Pennsylvania communities and 100 selected communities in the ten other states studied. Since New Jersey had and still has taxing districts with extremely high property tax rates and others with very modest property tax rates, it is apparent that the selection of a particular community for a study may determine the comparative results.

However, some indication of the relative tax burden after excluding the local property tax from the comparison can be seen from *Table 21*, which compares corporate income tax rates. Although the definition of the tax base and the other state taxes are not taken into account, the rate is an important factor. For example, Pennsylvania's high corporate income tax rate accounts for a significant part of the burden borne by Pennsylvania corporations. See the Appendix at pp. xx-xx for a *Comparison of the tax treatment of corporations in New Jersey and Pennsylvania*. *Appendix Table D* shows a balance sheet and income statement for hypothetical Pennsylvania and New Jersey corporations and *Appendix Table E* computes the relative tax burden.

ALTERNATIVE REFORMS

An analysis of the present tax structure (see *Table 18*) in view of the complaints of industry spokesmen, suggests three significant factors of inequity in the present law. These may also be considered as negative factors in corporate decision-making as to headquarters location. With respect to the *Tax Base* these include the treatment of (a) subsidiary capital and (b) dividends from subsidiaries; and with respect to the *Allocation of Base* (c) the total assets formula.

The extent to which investments in subsidiaries are significant in major corporate enterprise is indicated in *Table 23*. Dividends received from such subsidiaries are also an important tax factor. Under the present tax law

such subsidiary capital is included in the tax base for the net worth tax, and 50% of the dividends received by the parent corporation from the subsidiary are included in the tax base for the income tax. The result is that major corporations will find a serious tax disadvantage in locating their corporate headquarters in New Jersey, especially if they do a national or worldwide business in which subsidiaries are often a required form of business organization. These same corporations can be a source of important economic development, jobs and tax base for the state.

In addition, net worth is now taxed to corporations with multi-state business by allocation of the corporation's net worth to New Jersey in proportion to its total assets within and without the state. If its assets include intangibles, i.e., accounts receivable, cash, investments in subsidiaries, they are all arbitrarily allocated to New Jersey if held by a corporation which has its headquarters in this state. The total assets allocation formula was originally inserted in the net worth tax to meet conditions which no longer exist (see p. 35 *supra*), and several recent legislative amendments have greatly reduced the significance of this formula. Its continued retention serves mainly to discourage corporations holding substantial intangible assets from locating their corporate headquarters in New Jersey, resulting in a loss of jobs and investment in this state.

Alternative approaches to these problems have been considered. They include repeal of the net worth tax; changing the net worth tax to become an alternative minimum to the income tax (instead of an addition to it, as at present); elimination of the tax on subsidiary capital and substitution of a flat rate tax on remaining net worth; specific amendments with replacement of the loss by increase in the income tax rate.

The results of these considerations are summarized as follows:

Alternative 1: Repeal of the net worth tax. This would solve two of the three problems but would not affect dividends from subsidiaries. The cost—loss of \$45 million in annual revenue—would require a 1.65% rate on the in-

TABLE 23
ALLOCATED NET WORTH AND SUBSIDIARY CAPITAL FOR LARGEST
DOMESTIC AND FOREIGN CORPORATIONS

Corporations	Allocated Net Worth (000) (1)	Present Graduated Net Worth Tax (2)	Allocated Subsidiary Investment (000) (3)	(1)-(3)
Domestic:				
A	\$201,632	\$244,896	\$22,802	\$178,830
B	150,988	220,395	52,090	98,898
C	128,950	211,580	45,258	83,692
D	59,220	118,440	17,589	41,631
E	54,989	109,978	14,871	40,118
F	22,307	44,614	3,594	18,713
G	19,643	39,286	3,589	16,254
H	65,897	131,794	19,327	46,570
I	75,391	150,782	35,113	40,278
J	40,918	81,832	6,468	34,450
K	26,121	52,242	15,067	11,054
Subtotal	846,056	1,405,839	235,768	610,488
Foreign:				
L	227,137	263,141	53,442	223,695
M	163,287	225,315	168,491	0
N	100,028	200,011	3,559	96,469
O	244,591	253,377	13,616	230,975
P	165,836	226,334	45,583	120,253
Q	162,997	225,199	0	162,997
R	254,484	256,345	49,348	205,136
S	232,778	249,833	12,106	220,672
T	190,988	236,395	53,836	137,152
U	200,784	240,235	72,702	128,082
V	177,906	231,162	23,821	154,085
W	108,362	203,282	49,000	59,362
X	99,641	199,282	710	98,931
Y	89,263	164,526	9,665	79,598
Subtotal	2,468,082	3,174,499	555,879	1,917,307
TOTAL	\$3,314,138	\$4,580,338	\$791,647	\$2,527,795

come tax base, thus raising the total rate to 4.90%. This would lose for New Jersey the competitive advantage of its present 3¼% rate.

Alternative 2: Making the net worth tax an alternative minimum to the net income tax. Instead of a corporation being subject to both taxes, it would only pay the greater of the two. Table 24 shows for selected tax rates the rate of return of allocated net income to allocated net worth below which a corporation would be subject only to the net worth tax. Thus, as the tax rate increases, more corporations are sub-

ject to the income tax. We know that if the entire net worth tax were repealed, the revenue loss would be about \$45 million. Using the projection in the Governor's budget message indicates that for each 1% increase in the income tax rate, an additional \$28 million in taxes will be raised. Thus, the cost of repealing the net worth tax in terms of income tax rate would be about 1.65% or an increase in the rate to 4.90%.

However, if the net worth is not repealed but merely converted to a minimum alternative, this could be done by raising the income tax to some-

TABLE 24

ESTIMATED EFFECT ON TAX YIELD FROM CONVERTING THE CORPORATE NET WORTH TAX
TO AN ALTERNATIVE MINIMUM TO THE NET INCOME TAX, AT SELECTED RATES OF
RETURN ON NET WORTH AND AT SELECTED INCOME TAX RATES.

CORPORATIONS WITH NET WORTH TAX ABOVE MINIMUM BUT NOT OVER \$200,000

Class	Rate of Return of Allocated Net Income on Allocated Net Worth, by classes		Tax Rates Corresponding to Classes		Number of Corporations in bracket	Allocated Net Worth	Allocated Net Income	Net Worth Tax	Net Income Tax
1	Under	4.00%	Over	5.00%	26,702	\$6,083,345,895	\$68,260,991	\$12,168,692	\$2,218,482
2	4.01% to 4.21%		4.99 to 4.75%		407	192,895,125	7,950,757	385,790	258,399
3	4.22% to 4.44%		4.74 to 4.50%		429	100,294,555	4,323,759	200,589	140,519
4	4.45% to 4.71%		4.49 to 4.25%		473	194,863,500	8,820,890	389,726	286,678
5	4.72% to 5.00%		4.24 to 4.00%		517	192,457,085	9,367,138	384,914	304,432
6	5.01% to 5.33%		3.99 to 3.75%		612	262,255,855	13,478,688	524,511	438,058
7	5.34% to 5.71%		3.74 to 3.50%		645	107,838,160	5,950,440	215,676	193,389
8	5.72% to 6.15%		3.49 to 3.25%		731	248,689,080	14,783,658	497,378	480,469
9	Over	6.15%	Under	3.25%	26,854	9,250,040,875	1,756,140,172	18,500,078	57,074,555
Subtotal					57,370	\$16,632,678,130	\$1,889,076,493	\$33,265,356	\$61,394,985
ABOVE DOES NOT INCLUDE					28	(with net worth tax greater than \$200,000)		\$7,305,336	\$18,909,094
					33,662	(domestic corporations paying \$25 minimum)		812,076	710,876
					3,800	(foreign corporations paying \$50 minimum)		173,717	141,661
TOTAL					94,860			\$41,556,485	\$81,156,616

* See Appendix for explanation of this Table and Appendix Tables F and G.

thing less than 4.90%. Through the use of *Table 24* we find that a rate of about 4.6% is necessary in order to convert the net worth tax to an alternative minimum without losing any revenue. At a 4.6% tax rate all those corporations in Classes 1, 2, and 3 (i. e. with rates of return of 4.44% or less on allocated net worth) would still be subject to the net worth tax. Combining these classes shows that about \$12.7 million (or \$13 million adjusted to 1967 figures) would be retained. However, net income tax of \$2.6 million would be lost from these corporations resulting in net retained net worth tax of about \$10 million. The remaining \$35 million would be made up by an increase in the tax rate of 1.25% making the total rate 4.5%.

As part of the above scheme, the total asset allocation formula would be eliminated; but since most of the corporations would not be subject to the net worth tax, the revenue effect of the change would not be significant. The above plan does not propose the exclusion of subsidiary capital from the net worth tax, but presumably the problem would solve itself to a large extent since the corporations affected probably would not be subject to the net worth tax. This alternative would also result in a major shift in tax burden among corporations, and for that reason is not recommended at this time.

Alternative 3: A general revision which would reduce the net worth tax to a non-graduated rate of one mill, reduce the net worth base so that subsidiary capital is not taxed, and repeal the total asset allocation formula. This would require a 4% income tax rate to offset the loss. On the basis of the projection in the Governor's budget message, the net worth tax is presently expected to yield \$45 million. Since the above reduction in the rate is not a full 1/2 reduction because of the removal of the graduation from the tax and because of the retention of the present minimum alternatives to the tax, it is expected that the net worth tax with the above modifications would still yield about \$24 million. The \$21 million loss of net worth tax

would be made up by increasing the income tax 3/4% to 4.0%.

The decrease in the net worth tax rate makes the total asset minimum alternative more viable since the ratio between the rates will be 2 to 1 rather than 4 to 1 as at present. Corporations whose net worth is less than 50% of total assets would be subject to the total asset alternative. This would remove some of the tax advantage which debt financing now has over equity financing.

This alternative has a number of advantages and would be acceptable were it not for the fact that a solution is available (below) which would retain more of the advantage of a lower income tax rate.

Alternative 4: A fourth alternative would meet the problem on a narrower base but with more substantial relief directed to the problem of corporate headquarters location. *The Commission recommends:*

	<i>Million dollars</i>
A. Include only 50% of subsidiary capital in the net worth base—(after allowing for proportionate debt adjustment)—which would, in effect, reduce the effective tax rate on this form of capital to 1 mill, resulting in an estimated revenue reduction of	\$1.5
B. Eliminate total assets allocation factor from the net worth tax, with estimated revenue reduction of	1.5
C. Eliminate from the income tax base intercorporate dividends received from 80% owned subsidiaries, with estimated revenue loss of	4.5
Net revenue loss	\$7.5
D. Increase corporate income tax rate to 3 1/2%, increasing the revenue yield by	\$7.0
E. Balance revenue loss from General Fund	0.5
Total revenue replacement	\$7.5

PART IV

DEATH TAXES

The scope of the Commission's inquiry into death taxes was prescribed by Governor Hughes in his letter of April 14, 1967, as follows:

"Accordingly, the Commission on State Tax Policy is respectfully requested to undertake a comprehensive examination of the New Jersey Transfer Inheritance Tax laws with particular emphasis on, but not necessarily limited to, rates, exemptions, the relative merits of a collateral inheritance tax versus an estate tax, and the relative death tax burden in New Jersey and other state tax jurisdictions. As to the last, it is recognized, of course, that a sound evaluation of the economic impact of a state death tax cannot be made separate and apart from the impact of the total state tax structure upon individuals. For example, New Jersey does not impose a personal income tax.

Your Commission is respectfully requested to determine to what extent the existing inheritance tax structure should be modified or otherwise changed to insure a fair and equitable death tax levy and to report on your findings and recommendations in this regard to me (and to the 1968 Legislature) by March 1, 1968."

This will be the first detailed analysis of death taxes in New Jersey which has been made by the Tax Policy Commission, and may well be the only effort of its kind since the adoption of the first collateral inheritance tax act by this State in 1892.

Background. Death taxes, variously known as inheritance taxes, legacy, transfer, succession or estate taxes are of ancient origin. They were recognized in Roman law (1 Gribbon, pp. 163 etc.) and were adopted in England in 1780. One of the earliest adoptions in the United States was by Pennsylvania in 1826, but it was not until the 1880's and 1890's that states such as Connecticut, New Jersey, New York, Illinois

and Massachusetts first adopted their acts. By 1916, however, 42 states were levying death taxes (excluding Florida, Mississippi, New Mexico, Nebraska, South Carolina and Alabama). The rates were generally at low progressive levels. At present all of the states except Nevada levy some form of death tax.

The Federal Government did not get into a permanent death tax until 1916, although on three prior occasions it had used such a tax as an emergency revenue device.

At first the states resented the "intrusion" of the federal government into this field, but subsequently welcomed the development of the federal tax credit for death taxes paid to the states. This was introduced in 1924 as a 25% credit.

Florida, Nevada, and Alabama had not yet enacted any state death tax in 1924, but Florida and Nevada proceeded to make sure of the situation by adopting constitutional amendments prohibiting such taxes. California began to consider a similar approach to meet the competition for retired individuals with large estates. The competitive spirit also began to infect definitions, exemptions, and rates as well as administrative practices. Conferences were called by the National Tax Association, the President and state officials. Following the recommendations of a committee, known as the Delano Committee, the Congress enlarged the federal credit to 80% for taxes paid the states, as part of the Revenue Act of 1926. This succeeded for the time being in curtailing interstate competition.

As a result of this early history, we now find three different types of state death taxes:

1. *Inheritance, succession or transfer taxes.* These taxes are based upon the theory of taxing the privilege of receiving property by virtue of the death of another. Because of

this theory of a tax on the privilege of receiving, the rate structure discriminates as between close relatives and more distant beneficiaries; a spouse, children, mother or father of the decedent will pay the lowest rates and a stranger, the highest.

2. *An estate tax.* This is a tax, first used in this country by the federal government, on the privilege of transmitting property upon death; the tax is not on the interest to which the beneficiary succeeds but rather upon the interest which ceased by reason of the death. In this form of death tax, the rate structure deals solely with the size of the estate and disregards the relationship of the beneficiary to the decedent.

3. *A pickup tax.* This is a convenient label for the type of state death tax which is intended solely to qualify for the federal credit against the federal estate tax. In this sense, it picks up for state use the amount of the tax credit available under the 1926 Federal Revenue Act, which would otherwise go to the federal government if the state did not levy a death tax at least equal to the amount of the credit on each estate.

The Advisory Commission on Intergovernmental Relations has summarized the types of state death taxes as of January 1, 1968, as set forth in *Table 25*.

TABLE 25
TYPE OF DEATH TAXES, BY STATE
1968

<i>Type of tax</i>	<i>State</i>
"Pickup" tax only	(4) Alabama, Arkansas, Florida, Georgia.
Estate tax only	(3) Mississippi, North Dakota, Utah.
Estate tax and "pickup" tax	(4) Arizona, New York, Oklahoma, ¹ South Carolina.
Inheritance tax only	(2) South Dakota, West Virginia.
Inheritance tax and "pickup" tax	(35) Alaska, California, ¹ Colorado, ¹ Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, ¹ Maine, Maryland, Massachusetts, Michigan, Minnesota, ¹ Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, ¹ Ohio, Pennsylvania, Tennessee, ¹ Texas, Vermont, Virginia, ¹ Washington, ¹ Wisconsin, ¹ Wyoming.
Estate tax and inheritance tax	(1) Oregon. ¹
Inheritance, estate and "pickup" taxes	(1) Rhode Island. ¹
No tax	(1) Nevada.

¹ Also has gift tax (12).

Source: A.C.I.R. State and Local Taxes, Significant Features, 1968 (January, 1968, M-37).

TABLE 26

TABLE 26
RELATION OF DEATH TAX COLLECTIONS TO POPULATION, PERSONAL INCOME
AND TOTAL STATE TAX COLLECTIONS; 1966
(R = Rank)

State	Population Estimated July 1, 1966 (thousands) R		Personal Income—1965						Death Taxes—1966							
			Amount		Per Capita		Amount		Per Capita		Per \$1,000 per- sonal income		Total State tax collections— 1966		As percent of total collections	
			(millions)	R	R	R	(thousands)	R	R	R	R	(thousands)	R	R	R	
All States	195,049		529,173		2,742		808,078		4.14		1.53		29,379,758		2.8	
Alabama	3,517	21	6,660	24	1,608	49	1,807	38	.51	45	3.69	3	463,013	22	.4	
Alaska	272	50	3,187	49	3,187	8	81	49	.30	49	.10	49	52,799	50	.2	
Arizona	1,618	34	3,733	32	2,370	32	2,143	37	1.32	39	.57	40	274,200	32	.8	
Arkansas	1,955	31	3,581	35	1,845	48	709	46	.36	47	.20	48	264,826	33	.3	
California	18,918	1	59,958	1	3,258	6	124,301	2	6.57	7	2.07	11	3,437,731	1	3.6	
Colorado	1,977	30	5,282	29	2,710	20	8,424	24	4.26	15	1.59	19	325,776	29	2.6	
Connecticut	2,875	24	9,626	17	3,401	1	39,994	6	13.91	1	4.15	1	439,948	23	9.1	
Delaware	512	46	1,708	43	3,392	2	6,759	27	13.20	2	3.96	2	129,601	40	5.2	
Florida	5,941	9	14,041	10	2,423	29	15,773	14	2.65	27	1.12	27	819,147	9	1.9	
Georgia	4,459	15	9,473	19	2,159	41	3,333	32	.86	44	.40	44	611,763	16	.6	
Hawaii	718	40	2,030	40	2,879	13	1,446	41	2.01	35	.71	38	189,088	36	.8	
Idaho	694	42	1,660	44	2,395	31	914	45	1.32	40	.55	41	119,814	42	.8	
Illinois	10,722	5	34,903	3	3,280	4	45,183	5	4.21	16	1.29	25	1,365,226	5	3.3	
Indiana	4,918	12	13,924	11	2,846	14	10,076	21	2.05	34	.72	37	729,174	12	1.4	
Iowa	2,747	25	7,381	22	2,676	21	12,086	17	4.40	14	1.64	16	420,192	25	2.9	
Kansas	2,250	29	5,982	26	2,639	24	5,572	28	2.48	29	.94	31	346,991	28	1.6	
Kentucky	3,133	22	6,489	25	2,045	43	9,792	22	3.02	22	1.51	22	434,525	24	2.3	
Louisiana	3,603	19	7,359	23	2,067	42	5,359	29	1.49	38	.73	36	658,571	14	.8	
Maine	933	38	2,245	38	2,277	33	4,967	30	5.05	12	2.21	9	127,988	41	3.9	
Maryland	3,613	18	10,604	15	3,001	11	9,115	23	2.52	28	.86	34	587,885	18	1.6	
Massachusetts	5,333	10	16,349	9	3,050	9	34,903	7	6.48	8	2.13	10	773,157	11	4.5	
Michigan	8,374	7	25,031	6	3,010	10	22,727	8	2.71	25	.91	32	1,467,674	4	1.5	
Minnesota	3,576	20	9,495	18	2,666	22	14,555	15	4.07	18	1.53	21	614,995	15	2.4	
Mississippi	2,327	28	3,712	33	1,608	50	997	44	.43	46	.27	46	287,415	31	.3	
Missouri	4,508	13	11,961	12	2,663	23	10,643	18	2.36	30	.89	33	579,788	19	1.8	
Montana	702	41	1,714	41	2,438	28	2,750	34	3.92	19	1.60	17	91,198	43	3.0	
Nebraska	1,456	35	3,836	31	2,629	25	528	48	.36	48	.14	47	130,001	39	.4	
Nevada	454	47	1,437	47	3,311	3							84,256	45		
New Hampshire	681	44	1,714	42	2,547	27	3,031	33	4.45	13	1.77	15	61,478	48	4.9	
New Jersey	6,898	8	21,950	8	3,237	7	52,775	4	7.65	3	2.40	5	589,146	17	9.0	
New Mexico	1,022	36	2,224	39	2,193	40	1,211	42	1.18	41	.54	42	201,911	35	.6	
New York	18,258	2	59,350	2	3,278	5	132,125	1	7.24	5	2.23	8	3,415,746	2	3.9	
North Carolina	5,000	11	10,070	16	2,041	44	17,901	13	3.58	21	1.78	14	776,387	10	2.3	
North Dakota	650	45	1,486	46	2,279	37	585	47	.90	43	.39	45	84,425	44	.7	
Ohio	10,305	6	22,972	5	2,828	15	18,522	12	1.80	37	.64	39	1,122,741	7	1.6	
Oklahoma	2,458	27	5,603	27	2,289	36	12,897	16	5.25	10	2.30	6	388,705	26	3.3	
Oregon	1,955	32	5,350	28	2,761	17	8,223	25	4.21	17	1.54	20	299,988	30	2.7	
Pennsylvania	11,532	3	31,816	4	2,747	18	62,200	3	5.37	9	1.95	12	1,674,675	3	3.7	
Rhode Island	898	39	2,515	36	2,823	16	6,830	26	7.61	4	2.72	4	144,150	38	4.7	
South Carolina	2,536	26	4,708	30	1,846	47	2,407	35	.93	42	.51	43	358,986	27	.7	
South Dakota	682	43	1,518	45	2,213	39	1,459	40	2.14	33	.96	29	77,593	46	1.9	
Tennessee	3,833	17	7,749	21	2,013	46	10,601	19	2.73	24	1.37	23	480,949	21	2.2	
Texas	10,752	4	24,761	7	2,338	34	21,093	10	1.96	36	.85	35	1,267,054	6	1.7	
Utah	1,008	37	2,341	37	2,355	33	2,265	36	2.25	31	.97	28	168,192	37	1.3	
Vermont	405	48	934	48	2,312	35	1,498	39	3.70	20	1.60	18	71,963	47	2.1	
Virginia	4,507	14	10,691	14	2,419	30	10,104	20	2.24	32	.95	30	528,962	20	1.9	
Washington	2,980	23	8,641	20	2,906	12	19,893	11	6.68	6	2.30	7	696,522	13	2.9	
West Virginia	1,794	33	3,679	34	2,027	45	4,765	31	2.66	26	1.30	24	264,245	34	1.8	
Wisconsin	4,161	16	11,279	13	2,724	19	21,237	9	5.10	11	1.83	13	822,880	8	2.6	
Wyoming	329	49	844	50	2,558	26	1,009	43	3.07	23	1.20	26	55,788	49	1.8	

Source: State Government Finances in 1966.

Death taxes per capita and per \$1,000 of personal income and relationship of death tax collections to total state tax collections were calculated from base material.

R=Rank.

Other Variations. The rates of the death taxes vary considerably among the states, not only between the estate tax group and inheritance tax group but also very much within groups. In addition, there are substantial differences as to deductions and exemptions. Twenty-three states permit the deduction of the federal estate tax for purposes of computing the taxable estate for state purposes, while the remaining states do not. New Jersey excludes from the net taxable estate all life insurance payable to a named beneficiary and all tenancies by the entireties, both of which are taxable under the federal estate tax, the pickup taxes, and some of the inheritance taxes. It is thus difficult to compare the burden of death taxes among the states without reference to the composition of the estate and its particular distribu-

tion under a will or by intestacy. See Table 45, page 82.

TAX YIELDS

While death taxes are not generally considered as important parts of state revenue systems, some states have very substantial yields from these taxes and New Jersey relies upon its yield to a greater extent than most other states. While New Jersey ranked eighth in population and eighth in personal incomes received, in 1966, it ranked fourth in death taxes collected, third in amount per capita and fifth in amount of death taxes per \$1,000 of personal income in the state. Table 26. New Jersey's rank of fourth in death taxes has persisted over the last forty years with little change. See Table 27.

TABLE 27
State of New Jersey
STATE DEATH AND GIFT TAX COLLECTIONS IN THE
UNITED STATES, BY STATE, 1925-1966
(in thousands of dollars)

State	1966	1962	1950	1940	1930	1925
	<i>(Numerals in parenthesis are State rank)</i>					
Alabama	\$1,807 (38)	\$707 (43)	\$914 (31)	\$262 (34)	\$.....	\$.....
Alaska	81 (49)	98 (49)	.....	.....	.....	.....
Arizona	2,143 (37)	875 (41)	118 (46)	180 (38)	284 (34)	98 (37)
Arkansas	709 (46)	721 (42)	206 (43)	234 (36)	283 (35)	366 (28)
California	124,301 (2)	76,016 (2)	19,857 (3)	10,661 (3)	11,647 (6)	6,423 (3)
Colorado	8,424 (24)	6,000 (23)	1,919 (25)	1,063 (20)	900 (23)	911 (16)
Connecticut	39,994 (6)	22,984 (6)	5,868 (9)	3,399 (7)	3,607 (10)	2,867 (8)
Delaware	6,759 (27)	3,374 (29)	2,879 (16)	472 (31)	1,853 (13)	86 (40)
Florida	15,773 (14)	6,347 (22)	3,011 (15)	923 (23)	.....	.....
Georgia	3,833 (32)	1,635 (34)	613 (34)	472 (32)	359 (32)	333 (29)

TABLE 27—Continued

State of New Jersey
STATE DEATH AND GIFT TAX COLLECTIONS IN THE
UNITED STATES, BY STATE, 1925-1966
(in thousands of dollars)

State	1966	1962	1950	1940	1930	1925
	<i>(Numerals in parenthesis are State rank)</i>					
Hawaii	1,446 (41)	1,075 (39)	.....	.....	.....	.....
Idaho	914 (45)	646 (44)	222 (41)	80 (42)	36 (43)	13 (44)
Illinois	45,183 (5)	31,682 (4)	7,259 (7)	3,615 (6)	16,092 (3)	5,078 (6)
Indiana	10,076 (21)	7,222 (18)	3,042 (14)	1,333 (15)	1,451 (15)	953 (15)
Iowa	12,086 (17)	8,162 (14)	3,408 (13)	1,017 (21)	1,234 (17)	1,062 (13)
Kansas	5,572 (28)	5,214 (26)	1,079 (30)	375 (33)	684 (27)	402 (26)
Kentucky	9,792 (22)	5,890 (24)	2,618 (18)	1,200 (17)	1,024 (21)	385 (27)
Louisiana	5,359 (29)	4,954 (27)	1,510 (27)	887 (24)	689 (26)	467 (22)
Maine	4,967 (30)	3,699 (28)	1,476 (28)	662 (28)	1,010 (22)	1,370 (11)
Maryland	9,115 (23)	6,407 (21)	2,600 (19)	1,723 (12)	1,416 (16)	848 (18)
Massachusetts	34,903 (7)	21,141 (7)	9,660 (4)	9,478 (4)	14,337 (5)	6,010 (5)
Michigan	22,727 (8)	14,490 (10)	7,929 (6)	2,736 (9)	5,421 (8)	2,503 (9)
Minnesota	14,555 (15)	9,011 (13)	2,334 (21)	1,199 (18)	1,529 (14)	1,030 (14)
Mississippi	997 (44)	1,181 (38)	231 (40)	49 (44)	42 (42)	35 (35)
Missouri	10,643 (18)	6,668 (20)	2,742 (17)	1,962 (11)	3,841 (9)	1,169 (12)
Montana	2,750 (34)	2,147 (33)	422 (35)	187 (37)	213 (37)	97 (38)
Nebraska	528 (48)	376 (47)	189 (44)	133 (41)	120 (45)	.....
Nevada .....	..... (50)	..... (50)	.....	.....	.....	.....
New Hampshire	3,031 (33)	2,752 (31)	911 (32)	1,101 (19)	480 (30)	247 (34)
New Jersey	52,775 (4)	24,059 (5)	9,600 (5)	5,263 (5)	15,766 (4)	6,361 (4)

TABLE 27—Continued

State of New Jersey
STATE DEATH AND GIFT TAX COLLECTIONS IN THE
UNITED STATES, BY STATE, 1925-1966
(in thousands of dollars)

<i>State</i>	<i>1966</i>	<i>1962</i>	<i>1950</i>	<i>1940</i>	<i>1930</i>	<i>1925</i>
	<i>(Numerals in parenthesis are State rank)</i>					
New Mexico	1,211 (42)	481 (45)	215 (42)	43 (46)	66 (41)	39 (43)
New York	132,125 (1)	81,748 (1)	22,375 (1)	28,025 (1)	50,487 (1)	23,661 (1)
North Carolina	17,901 (13)	7,837 (16)	2,211 (22)	1,009 (22)	1,196 (19)	762 (19)
North Dakota	585 (47)	347 (48)	113 (45)	41 (47)	31 (44)	47 (41)
Ohio	18,522 (12)	11,564 (11)	4,559 (11)	2,182 (10)	2,999 (11)	1,511 (10)
Oklahoma	12,897 (16)	7,288 (17)	2,449 (20)	1,633 (13)	187 (39)	96 (39)
Oregon	8,223 (25)	8,087 (15)	1,467 (29)	652 (29)	1,230 (18)	572 (21)
Pennsylvania	62,200 (3)	57,311 (3)	21,652 (2)	19,427 (2)	26,844 (2)	12,712 (2)
Rhode Island	6,830 (26)	2,973 (30)	1,556 (26)	1,206 (16)	6,155 (7)	432 (25)
South Carolina	2,704 (35)	1,555 (35)	397 (36)	141 (40)	260 (36)	438 (23)
South Dakota	1,459 (40)	930 (40)	375 (37)	52 (43)	193 (38)	150 (36)
Tennessee	10,601 (19)	6,676 (19)	1,955 (24)	853 (25)	341 (33)	315 (32)
Texas	21,098 (10)	17,759 (8)	6,047 (8)	718 (27)	782 (24)	592 (20)
Utah	2,265 (36)	1,372 (36)	370 (39)	154 (39)	381 (31)	288 (33)
Vermont	1,498 (39)	1,212 (37)	371 (38)	250 (35)	507 (29)	328 (31)
Virginia	10,104 (20)	5,237 (25)	2,028 (23)	722 (26)	1,096 (20)	331 (30)
Washington	19,898 (11)	10,327 (12)	3,559 (12)	1,443 (14)	543 (28)	434 (24)
West Virginia	4,765 (31)	2,676 (32)	888 (33)	521 (30)	751 (25)	876 (17)
Wisconsin	21,237 (9)	14,934 (9)	5,338 (10)	3,212 (8)	2,462 (12)	2,943 (7)
Wyoming	1,009 (43)	417 (46)	110 (47)	40 (45)	68 (40)	40 (42)

New Jersey also depends upon the death tax revenues, as a percentage of total state tax collections, to a greater extent than any other state except one, Connecticut, which had a percentage of 8.3% in 1967 as compared with New Jersey's 6.5%. The median state in 1966, South Dakota, collected only 1.9% of its total state tax collec-

tions from death taxes and the average state collected only 2.8%. (See Table 26.) The percentage of state death taxes to total state tax collections, in the order of ranking for the top 10 states for the years 1967 and 1965 is shown in Table 28.

TABLE 28
DEATH TAXES AS A PERCENTAGE OF TOTAL STATE TAX COLLECTIONS
1965 AND 1967 SELECTED STATES

	1967		1965	
	Death taxes to total state taxes—%	Rank	Death taxes to total state taxes—%	Rank
Connecticut	8.3	1	7.9	3
New Jersey	6.5	2	8.9	2
New Hampshire	4.7	4	14.1	1
Delaware	5.3	3	4.2	7
Rhode Island	4.0	5	7.4	4
Massachusetts	4.0	6	4.7	5
Maine	3.7	7	4.1	9
Pennsylvania	3.6	8	4.5	6
California	3.3	9	3.7	10
Illinois	3.2	10	..	..
Oregon	2.6	16	4.2	8

HISTORY OF THE NEW JERSEY TRANSFER
INHERITANCE TAX

New Jersey, as some of the other states, first levied a death tax at the end of the nineteenth century, and it extended only to inheritances by collaterals and non-relatives. It was not until the Act of March 26, 1914, (Chapter 57 as amended by Chapter 151) that New Jersey first extended its death tax to transfers to a spouse, child, father, mother, brother, sister or spouse of a child of the decedent. Significant changes were made in the act in 1922 (Chapter 174) by extending the tax to transfers to charities, increasing the rates, and allowing the federal

estate tax as a deduction on the gross estate. Following the enactment of the Revenue Act of 1926, with its newly adopted 80% credit for death taxes paid to the states, New Jersey increased its death tax rates so as to absorb as nearly as possible the full amount of the 80% federal credit, and the deduction previously allowed for federal estate taxes paid was eliminated from the New Jersey Statute. It is significant that the rates and classifications of beneficiaries, subject to minor changes noted at the foot of *Table 29*, continued in effect from July 1, 1926, for almost 36 years to March 28, 1962.

TABLE 29
NEW JERSEY BENEFICIARY CLASSIFICATIONS
EXEMPTIONS AND TAX RATES: 1926-1962

	Block of net taxable transfer less exemption	Rates of tax by Class				
		A	B	C	D	E
Class A—Father, mother, husband, wife, child, issue of child, adopted child, issue of adopted child. (See note below.)	50,000....	1	5	5		8
	50,000....	2	5	5		8
Class B—Brother, sister, wife or widow of son, husband of daughter.	50,000....	3	5	5		8
	50,000....	4	5	5		8
	100,000....	5	5	5		8
Class C—Churches, hospitals, orphan asylums, public libraries, Bible and tract societies, religious, benevolent charitable organizations and uses.	200,000....	6	6	5	e x e m p t	8
	200,000....	7	6	5		8
	200,000....	8	7	5		8
	200,000....	9	9	5		10
	300,000....	10	11	5		12
Class D—State of New Jersey and its political subdivisions.	300,000....	11	13	5	E x e m p t	14
	500,000....	12	14	5		16
	500,000....	13	16	5		16
	500,000....	14	16	5		16
Class E—All others.	500,000....	15	16	5		16
	Over 3,700,000....	16	16	5		16

EXEMPTIONS

- Class A. \$5,000 each beneficiary.
- Class B. Under \$500, no tax; \$500 or over, no exemption.
- Class C. Under \$500, no tax; \$500 or over, no exemption (see note below).
- Class D. Exempt.
- Class E. Under \$500, no tax; \$500 or over, no exemption.

Source: c. 294, Laws of 1926.

Notes:

- a) Mutually acknowledged child omitted from Class A under C. 294.
- b) Issue of child and adopted child transferred from Class B to Class A, July 1, 1927 (c. 225).
- c) State supported educational institutions exempted (c. 102, Laws of 1925).
- d) Churches, hospitals, charitable, religious, etc. organizations granted \$5,000 exemptions, July 1, 1934 (c. 244).
- e) Mutually acknowledged child and step-child granted same exemption and taxed at same rates as child (c. 128, Laws of 1937).
- f) Grandparents included in Class A, July 1, 1934 (c. 244).
- g) Insurance to designated beneficiaries exempt (c. 303, Laws of 1939).
- h) Educational institutions exempt on reciprocal basis (c. 268, Laws of 1948).
- i) Institutions for the instruction of the blind in the use of dogs as guides exempted, effective June 17, 1955 (c. 78).

On March 29, 1962, the rates were substantially increased on all classes of beneficiaries, except charitable, religious, etc. The extent of the rate changes is shown in *Table 30*. They largely followed a proposal of two years' standing to substantially increase death tax rates (A-540 passed the Assembly May 9, 1960, but died in the Senate Judiciary Committee, and A-694 was introduced in the Assembly on May 15, 1961, and went to second reading but no further.) Following the passage of A-586 which became *Chapter 15, Laws of 1962*, on March 30, 1962, the *New York Times* (page 36:1) said that "the increase in the inheritance tax is permanent and is expected to net the state an extra \$4 million this year (1962) and \$7.6 million annually thereafter." *The Trenton Evening Times* of the same date said: "The inheritance tax boost is permanent." (page 2.)

A "before and after" comparison of the burden of the 1962 rate increases is shown in *Table 31*. The Table shows the tax that would be paid were a single beneficiary of the class indicated

to receive a bequest in the amount shown in the column designated "Size of Estate."

The heaviest increase in actual tax dollars occurs in Class "B" (brothers, sisters, etc.) where the tax on estates up to \$300,000 passing to a single beneficiary of the Class is increased 120%. On a million dollar estate the tax burden is 77.4% greater, increasing from \$62,000 pre-1962 to \$110,000 post-1962. From that point the increase drops to 10.4% at \$5,000,000, to 4.7% at \$10,000,000.

Next in order of severity is the increased tax burden on transfers to Class "E" beneficiaries (all others). On all estates up to \$500,000 passing to such beneficiaries, the tax is increased 87.5%. On a million dollar estate the tax increase is still at a high 86.6%; dropping to 43.6% at \$2,000,000; 13.6% at \$5,000,000; and to 6.3% at \$10,000,000.

The tax increase under the 1962 act reaches its maximum on transfers to Class "A" beneficiaries (husband, wife, children, etc.) on an es-

TABLE 30
NEW JERSEY BENEFICIARY CLASSIFICATIONS AND TAX RATES: 1962-

Block of net taxable transfer less exemption	Rates of tax							
	Class A		Class B		Class C *	Class D	Class E	
	Old	New	Old	New			Old	New
15,000	1	1	5	11	5		8	15
35,000	1	2	5	11	5		8	15
50,000	2	3	5	11	5		8	15
50,000	3	4	5	11	5		8	15
50,000	4	5	5	11	5		8	15
100,000	5	6	5	11	5	E x e m p t	8	15
200,000	6	7	6	11	5		8	15
200,000	7	8	7	11	5		8	15
200,000	8	9	8	11	5		8	16
200,000	9	10	9	11	5		10	16
300,000	10	11	11	13	5		12	16
300,000	11	12	13	14	5		14	16
500,000	12	13	14	16	5		16	16
500,000	13	14	16	16	5		16	16
500,000	14	15	16	16	5		16	16
Over 3,700,000	15	16	16	16	5	16	16	
	16	16	16	16	5	16	16	

* Class C, churches, hospitals, charities, etc., complete exempted, effective July 1, 1963 (c. 61, Laws of 1962).
See Table 29 for beneficiary classifications and exemptions.

TABLE 31
NEW JERSEY INHERITANCE TAX BURDEN, BEFORE AND AFTER MARCH 29, 1962;
BY SIZE OF ESTATE AND CLASS OF TRANSFEREE
(Single Beneficiary)

Size of Estate	Class "A"							
	Tax *							
			Increase		Effective tax rate—%		Top bracket tax rate—%	
	Before	After	Amount	Percent	Before	After	Before	After
5,000
25,000
50,000
100,000
200,000
300,000
400,000
500,000
1,000,000
2,000,000
3,000,000
4,000,000
5,000,000
6,000,000
7,000,000
8,000,000
9,000,000
10,000,000

Class "B"								
5,000	.....	.....	.....	.....	.....	.....	.....	.....
25,000	.....	.....	.....	.....	.....	.....	.....	.....
50,000	.....	.....	.....	.....	.....	.....	.....	.....
100,000	.....	.....	.....	.....	.....	.....	.....	.....
200,000	.....	.....	.....	.....	.....	.....	.....	.....
300,000	.....	.....	.....	.....	.....	.....	.....	.....
400,000	.....	.....	.....	.....	.....	.....	.....	.....
500,000	.....	.....	.....	.....	.....	.....	.....	.....
1,000,000	.....	.....	.....	.....	.....	.....	.....	.....
2,000,000	.....	.....	.....	.....	.....	.....	.....	.....
3,000,000	.....	.....	.....	.....	.....	.....	.....	.....
4,000,000	.....	.....	.....	.....	.....	.....	.....	.....
5,000,000	.....	.....	.....	.....	.....	.....	.....	.....
6,000,000	.....	.....	.....	.....	.....	.....	.....	.....
7,000,000	.....	.....	.....	.....	.....	.....	.....	.....
8,000,000	.....	.....	.....	.....	.....	.....	.....	.....
9,000,000	.....	.....	.....	.....	.....	.....	.....	.....
10,000,000	.....	.....	.....	.....	.....	.....	.....	.....

* Assuming single beneficiary of class takes total taxable estate.

TABLE 31—Continued
 NEW JERSEY INHERITANCE TAX BURDEN, BEFORE AND AFTER MARCH 29, 1962;
 BY SIZE OF ESTATE AND CLASS OF TRANSFEREE
 (Single Beneficiary)

Size of Estate	Class "E"							
	Tax *							
			Increase		Effective tax rate—%		Top bracket tax rate—%	
	Before	After	Amount	Percent	Before	After	Before	After
5,000	400	750	350	87.5	8.0	15.0	8.0	15.0
25,000	2,000	3,750	1,750	87.5	8.0	15.0	8.0	15.0
50,000	4,000	7,500	3,500	87.5	8.0	15.0	8.0	15.0
100,000	8,000	15,000	7,000	87.5	8.0	15.0	8.0	15.0
200,000	16,000	30,000	14,000	87.5	8.0	15.0	8.0	15.0
300,000	24,000	45,000	21,000	87.5	8.0	15.0	8.0	15.0
400,000	32,000	60,000	28,000	87.5	8.0	15.0	8.0	15.0
500,000	40,000	75,000	35,000	87.5	8.0	15.0	8.0	15.0
1,000,000	82,000	153,000	71,000	86.6	8.2	15.3	10.0	16.0
2,000,000	218,000	313,000	95,000	43.6	10.9	15.7	16.0	16.0
3,000,000	378,000	473,000	95,000	25.1	12.6	15.8	16.0	16.0
4,000,000	538,000	633,000	95,000	17.7	13.5	15.8	16.0	16.0
5,000,000	698,000	793,000	95,000	13.6	14.0	15.9	16.0	16.0
6,000,000	858,000	953,000	95,000	11.1	14.3	15.9	16.0	16.0
7,000,000	1,018,000	1,113,000	95,000	9.3	14.5	15.9	16.0	16.0
8,000,000	1,178,000	1,273,000	95,000	8.1	14.7	15.9	16.0	16.0
9,000,000	1,338,000	1,433,000	95,000	7.1	14.9	15.9	16.0	16.0
10,000,000	1,498,000	1,593,000	95,000	6.3	15.0	15.9	16.0	16.0

tate of \$50,000. At this point the tax moves up from \$450 to \$800; an increase of 77.8%. At \$500,000 the increase is 22.1%; \$1,000,000 it is 16.2%; \$5,000,000, 6.0%; \$10,000,000, 2.6%.

At the time of adoption of C.15 it was estimated that the increased rates would produce \$7.6 million additional revenue annually. It would seem at this time that the estimate was quite conservative. Actual inheritance tax collections for the four full fiscal years following adoption of C.15 (1964-67) averaged \$50 million annually; a figure more than double the yield of \$24.2 million for 1962 under the former rate schedule. This latter figure, however, must be adjusted for the five intervening years to reflect population and economic growth. *Table 32* shows the results of an 8% average annual increase in death tax collections for the fiscal years 1950-1967 inclusive. On the basis of these pro-

jections, it would appear that the additional yield of the 1962 rate changes approximates \$20 million annually. In percentage this means that 60% of annual collections for these years represents the yield of the inheritance tax law without rate changes after adjustments for population and economic growth factors, and 40% as a result of the rate changes. This estimate is in accord with the result of an analysis of actual assessments for one full year. *See Table 35.*

This review leaves for further examination two broad issues:

- A. Is the transfer inheritance tax fair and equitable in its present form?
- B. Is the burden acceptable from the viewpoint of New Jersey in competition with other states?

TABLE 32
STATE OF NEW JERSEY
NEW JERSEY INHERITANCE TAXES PROJECTED 1963 TO 1967 BASED ON
PRE-1962 RATES AND EXEMPTIONS—8% ANNUAL INCREASE
(amounts in thousands of dollars)

<i>Fiscal Year</i>	<i>Actual Collections</i> ¹	<i>Projected Collections (8% annual)</i> ²	<i>Estimated Yield of Rate Increases</i> ³	<i>% of Actual Collections Attributable to Rate Increase</i>
1945	8,557	.....	.....	.....
1950	9,600	.....	.....	.....
1951	9,553	10,368	.....	.....
1952	12,487	11,197.4	.....	.....
1953	10,990	12,093.2	.....	.....
1954	11,909	13,060.7	.....	.....
1955	12,795	14,105.6	.....	.....
1956	15,865	15,234.0	.....	.....
1957	16,700	16,452.7	.....	.....
1958	18,600	17,768.9	.....	.....
1959	20,600	19,190.4	.....	.....
1960	20,621	20,725.6	.....	.....
1961	24,676	22,383.6	.....	.....
1962	24,059	24,174.3	.....	.....
1963	40,115	26,108.2	14,006.8	34.9
1964	47,656	28,196.9	19,459.1	40.8
1965	48,197	30,452.7	17,744.3	36.8
1966	52,775	32,888.9	19,886.1	37.6
1967 ⁴	57,945	35,520.0	22,421.0 ⁵	38.7 ⁶

¹ From Compendium of State Government Finances, Table 5, 1945, 1950-53; State Tax Collections, Table 3, Bureau of the Census, 1954-1966; Transfer Inheritance Tax Bureau, 1967.

² Projections from 1950 on basis of 8% annual increase.

³ Estimated yield of increased rates under c. 15, Laws of 1962.

⁴ Before refunds to estates, probably overstated by approximately \$2,000,000.

⁵ With allowance of \$2,000,000 for estate refunds this figure would be \$20,421,000.

⁶ Less \$2,000,000 refunds this figure would be 36.5%.

INTERNAL EQUITY OF THE DEATH TAX

Between 1962 and 1967 New Jersey death tax collections increased by more than 100%. This increased yield was the net result of increased rates imposed in 1962, growth of the population and economy of the state, offset in part by revenue loss due to the exemption of transfers to religious, charitable, benevolent, etc. organizations on a reciprocal state basis. Between 1950 and 1962 death tax collections increased, as already noted, at an average annual rate of approximately 8%, as shown in *Table 32*. The same table shows the effect of the 1962 rate increases on top of the normal annual growth.

The extent to which growth of the population and economy contributed to the increase in yields is shown in the trend in the number of taxable inheritance tax returns which were filed during the period 1960-1967, as follows:

NUMBER OF INHERITANCE TAX RETURNS FILED
IN THE FISCAL YEARS 1960-1967

Fiscal Year	Number of Returns		Total
	Taxable	Exempt	
1960	15,878	16,626	32,504
1961	13,885	16,345	30,230
1962	14,687	16,719	31,406
1963	16,220	17,428	33,648
1964	20,407	14,886	35,293
1965	19,481	16,195	35,676
1966	20,629	15,698	36,327
1967	20,270	15,600	35,870

An analysis furnished by the Transfer Inheritance Tax Bureau of its assessments for

1962 and 1967, classified according to size of the net estate shows that estates under \$500,000 produced 56% of the tax yield in 1962, while in 1967 estates in this size group accounted for 66% of the yield.

Table 33 also discloses several additional interesting facts. This table, related to actual assessments levied by the Inheritance Tax Bureau during fiscal year 1967, shows that 83% of assessments by number were under \$60,000 in size; covered 30% of aggregate net estate valuation and produced 23% of total taxes assessed. Further, that estates in excess of \$1,000,000 accounted for 0.44% of assessments by number; 16% of aggregate estate valuation and produced 24% of taxes assessed. A similar distribution for fiscal 1962 is shown in *Table 34*. A condensed summary of the results for 1967 is as follows:

The New Jersey Bankers Association has made an extensive analysis of assessments made by the Transfer Inheritance Tax Bureau during the fiscal year ending June 30, 1967. From this analysis it is possible to determine how the pre-1962 rates compared with the present rates in their effect upon the three taxable classes of beneficiaries, that is:

- Class A—Spouse, child, parents, etc.
- Class B—Brother, sister, etc.
- Class E—All others.

As shown in *Table 35*, the assessments made in July and October of 1966 and January and April of 1967, annualized by multiplying the total by 3, show that the pre-1962 rates account

Estate size	1967 Assessments: Selected Levels		Valuation		Tax	
	Number	%	(000)	%	(000)	%
Under \$60,000	14,906	82.67	\$289,553	30.28	\$10,221	22.88
Under 100,000	16,202	89.86	390,323	40.82	14,487	32.43
\$100,000-1,000,000	1,755	9.73	412,791	43.17	19,531	43.74
1,000,000-5,000,000	71	0.42	125,532	13.15	9,222	20.68
Over 5,000,000	3	0.02	27,731	2.90	1,420	3.18
All Estates						

for 61.6% of the assessments and the 1962 rate increases accounted for 38.4%.

Among the beneficiary classes, the lineal group (Class A) produced 42.9%, brothers, etc. (Class B) 18.4% and all others (Class E) 38.7% of the assessments. It is interesting to compare this result with the pre-1962 rates, which resulted in 52.9% of the assessments being on Class A beneficiaries, 13.7% on Class B and 33.4% on Class E.

Table 35 also shows that the 1962 rate increases account for only 24.2% of the assessments to Class A beneficiaries, while they account for 54.2% of assessments to Class B beneficiaries and 46.7% of assessments to Class E beneficiaries. The overall average, as already noted, attributes 38.4% of fiscal 1967 assessments to the 1962 rate increases.

TABLE 33
STATE OF NEW JERSEY
DISTRIBUTION OF NET ESTATES
BY SIZE AND TAX PAID, 1966-1967

Size Group	Amount of Estates (thousands)	% of Total Estates	Number of Estates	% of Total Estates	Tax	
					Amount	% of Total
Under 50,000	\$255,555	26.7	14,286	79.2	\$8,813,471	19.7
50,000 to 60,000	33,998	3.6	620	3.4	1,407,891	3.2
60,000 to 100,000	100,770	10.5	1,296	7.2	4,226,355	9.6
100,000 to 150,000	82,546	8.6	682	3.8	3,587,013	8.0
150,000 to 200,000	61,551	6.4	361	2.0	2,930,792	6.6
200,000 to 300,000	83,895	8.8	337	1.9	3,821,329	8.6
300,000 to 500,000	96,765	10.1	247	1.4	4,724,805	10.6
500,000 to 700,000	46,156	4.8	79	.4	2,350,078	5.3
700,000 to 900,000	26,098	2.7	33	.2	1,378,015	3.1
900,000 to 1,000,000	15,780	1.7	16	.09	739,142	1.7
1,000,000 to 1,100,000	13,654	1.4	13	.07	790,574	1.7
1,100,000 to 1,200,000	10,395	1.1	9	.05	739,392	1.7
1,200,000 to 1,300,000	6,155	.6	5	.03	374,351	.8
1,300,000 to 1,400,000	6,735	.7	5	.03	303,823	.7
1,400,000 to 1,500,000	7,229	.8	5	.03	634,563	1.4
1,500,000 to 1,600,000	3,114	.3	2	.01	283,341	.6
1,600,000 to 1,700,000	3,224	.3	2	.01	186,221	.4
1,700,000 to 1,800,000	8,678	.9	5	.03	473,636	1.1
1,800,000 to 1,900,000	3,715	.4	2	.01	560,834	1.3
1,900,000 to 2,000,000	5,907	.6	3	.02	490,641	1.1
2,000,000 to 2,100,000	2,091	.2	1	.01	122,304	.3
2,100,000 to 2,200,000	6,484	.7	3	.02	450,707	1.0
2,200,000 to 2,700,000	19,298	2.0	8	.05	1,598,333	3.6
2,700,000 to 3,200,000	11,407	1.2	4	.02	864,122	1.9
3,200,000 to 3,700,000	3,524	.4	1	.01	189,764	.4
3,700,000 to 4,000,000						
4,000,000 to 5,000,000	13,924	1.5	3	.02	1,158,997	2.6
Over 5,000,000	27,731	2.9	3	.02	1,419,613	3.2
Totals	\$956,377	...	18,031	...	\$44,660,107	...

AN ESTATE TAX VS. THE TRANSFER
INHERITANCE TAX

These data also serve to illuminate one of the issues of equity before the Commission, that is, whether it would be desirable to change the death tax in New Jersey from the present inheritance tax form to the federal estate tax form. The merits of the choice turn out to be partly equitable and partly fiscal

For this purpose, we may assume an estate tax modeled after the federal statutes. This would result in a substitution of the federal flat exemption of \$60,000 out of the total estate in place of the present \$5,000 exemption against bequests to each Class A beneficiary (*See Table 36*); and a substitution of the federal progressive rate structure which depends upon the size of the net total taxable estate in place of the present progressive rate structure which in-

TABLE 34
STATE OF NEW JERSEY
DISTRIBUTION OF NET ESTATES
BY SIZE AND TAX PAID, 1961-1962

Size Group	Amount of Group (thousands)	% of Total Estates	Number of Estates in Group	% of Total Estates	Tax	
					Amount	% of Total
Under 50,000	\$186,889	27.7	11,853	82.7	\$4,187,937	19.1
50,000 to 60,000	24,303	3.6	445	3.1	494,752	2.3
60,000 to 100,000	65,798	9.8	857	6.0	1,663,513	7.6
100,000 to 150,000	52,044	7.7	431	3.0	1,390,711	6.3
150,000 to 200,000	39,890	5.9	229	1.6	1,095,307	5.0
200,000 to 300,000	53,815	8.0	213	1.5	1,642,241	7.5
300,000 to 500,000	56,794	8.4	148	1.0	1,856,920	8.5
500,000 to 700,000	36,209	5.4	60	.4	1,313,886	6.0
700,000 to 900,000	28,924	4.3	37	.3	1,258,476	5.7
900,000 to 1,000,000	7,607	1.1	8	.06	290,852	1.3
1,000,000 to 1,100,000	7,263	1.1	7	.05	338,690	1.5
1,100,000 to 1,200,000	4,584	.7	4	.03	194,633	.9
1,200,000 to 1,300,000	3,836	.6	3	.02	143,165	.7
1,300,000 to 1,400,000	6,727	1.0	5	.04	285,425	1.3
1,400,000 to 1,500,000	5,769	.9	4	.02	253,111	1.2
1,500,000 to 1,600,000	1,575	.2	1	.01	116,933	.5
1,600,000 to 1,700,000						
1,700,000 to 1,800,000	8,734	1.3	5	.04	296,857	1.4
1,800,000 to 1,900,000	7,369	1.1	4	.03	347,435	1.6
1,900,000 to 2,000,000	5,775	.9	3	.02	362,849	1.7
2,000,000 to 2,100,000	4,116	.6	2	.01	190,105	.9
2,100,000 to 2,200,000						
2,200,000 to 2,700,000	7,302	1.1	3	.02	433,900	2.0
2,700,000 to 3,200,000	17,004	2.5	6	.04	903,487	4.1
3,200,000 to 3,700,000						
3,700,000 to 4,000,000						
4,000,000 to 5,000,000	12,654	1.9	3	.02	1,008,125	4.6
Over 5,000,000	28,888	4.3	5	.04	1,882,528	8.6
Totals	\$673,869		14,336		\$21,951,838	

TABLE 35
 State of New Jersey
 COMPARATIVE YIELDS OF 1962 AND PRESENT RATES
 OF DEATH TAXES
 Estimates by New Jersey Bankers' Association
 (Amounts in thousands)

Present Class and Period	Assessments ¹				Increase		% of Present Yield Attributable to:	
	Present Rates		Pre-1962 Rates		(1)-(2)		Pre 1962 rates	1962 rate
	Amt (1)	% of Total	Amt (2)	% of Total	Amt (3)	%	(2) ÷ (1) (4)	(3) ÷ (1) (5)
July 1966 (1194 Estates)								
Class A ² ...	\$1,331	49.4	\$1,040	59.9	\$291	28.0	78.1	21.9
Class B ³ ...	389	14.4	177	10.2	212	119.7	45.5	54.5
Class E ⁴ ...	974	36.1	519	29.9	455	87.7	53.3	46.7
Total	\$2,694	100.0	\$1,736	100.0	\$958	55.2	64.4	35.6
October 1966 (1572 Estates)								
Class A ...	\$1,293	40.3	\$965	49.6	\$328	34.0	74.6	25.4
Class B ...	499	15.6	227	11.7	272	119.8	45.5	54.5
Class E ...	1,413	44.1	753	38.7	660	87.6	53.3	46.7
Total	\$3,205	100.0	\$1,945	100.0	\$1,260	64.8	60.7	39.3
January 1967 (1401 Estates)								
Class A ...	\$1,232	38.7	\$914	47.8	\$318	34.8	74.2	25.8
Class B ...	642	20.1	299	25.6	343	114.7	46.6	53.4
Class E ...	1,310	41.1	699	36.5	611	87.4	53.4	46.6
Total	\$3,184	100.0	\$1,912	100.0	\$1,272	66.5	60.1	39.9
April 1967 (1588 Estates)								
Class A ...	\$1,370	44.4	\$1,044	54.8	\$326	31.2	76.2	23.8
Class B ...	710	23.0	323	17.0	387	119.8	45.5	54.5
Class E ...	1,008	32.6	538	28.2	470	87.4	53.4	46.6
Total	\$3,088	100.0	\$1,905	100.0	\$1,183	62.1	61.7	38.3
Four Months Total								
Class A ...	\$5,226	42.9	\$3,963	52.9	\$1,263	31.8	75.8	24.2
Class B ...	2,240	18.4	1,026	13.7	1,214	118.3	45.8	54.2
Class E ...	4,705	38.7	2,509	33.4	2,196	87.5	53.3	46.7
Total	\$12,171	100.0	\$7,498	100.0	\$4,673	62.3	61.6	38.4
Annualized ..	\$36,513		\$22,494		\$14,019	62.3	61.6	38.4

¹ Exclusive of compromise tax. Compromise taxes in the 4 test months follow: July, 1966—\$522,475.56; Oct., 1966—\$321,696.60; Jan., 1967—\$366,461.51; April, 1967—\$137,755.34.

² (Husband, wife, child, etc.)

³ (Brother, sister, etc.)

⁴ (All others.)

cludes three different schedules which vary depending upon the closeness of the relationship of the beneficiary to the decedent. A federal estate-type tax would also include a marital deduction which excludes from the taxable estate one-half the amount transferred to a surviving spouse. There is no parallel provision in the present New Jersey law.

Substantial shifts in the tax burden among beneficiary classes would result from any possible change to an estate tax. This is due to a number of factors. For example, the State had assessments last year totaling \$10.2 million on estates with a net valuation below \$60,000, which would be completely lost under an estate tax which applies only to estates in excess of \$60,000. There were nearly 15,000 estate tax proceedings in the under-\$60,000 category last year. Another cause of shift in the burden would be the adoption of a uniform rate schedule in place of the present three-part schedule which favors transfers to spouses, children and other lineal heirs. While the impact of the new uniform rate structure would be modified if the state were to incorporate a marital deduction provision, such a deduction would require higher rates to replace the present revenues in all size levels of estates.

A sample rate schedule appears in *Table 36*: The table shows a range of rates from 6% on the first tax bracket to a maximum of 16% on transfers in excess of \$2.5 million. Applying these rates to estates in excess of \$60,000 net valuation which were actually assessed in the fiscal year 1967, it is estimated that the tax yield for that period would have approximated \$41,763,860 as compared with actual assessments for the period of \$44,659,752.

Table 36 illustrates some specific effects of the estate tax rate schedule. It may be noted that the tax burden on transfers to widows and children in the \$200,000 to \$500,000 net estate levels more than doubled under the replacement schedule, and continues substantially heavier up to the \$10 million estate level. Similar results are evident in the case of transfers to children alone. The effect of the shift in tax burden from brothers, sisters and collaterals and non-relatives of the decedent to the wife and surviving children of the decedent is evident from a comparison of the tax figures in columns 4 and 5 with those in column 6 of *Table 37*.

The effect of a marital deduction is shown in column 7, *Table 37*. The taxes in that column are based upon the assumption that one-half of the estate in each instance passes to the surviving spouse. This, of course, does not occur in every estate, but in those cases where it does, the tax reduction is so drastic as to clearly indicate the necessity of a substantial upward adjustment in the whole replacement tax rate structure. The inclusion of designated beneficiary life insurance and tenancies by the entirety in the taxable estate (which are now exempted by the state but taxable under the federal law) would help to offset this loss, but would certainly fall far short of making up the difference.

So long as New Jersey wishes to depend on death taxes as a substantial contributor to its General Fund and is unable to accept a reduction in death tax revenues, it is evident that a shift from the inheritance to an estate-type of death tax cannot be an acceptable alternative.

TABLE 36

APPROXIMATE ESTATE TAX RATES NECESSARY TO REPLACE CURRENT NEW JERSEY INHERITANCE TAX ASSESSMENTS (1967)

Assessments 1967 ¹						Estate tax replacement			
Net estate	Number of estates (1)	Total Value of net estates (2)	Total tax assessed (3)	Average size estate (2÷1) (4)	Present tax on average size estate (3÷1) (5)	Effective tax rate (5÷4) (6)	Tax rates ² (7)	On average size estate (7×4) (8)	Yield (1×8) (9)
\$60,000- 100,000	682	\$100,770,000	\$4,266,000	\$77,755	\$3,291	4.23	See	\$1,065	\$1,380,629
100,000- 150,000	361	82,546,048	3,587,013	121,035	5,260	4.35	Schedule	3,372	2,640,704
150,000- 200,000	337	61,551,253	2,930,792	270,502	8,118	4.76	in	7,335	2,647,935
200,000- 300,000	247	83,894,542	3,821,329	248,945	11,339	4.55	footnote	13,316	4,487,492
300,000- 500,000	79	96,765,356	4,724,805	391,762	19,128	4.88		24,741	6,111,027
500,000- 700,000	33	46,155,755	2,350,078	584,250	29,747	5.09		41,983	3,316,657
700,000- 900,000	16	26,098,493	1,378,015	790,863	41,758	5.28		62,486	2,062,038
900,000-1,000,000	13	15,780,237	739,142	986,264	46,196	4.68		83,889	1,342,224
1,000,000-1,100,000	9	13,653,744	790,574	1,050,288	60,813	5.79		91,435	1,188,655
1,100,000-1,200,000	5	10,394,655	739,392	1,154,961	82,154	7.11		103,995	935,955
1,200,000-1,300,000	5	6,155,257	374,351	1,231,051	74,870	6.08		113,437	567,185
1,300,000-1,400,000	16	6,734,773	303,823	1,346,954	60,764	4.51		123,504	642,520
1,400,000-1,900,000	15	25,959,475	2,138,595	1,622,467	133,662	8.23		166,545	2,664,720
1,900,000-2,700,000	11	33,780,103	2,661,985	2,252,006	177,465	7.88		258,201	3,873,015
over-2,700,000	11	56,585,676	3,632,496	5,144,152	330,226	6.41		718,464	7,903,104
	\$3,125	\$666,825,367	\$34,438,390						\$41,763,860

² Replacement Rate Schedule

Net Valuation	¹ Total Assessments 1967			Net estate					
	Number	Value	Tax	Equaling (1)	Not exceeding (2)	Block (3)	Rate(%) (4)	Tax on block (5)	Tax on amount in column (2) (6)
Under \$50,000	14,286	\$255,554,863	\$8,813,471	\$.....	\$60,000	\$60,000	exempt	exempt	exempt
50,000 to 60,000	620	33,997,613	1,407,891	60,000	100,000	40,000	6	2,400	2,400
Over 60,000	3,125	666,825,367	34,438,390	100,000	200,000	100,000	7	7,000	9,400
				200,000	400,000	200,000	8	16,000	25,400
Totals ²	18,031	\$956,377,843	\$44,659,752	400,000	600,000	200,000	9	18,000	43,400
				600,000	800,000	200,000	10	20,000	63,400
				800,000	1,000,000	200,000	11	22,000	85,400
				1,000,000	1,200,000	200,000	12	24,000	109,400
				1,200,000	1,400,000	200,000	13	26,000	135,400
				1,400,000	1,900,000	500,000	14	70,000	205,400
				1,900,000	2,500,000	600,000	15	90,000	295,400
				over	2,500,000	.....	16	.....	.....

² Slight variations in totals due to rounding.

In summary, the considerations which dictate a rejection of the estate tax alternative at this time are as follows:

1. The relatively low rates of the state tax as compared with the federal and the low exemptions of the state law as compared with the federal must be considered with reference

to the major difference of rate structure under the state law as to Class A and other beneficiaries.

2. To change to an estate tax, while raising the same amount of revenue as at present, would result in a shift of tax burden from strangers and collaterals to the spouse and

TABLE 37

COMPARISON OF TAX UNDER PRESENT NEW JERSEY INHERITANCE TAX ACT
AND ESTATE TAX REPLACEMENT FOR SELECTED ESTATE SIZES
AND BENEFICIARY GROUPS

Net estate ¹	Present New Jersey inheritance tax on transfers to				Tax under estate tax replacement rates (Table 36) for columns (2) through (5)	
	Widow, one-half Two children, one-half equally (2)	Two children, equally (3)	Two brothers equally (4)	Two collaterals—non-relatives equally (5)	Without marital deduction (6)	With marital deduction (7)
(1)						
\$50,000	\$450	\$600	\$5,500	\$7,500	\$	\$
100,000	1,400	1,600	11,000	15,000	2,400	. . . . .
200,000	3,900	4,600	22,000	30,000	9,400	2,400
300,000	7,400	8,600	33,000	45,000	17,400	5,900
400,000	11,400	13,600	44,000	60,000	25,400	9,400
500,000	16,400	19,600	55,000	75,000	34,400	13,400
1,000,000	46,400	53,600	110,000	150,000	85,400	34,400
2,000,000	124,400	141,600	220,000	306,000	220,400	85,400
3,000,000	220,400	251,600	348,000	466,000	375,400	149,400
5,000,000	451,400	513,600	660,000	786,000	695,400	295,400
10,000,000	1,161,400	1,295,600	1,460,000	1,586,000	1,495,400	695,400

¹ Before exemptions and marital deduction.

lineal heirs of a decedent. While the present distinction among these beneficiaries under the New Jersey law might theoretically be continued under an estate tax, such a scheme would be extremely difficult to administer and would negate one of the alleged advantages of the change, that is, the simplicity of state conformity with the federal plan.

3. The present yield of the New Jersey tax could not be replaced from the estate tax without sharp rate increases to make up for the loss of revenue from estates of less than \$60,000 and those involving a marital deduction.

4. A change to the estate tax would deprive all estates of the present exemption under the New Jersey statute of life insurance proceeds where the policy is payable to a named beneficiary or in trust for a named beneficiary, and also of tenancies by the entireties in real estate. These two types of assets are probably a larger part of the smaller estates, and their elimination could largely offset the increased exemption available by paralleling the federal estate tax.

5. In view of the internal shifting of burden, potential revenue loss without sharp rate increases, and lack of substantial advantages, it would appear desirable to defer consideration of a change to an estate tax pending the fate of the ACIR proposal to substantially increase the federal estate tax credit.¹ It certainly is not necessary to change to an estate tax solely for the purpose of reducing the burden of the present New Jersey death tax.

¹ Advisory Commission on Intergovernmental Relations, *Coordination of States and Federal Inheritance, Estate and Gift Taxes* (Report A-1, Jan. 1961) pp. 14-18, 67-81.

COMPARATIVE TAX BURDEN

A meaningful comparison of death tax burdens, as of any other specific burden, requires consideration of at least three components of the revenue system:

(a) Death taxes in New Jersey compared with death taxes in other states;

(b) Total tax obligations of the individual, both during his lifetime and with respect to his estate upon death; and

(c) The overall tax system, and its fiscal necessities.

Death taxes. The differences in burden among the state death taxes depend on both the nature and scope of the exemptions and the rate structure, except for those states having only a pick-up type tax.

The \$5,000 exemption for Class A (lineal) beneficiaries and the \$500 limitation for distant relatives and non-relatives have remained unchanged from the beginning. The first \$5,000 of the valuation of property passing to a Class A beneficiary is exempt from tax and the remainder of the first tax bracket of \$15,000 is taxed at the rate of one percent (1%). It is not a total exemption for all beneficiaries falling into the class to be shared by them proportionately as in Connecticut, nor is it a limitation as in Massachusetts and Maryland where, if the benefits passing to a beneficiary exceed the limitation, there is no exemption.

As appears in *Table 38* there is a wide range in the levels of exemptions for the widow, husband and children. Especially is this so in the case of the widow where the exemption is often several times that provided for children. This is probably intended as a limited form of

marital deduction in smaller estates. For example:

State	Widow	Minor child	Adult child
Colorado	\$35,000	\$15,000	\$10,000
Connecticut	50,000	10,000*	10,000*
Delaware	20,000	3,000	3,000
Hawaii	20,000	5,000	5,000
Indiana	15,000	5,000	2,000
Iowa	40,000	15,000	15,000
Kansas	75,000	15,000	15,000
Michigan	30,000	5,000	5,000
Minnesota	30,000	15,000	6,000
Missouri	20,000	5,000	5,000
Montana	20,000	2,000	2,000
West Virginia	15,000	5,000	5,000
Wisconsin	15,000	2,000	2,000

* Class exemption.

In New Jersey, transfers to brothers and sisters of a value of less than \$500 are exempt; if \$500 or more they are fully taxable. This treatment of close blood relatives is novel. While a few states do not provide any exemptions for transfers to brothers and sisters, most states provide substantial exemptions for these relatives; some at the \$5,000 and \$10,000 levels. (Illinois, New Mexico, Texas and Wyoming \$10,000; Kansas, Michigan, Rhode Island \$5,000.)

New Jersey's \$500 limitation on transfers to distant relatives and non-relatives varies from the treatment of such beneficiaries elsewhere. In many states there is no exemption for this class of beneficiary, while in most others the exemption is \$100, \$200, or \$500. In three states (Colorado, \$500; Kansas, \$200; Missouri, \$100) the designated amount is a limitation rather than an exemption, so that all transfers equal to or in excess of the specified amount are fully taxed. And in three states Connecticut, \$500; New Mexico, \$500; Tennessee, \$1,000) the exemption is a class exemption to be shared proportionately by all in the class.

It is evident that even in the matter of exemptions there is a wide range of treatment and in several states the exemption level is sufficiently high that it can have a substantial effect on the

amount of tax chargeable, especially in low and medium value estates.

Rate-wise there is even less uniformity as Table 38 indicates. Especially is this so as to transfers to closely related beneficiaries. New Jersey's 1-16 percent rate range on transfers to widows and children does appear on the surface to be the highest in the Country, although it should be quickly pointed out that this is not the sole measure of ultimate tax burden in estates of various sizes. A factor having a material bearing on the total tax liability is the level at which the top tax rate applies. Following are a few instances of the application of top tax rates to relatively low levels of transfer valuations to adult children:

ADULT CHILDREN

State	Top Tax Rate (%)	Level at Which Top Tax Rate Applies
California	14	\$400,000
Colorado	8	500,000
Hawaii	7.5	250,000
Idaho	15	500,000
Illinois	14	500,000
Iowa	8	150,000
Kentucky	10	500,000
Montana	8	100,000
Tennessee	9.5	500,000
Washington	10	500,000
Wisconsin	10	500,000

New Jersey applies the 11% rate at \$1,100,000 on transfer to widows and children and, incidentally, the top rate of 16% applies only to transfer beyond the \$3,200,000 level. The effect of this tax bracket factor will more clearly appear in subsequent tables comparing tax burdens in the various states on transfers to widows and children.

Class B transferees in New Jersey include not only brothers and sisters of the decedent but also the wife or widow of a son and the husband or widower of a daughter of the decedent. Transfers to this class of beneficiaries are subject not only to the under \$500 limitation on the exemption but also next to the highest initial tax rate in the nation—exceeded only

TABLE 38
STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS,
JANUARY 1, 1968

State ¹	Exemptions					Rates (percent)					In case of spouse	
	Widow	Minor child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	Size of first bracket	Level at which top rate applies	
Alabama (2)												
Alaska	\$10,000	\$10,000	\$10,000	\$1,000	None	1-3.5	1-3.5	3-10.5	5-17.5	\$15,000	\$100,000	
Arizona (2)												
Arkansas (2)												
California (3, 4, 18)	5,000	12,000	5,000	2,000	\$300	3-14	3-14	6-20	10-24	25,000	400,000	
Colorado (19)	35,000	15,000	10,000	2,000	(5)500	2-8	2-8	3-10	10-19	50,000	500,000	
Connecticut (3, 6, 7)	50,000	10,000	10,000	3,000	500	(8)3-8	2-8	4-10	8-14	100,000	1,000,000	
Delaware (3)	20,000	3,000	3,000	1,000	None	1-4	1-4	2-5	5-8	30,000	200,000	
District of Columbia (3)	5,000	5,000	5,000	2,000	1,000	1-5	1-5	3-10	5-15	50,000	1,000,000	
Florida (2)												
Georgia (2)												
Hawaii	20,000	5,000	5,000	500	500	(8)2-6	1-5-7.5	3.5-9	3-5-9	15,000	250,000	
Idaho (4)	10,000	10,000	4,000	1,000	None	2-15	2-15	4-20	8-30	25,000	500,000	
Illinois	20,000	20,000	20,000	10,000	100	2-14	2-14	2-14	10-30	20,000	500,000	
Indiana (3)	15,000	5,000	2,000	500	100	1-10	1-10	5-15	7-20	25,000	1,500,000	
Iowa (20)	40,000	15,000	15,000	(9)None	(9)None	1-8	1-8	5-10	10-15	5,000	150,000	
Kansas	75,000	15,000	15,000	5,000	(5)200	(8)0.5-2.5	1-5	3-12.5	10-15	25,000	500,000	
Kentucky (21)	10,000	10,000	5,000	1,000	500	2-10	2-10	4-16	6-16	20,000	500,000	
Louisiana (3, 4)	5,000	5,000	5,000	1,000	500	2-3	2-3	5-7	5-10	25,000	25,000	
Maine	15,000	10,000	10,000	500	500	2-6	2-6	8-12	12-18	50,000	250,000	
Maryland (5)	150	150	150	150	150	1	1	7½	7½	(10)	(10)	
Massachusetts (5, 22)	10,000	10,000	10,000	1,000	1,000	1½-11½	1½-11½	5-18½	7½-18½	10,000	1,000,000	
Michigan (3, 12)	30,000	5,000	5,000	5,000	None	2-8	2-8	2-8	10-15	50,000	750,000	
Minnesota (3)	30,000	15,000	6,000	1,500	500	1.5-10	2-10	6-25	8-30	25,000	1,000,000	
Mississippi (2)												
Missouri	20,000	5,000	5,000	500	(5)100	1-6	1-6	3-18	5-30	20,000	400,000	
Montana (3)	20,000	2,000	2,000	500	None	2-8	2-8	4-16	8-32	25,000	100,000	
Nebraska (3)	10,000	10,000	10,000	10,000	500	1	1	1	6-18	(10)	(10)	
Nevada (13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	
New Hampshire (25)	(13)	(13)	(13)	None	None	(13)	(13)	10	10	(13)	(13)	
New Jersey (3)	5,000	5,000	5,000	(5)500	(5)500	1-16	1-16	11-16	15-16	10,000	3,200,000	
New Mexico (4, 6)	10,000	10,000	10,000	10,000	500	1	1	5	5	(10)	(10)	
New York (2)												
North Carolina	10,000	5,000	2,000	None	None	1-12	1-12	4-16	8-17	10,000	3,000,000	
North Dakota (2)												
Ohio (3)	10,000	10,000	7,000	1,000	None	1-5	2-5	6-2	8-11	25,000	200,000	
Oklahoma (2)												
Oregon (*, 14)	(13)	(13)	(13)	1,000	500	(13)	(13)	1-15	4-20	(13)	(13)	
Pennsylvania (24)	1,000	(15)None	(15)None	None	None	6	6	15	11	(10)	(10)	
Rhode Island (3, 14)	10,000	10,000	10,000	5,000	1,000	2-9	2-9	3-10	8-15	25,000	1,000,000	
South Dakota (*, 3)	15,000	10,000	10,000	500	100	1-4	1-4	3-12	5-20	15,000	100,000	
South Carolina (2)												
Tennessee (3, 6, 23)	10,000	10,000	10,000	1,000	1,000	14-35	14-95	6.5-20	6.5-20	25,000	500,000	
Texas (3, 4)	25,000	25,000	25,000	10,000	500	1-6	1-6	3-10	5-20	50,000	1,000,000	
Utah (2)												
Vermont (5)	15,000	15,000	15,000	15,000	None	2-6	2-6	2-6	12	25,000	250,000	
Virginia (3)	5,000	5,000	5,000	2,000	1,000	1-5	1-5	2-10	5-15	50,000	1,000,000	
Washington (3, 4)	(16)5,000	(16)5,000	(16)5,000	(16)1,000	None	1-10	1-10	3-20	10-25	25,000	500,000	
West Virginia (*, 3)	15,000	5,000	5,000	None	None	3-13	3-13	4-18	10-30	50,000	1,000,000	
Wisconsin (3, 17)	15,000	2,000	2,000	500	100	2-10	2-10	2-10	8-40	25,000	500,000	
Wyoming	10,000	10,000	10,000	10,000	None	2	2	2	6	(10)	(10)	

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- ¹ All States, except those designated by asterisk (*) impose also an estate tax to assure full absorption of the 80 percent Federal credit.
- ² Imposes only estate tax.
- ³ Exemptions are deductible from the first bracket.
- ⁴ Community property passing to the surviving spouse is not taxable.
- ⁵ No exemption is allowed if beneficiary's share exceeds the amount shown in the exemption column, but no tax shall reduce the value of the amounts shown in the exemption column. In Maryland, it is the practice to allow a family allowance of \$450 to a widow if there are infant children, and \$225 if there are no infant children, although there is no provision for such deductions in the statute.
- ⁶ The exemption shown is the total exemption for all beneficiaries falling into the particular class and is shared by them proportionately.
- ⁷ An additional 30 percent surtax is imposed.
- ⁸ Rate shown is for spouse only. A minor child is taxed at the rates applying to an adult child.
- ⁹ Estates of less than \$1,000 after deduction of debts are not taxable.
- ¹⁰ Entire share.
- ¹² Transfers of real property to class I beneficiaries are taxed at $\frac{3}{4}$ of the indicated tax rates.
- ¹³ No tax imposed.
- ¹⁴ Imposes also an estate tax.
- ¹⁵ In the absence of a spouse, the children may claim the \$1,000 exemption.
- ¹⁶ An additional \$5,000 exemption is allowed to the class as a whole.
- ¹⁷ These rates are subject to the limitation that the total tax may not exceed 15 percent of the beneficiary's share. An additional tax equal to 30 percent of the inheritance and estate tax is also imposed.
- ¹⁸ Exemptions and rates effective July 29, 1967.
- ¹⁹ Exemptions and rates effective April 20, 1967.
- ²⁰ Brackets changed July 4, 1965.
- ²¹ Estates of \$3,000,000 or over not subject to inheritance tax law but are subject to an estate tax equal to the federal estate tax credit.
- ²² Rates effective January 1, 1967.
- ²³ Rates effective May 1, 1967.
- ²⁴ Rates effective
- ²⁵ Rate effective April 21, 1965.

by Pennsylvania. The rate range for this class in New Jersey is 11-16%. The closest approximations to this initial rate of 11%, applicable to brothers and sisters, are in the following states:

BROTHERS AND SISTERS

State	Initial rate (%)	After an exemption of	Tax on \$10,000 legacy
California	6	\$2,000	480
Maine	8	500	760
Minnesota	6	1,500	510
New Hampshire	10	none	1,000
Ohio	6	1,000	540
Pennsylvania	15	none	1,500
Tennessee	6.5	1,000	585
New Jersey	11	none	1,100

(New Hampshire imposes no tax on transfers to spouses, parents, lineal descendants and adopted children, and a flat 10% tax, without exemptions, on transfers to all others. In Pennsylvania a flat rate tax of 6% applies to transfers to spouses, parents, grandparents, children and issue, and adopted and illegitimate children and their issue and a flat rate tax of 15% on transfers to all others.)

The maximum rate of 16% on transfers to brothers and sisters was not increased in 1962, although the 16% rate after the amendment applies to transfers beyond \$1,700,000, whereas before the change the top rate applied only to transfers beyond the \$2,200,000 level. This 16% rate does not compare unfavorably with maximum rates elsewhere on this class of transferee. While some are lower, there are many states where the rate is roughly equal to New Jersey or higher, e.g.:

	Brothers and Sisters, etc., Maximum rate (%)	Level at Which Maximum Rate Applies
California	20	\$400,000
Idaho	20	500,000
Illinois	14	500,000
Indiana	15	1,000,000
Kentucky	16	200,000
Massachusetts	18.75	1,000,000
Minnesota	25	1,000,000
Missouri	18	400,000
Montana	16	100,000
North Carolina	16	3,000,000
Oregon	15	500,000
Pennsylvania	15	all
Tennessee	20	250,000
Washington	20	100,000
West Virginia	18	1,000,000

And again it should be mentioned that these maximum rates with a couple of exceptions, apply at levels far below the \$1,700,000 maximum tax level in New Jersey for this class of beneficiary.

Transfers to Class E beneficiaries (distant and non-relatives) are taxed in New Jersey at the rate of 15% up to \$700,000 without exemption if the value of the transfer is \$500 or more. The maximum rate of 16% applies on that portion of a transfer in excess of \$1,700,000. No other state imposes an initial tax rate of 15%, except Pennsylvania which applies a flat 15% rate on transfers to distant and non-relatives. As shown by Table 38, there are eight states with starting rates of 10%, and one (Maine) with 12% and one (Vermont) with a flat 12%. But again it is interesting to note the levels at which the 15% rate is reached even in those states which have much lower initial rates.

COLLATERALS

	Initial Rate (%)	Level at Which Approximate 15% Rate Applies	
California	10	25,000	(14%)
Colorado	10	15,000	(15%)
Idaho	8	25,000	(14%)
Illinois	10	50,000	(16%)
Maine	12	50,000	(14%)
Missouri	5	40,000	(15%)
Montana	8	25,000	(16%)
Nebraska	6	20,000	(15%)
Oregon	4	10,000	(15%)
South Dakota ...	5	50,000	(15%)
Washington	10	10,000	(15%)
Wisconsin	8	25,000	(16%)

There is little to be said about New Jersey's maximum rate of 16% on collaterals and non-relatives. Nine states have rates at this approximate level and 18 with higher rates, several of which go to 30%. Montana's rate reaches its maximum at 40% although there is a proviso that the total tax may not exceed 15% of the value of the property transferred to a beneficiary. While many of these top rates appear excessively burdensome, it seems quite probable, except in states such as California (24%) and Illinois (30%), that they would have very limited application.

Thus far comparisons on the basis of rates and exemptions have probably proved more confusing than enlightening. At best they are only general indicators of the probable level of the death tax burden. In the final analysis the best test of relative tax burden, state by state, is the actual tax which would be chargeable under given sets of circumstances, and it is here that we run into a mass of substantial statistical problems. Not only are there 49 states and the District of Columbia with their endless variations in the treatment of property, deductions, beneficiaries, exemptions, tax rates, tax

brackets and many other factors having a bearing upon the ultimate tax liability, but there is also the sizeable problem of selecting those hypothetical circumstances which will best illustrate the extent to which death tax burdens vary from state to state. Apparently the A.C.I.R. ran into this problem in its study of death taxes in 1960, since it limited the actual tax burden state by state to two hypothetical cases: (1) where the estate is shared one-half by the widow and one-fourth each by two adult children, to point out the effect of the marital deduction under the federal act and those state statutes which allow a marital deduction or exemption, and (2) where the estate is shared equally by two adult children.

Table 39 shows the state death tax burden, state by state, for selected size estates passing one-half to the wife and one-fourth to each of two adult children. *Table 40* indicates the burden where the estate passes equally to two adult children.

Where the various size estates are shared by the widow and two children, as shown by *Table 41*, there are 17 states at the one million dollar level, with tax liabilities heavier than in New Jersey, including Massachusetts, Rhode Island, Connecticut and Pennsylvania, although there are only six with a heavier burden at the \$5 million estate level, including Illinois and Connecticut. In this hypothesis (widow—2 children) we have the influence of the federal marital deduction in those states which allow the federal estate tax as a deduction and directly the effect of the marital deduction or exemption is those states, notably California and New York, which recognize this item in determining state death tax liability.

Where two adult children share the various size estates equally, there are 15 states at the million dollar level with heavier death tax burdens than New Jersey, including New York, Rhode Island, Connecticut and Pennsylvania but only four with heavier taxes at the \$5 million estate level, including New York and California. See *Table 41*.

TABLE 39
STATE DEATH TAXES ON SELECTED SIZE ESTATES, LEFT ONE-HALF TO THE WIFE AND
ONE-FOURTH TO EACH OF TWO ADULT CHILDREN AS OF JANUARY 1, 1968

Item and State	Net estate after deductions, ¹ but before specific exemptions									
	\$25,000	\$50,000	\$100,000	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
Maximum credit for State taxes under present Federal law					\$1,200	\$3,600	\$6,800	\$10,000	\$48,400	\$138,800
Amount of State tax:										
Alabama					1,200	3,600	6,800	10,000	48,400	138,800
Alaska	\$25	\$200	\$1,000	\$3,418	8,877	14,732	20,731	26,723	71,000	141,751
Arizona					1,200	3,600	6,800	10,000	48,400	138,800
Arkansas					1,200	3,600	6,800	10,000	48,400	138,800
California	75	450	1,200	3,200	9,200	17,200	25,200	35,200	132,200	307,200
Colorado (2)		210	990	3,520	14,713	30,223	46,613	63,113	192,060	412,060
Connecticut (3)	65	390	1,365	5,265	14,365	26,065	39,065	54,665	195,065	455,065
Delaware	65	240	740	2,640	8,640	16,640	24,640	32,640	82,640	186,640
Florida					1,200	3,600	6,800	10,000	48,400	138,800
Georgia					1,200	3,600	6,800	10,000	48,400	138,800
Hawaii	38	325	1,500	5,000	14,500	26,000	38,000	50,000	151,250	320,000
Idaho	90	340	1,180	3,876	10,600	18,745	27,315	35,875	127,400	279,050
Illinois		100	800	3,256	9,625	18,263	30,583	44,279	183,562	473,400
Indiana	85	310	1,060	3,560	9,560	16,560	24,560	33,560	125,560	336,560
Iowa			450	3,809	13,326	25,741	38,459	52,555	153,763	315,475
Kansas			200	965	4,438	9,152	14,294	19,430	60,324	138,800
Kentucky	100	600	1,900	6,210	17,004	29,418	42,272	55,430	169,210	338,800
Louisiana	200	750	2,100	5,100	11,100	17,100	23,100	29,100	74,100	149,100
Maine		300	1,300	3,530	9,198	15,845	24,415	32,975	107,316	228,600
Maryland	250	500	1,000	1,952	3,685	5,409	7,123	10,000	48,400	138,800
Massachusetts	187	875	2,437	6,601	16,290	27,124	38,907	50,677	157,922	368,437
Michigan	50	300	1,200	4,200	12,200	20,700	29,700	38,700	133,700	328,700
Minnesota	10	260	1,160	4,492	13,429	24,444	36,145	48,965	159,403	352,285
Mississippi			456	2,508	9,257	17,830	28,226	40,447	161,926	451,577
Missouri	25	150	400	1,553	4,813	9,122	13,595	18,478	62,563	142,800
Montana	170	570	2,070	6,830	18,865	32,342	46,054	59,750	160,958	322,670
Nebraska	25	200	700	1,652	3,385	5,169	6,823	10,000	48,400	138,800
New Hampshire					1,200	3,600	6,800	10,000	48,400	138,800
New Jersey	100	450	1,400	3,900	11,400	21,400	33,400	46,400	170,900	451,400
New Mexico	150	400	900	1,900	3,900	5,900	7,900	10,000	48,400	138,800
New York	50	300	800	2,300	5,800	9,800	14,800	19,800	75,300	200,800
North Carolina	110	420	1,570	4,930	13,790	24,650	35,650	47,610	149,870	357,130
North Dakota	20	420	1,340	4,116	10,920	19,145	27,715	37,030	132,560	352,130
Ohio	25	370	1,620	4,476	10,518	17,960	25,674	33,796	97,051	198,120
Oklahoma		50	1,500	7,000	19,525	32,800	46,825	61,825	131,600	391,375
Oregon	100	475	1,725	6,725	18,725	35,725	55,725	75,725	275,725	476,922
Pennsylvania	1,440	2,940	5,940	11,940	23,940	35,940	47,940	59,940	149,940	299,940
Rhode Island	200	800	2,550	7,050	18,050	30,550	43,550	56,550	179,050	419,050
South Carolina	25	145	400	1,428	4,170	7,618	11,508	15,788	52,058	138,800
South Dakota	25	300	1,250	3,750	10,750	18,750	26,750	34,750	94,750	194,750
Tennessee	210	710	2,710	8,210	20,210	36,210	55,210	74,210	216,710	427,500
Texas				500	2,500	5,500	8,500	12,500	48,400	138,800
Utah		500	3,750	13,250	33,250	53,250	73,250	93,250	243,250	493,250
Vermont		300	1,650	5,458	14,075	22,899	32,327	41,743	117,066	238,350
Virginia	100	350	850	2,278	6,562	11,577	16,719	21,855	67,037	158,850
Washington		100	600	2,254	8,248	15,690	23,404	31,108	93,780	194,850
West Virginia	75	750	2,250	6,058	15,360	25,704	38,234	51,930	177,082	421,350
Wisconsin (4)	221	806	2,756	8,944	24,590	42,110	59,946	77,740	226,174	488,956
Wyoming	50	400	1,400	3,304	6,770	10,218	13,646	17,070	48,400	138,800

¹ Size of estate is before marital deduction and the deduction of Federal estate tax in States which allow this deduction.

Treasury Department, Tax Analysis Staff.

² Including 10% surtax.

³ Including 30% surtax.

⁴ Including 30% surtax.

Source: Advisory Commission on Intergovernmental Relations, Coordination of State and Federal Inheritance, Estate and Gift Taxes, January, 1961, Table J, pp. 116-117, revised to January 1, 1968 for exemption, tax bracket and rate changes.

TABLE 40

STATE DEATH TAXES ON SELECTED SIZE ESTATES, LEFT ONE-HALF TO EACH OF TWO ADULT CHILDREN
AS OF JANUARY 1, 1968

Item and State	Net estate after deductions, ¹ but before specific exemptions									
	\$25,000	\$50,000	\$100,000	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
Maximum credit for State taxes under present Federal law				\$1,200	\$6,800	\$14,000	\$22,800	\$33,200	\$138,800	\$391,600
Amount of State tax:										
Alabama				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Alaska	\$50	\$300	\$1,280	3,356	8,130	14,000	22,800	33,200	138,800	391,600
Arizona				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Arkansas				1,200	6,800	14,000	22,800	33,200	138,800	391,600
California	450	1,200	3,200	9,200	25,200	45,200	69,200	97,200	307,200	657,200
Colorado (2)	110	660	1,760	6,050	21,450	37,950	54,450	70,950	202,840	422,840
Connecticut (3)	390	1,365	3,315	7,865	20,215	35,815	54,015	72,215	228,215	509,080
Delaware	190	440	1,340	4,340	12,340	20,340	28,340	36,340	138,800	391,600
Florida				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Georgia				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Hawaii	225	750	2,250	6,750	18,750	32,250	47,250	62,250	174,750	391,600
Idaho	340	1,180	3,732	9,340	22,930	37,130	55,265	75,755	216,800	410,480
Illinois		200	1,104	3,140	8,892	14,572	31,310	40,970	160,200	391,600
Indiana	210	460	1,460	4,460	10,460	18,460	28,460	38,460	144,460	391,600
Iowa		200	1,758	5,074	14,410	25,594	36,698	47,626	138,800	391,600
Kansas		200	804	2,656	7,792	14,000	22,800	33,200	138,800	391,600
Kentucky	300	800	2,408	6,410	16,060	26,444	37,548	48,476	138,800	391,600
Louisiana	300	900	2,400	5,400	11,400	17,400	23,400	33,200	138,800	391,600
Maine	100	600	1,504	3,455	8,692	14,372	22,800	33,200	138,800	391,600
Maryland	250	500	952	1,685	6,800	14,000	22,800	33,200	138,800	391,600
Massachusetts	374	1,000	2,694	6,298	14,892	23,768	33,606	43,852	138,800	391,600
Michigan	300	800	1,800	5,800	13,800	22,800	32,800	42,800	152,800	391,600
Minnesota	260	760	2,568	6,870	16,620	27,104	38,208	49,136	138,800	391,600
Mississippi				456	2,508	9,257	17,530	28,226	40,447	161,926
Missouri	150	400	1,356	3,555	9,292	15,415	22,800	33,200	138,800	391,600
Montana	420	920	2,728	7,030	17,904	29,264	40,368	51,296	138,800	391,600
Nebraska	50	300	752	1,485	6,800	14,000	22,800	33,200	138,800	391,600
New Hampshire				1,200	6,800	14,000	22,800	33,200	138,800	391,600
New Jersey	150	600	1,600	4,600	13,600	25,600	39,600	53,600	194,600	513,600
New Mexico	150	400	900	1,900	6,800	14,000	22,800	33,200	138,800	391,600
New York	300	800	2,300	5,800	14,800	25,800	38,800	51,800	138,800	391,600
North Carolina	220	720	2,180	6,140	16,100	26,060	40,060	52,060	161,800	553,880
North Dakota	420	1,340	3,972	9,660	23,330	38,536	55,192	74,098	256,800	553,656
Ohio	220	720	2,076	4,276	9,712	15,936	22,876	33,200	138,800	391,600
Oklahoma		300	2,200	7,900	20,500	33,850	47,950	62,950	138,800	392,650
Oregon	100	475	1,725	6,725	18,725	35,725	55,725	75,725	225,725	475,725
Pennsylvania	1,440	2,940	5,940	11,940	23,940	35,940	47,940	59,940	179,940	391,600
Rhode Island	250	1,000	3,000	8,000	20,000	33,000	47,000	61,000	196,000	446,000
South Carolina	150	400	1,356	3,555	9,315	16,415	23,355	33,200	138,800	391,600
South Dakota	50	500	1,500	4,500	12,500	20,500	28,500	36,500	96,500	196,500
Tennessee	210	710	2,710	8,210	20,210	36,210	55,210	74,210	216,710	454,210
Texas		500	500	2,500	3,500	16,500	24,500	33,200	138,800	391,600
Utah		500	3,750	13,250	33,250	53,250	73,250	93,250	243,250	493,250
Vermont		600	2,256	5,525	12,715	18,195	27,686	35,882	138,800	391,600
Virginia	150	400	852	2,270	6,800	14,000	22,800	33,200	138,800	391,600
Washington	100	600	2,158	7,145	19,457	32,237	45,660	59,320	153,350	391,600
West Virginia	450	1,200	2,556	6,125	13,561	23,501	33,217	45,373	143,400	304,656
Wisconsin (4)	546	1,196	3,546	9,139	23,275	38,043	52,478	66,685	181,896	509,080
Wyoming	100	600	1,504	2,970	6,800	14,000	22,800	33,200	138,800	391,600

¹ Size of estate is before deduction of Federal estate tax in States which allow this deduction.

² Including 10% surtax.

³ Including 30% surtax.

⁴ Including 30% surtax.

Source: Advisory Commission on Intergovernmental Relations, Coordination of State and Federal Inheritance, Estate and Gift Taxes, January, 1961, Table K, pp. 118-119, revised to January 1, 1968, for exemption, Tax bracket and rate changes.

TABLE 41

STATES WITH HIGHER DEATH TAXES THAN NEW JERSEY, WHERE THE ESTATE PASSES (A) ONE-HALF TO THE WIDOW AND ONE-FOURTH EQUALLY TO TWO ADULT CHILDREN, AND (B) ONE-HALF EQUALLY TO TWO ADULT CHILDREN—\$1,000,000 AND \$5,000,000

<i>One-half to Widow, One-quarter Equally to Two Children</i>		<i>One-half Equally to Two Children</i>	
<i>\$1,000,000 estate</i>	<i>\$5,000,000 estate</i>	<i>\$1,000,000 estate</i>	<i>\$5,000,000 estate</i>
1. Utah	\$93,250	1. Utah	\$493,250
2. Wisconsin	77,740	2. Wisconsin	488,956
3. Oregon	75,725	3. Oregon	475,725
4. Tennessee	72,210	4. Illinois	473,400
5. Colorado	63,113	5. Connecticut	455,065
6. Oklahoma	61,825	6. Mississippi	451,577
7. Pennsylvania	59,940	7. <i>New Jersey</i>	451,400
8. Montana	59,750	8. Tennessee	427,500
9. Rhode Island	56,550	9. West Virginia	421,350
10. Kentucky	55,430	10. Rhode Island	419,050
11. Connecticut	54,665	11. Colorado	412,060
12. Iowa	52,555	12. Oklahoma	391,375
13. West Virginia	51,930	13. Massachusetts	368,437
14. Massachusetts	50,677	14. North Carolina	357,130
15. Hawaii	50,000	15. Minnesota	352,285
16. Minnesota	48,965	16. North Dakota	352,130
17. North Carolina	47,610	17. Montana	322,670
18. <i>New Jersey</i>	46,400	18. Hawaii	320,000
19. Illinois	44,279	19. Iowa	315,475
20. Mississippi	40,447	20. California	307,200
21. North Dakota	37,030	21. Pennsylvania	299,940
22. Idaho	35,875	22. Idaho	279,050
23. California	35,200	23. New York	200,800
24. Washington	31,108	24. Washington	194,850
25. New York	19,800	25. Kentucky	138,800
		1. California	\$97,200
		2. Utah	93,250
		3. Idaho	75,755
		4. Oregon	75,725
		5. Tennessee	74,210
		6. North Dakota	74,098
		7. Connecticut	72,215
		8. Colorado	70,950
		9. Wisconsin	66,685
		10. Oklahoma	62,950
		11. Hawaii	62,250
		12. Rhode Island	61,000
		13. Pennsylvania	59,940
		14. Washington	59,320
		15. New York	53,800
		16. <i>New Jersey</i>	53,600
		17. North Carolina	52,060
		18. Montana	51,296
		19. Minnesota	49,136
		20. Kentucky	48,476
		21. Iowa	47,626
		22. West Virginia	45,373
		23. Massachusetts	43,852
		24. Illinois	40,970
		25. Mississippi	40,447
		1. California	\$657,200
		2. North Carolina	553,880
		3. North Dakota	553,656
		4. New York	541,800
		5. <i>New Jersey</i>	513,600
		6. Connecticut	509,080
		7. Wisconsin	509,080
		8. Utah	493,250
		9. Oregon	475,725
		10. Tennessee	454,210
		11. Mississippi	451,577
		12. Rhode Island	446,000
		13. Colorado	422,840
		14. Idaho	410,480
		15. Oklahoma	392,650
		16. Hawaii	391,600
		17. Illinois	391,600
		18. Iowa	391,600
		19. Kentucky	391,600
		20. Massachusetts	391,600
		21. Minnesota	391,600
		22. Montana	391,600
		23. Pennsylvania	391,600
		24. Washington	391,600
		25. West Virginia	304,652

Note to Table 41: States listed below the level of New Jersey have appeared above New Jersey in one or more columns. This array of 25 states points up the wide range of tax liability in the various states depending upon beneficiary classifications and estate sizes. See text for a few observations on these variations.

It will be observed in column 4 of *Table 41*, that there are 10 states with a uniform tax of \$391,600. These states have inheritance tax laws with "pick-up" statutes. Since the inheritance tax liability in each of these states is insufficient to fully absorb the amount of the federal estate tax credit under the stated circumstances, which amount to \$391,600, the difference is assessed as an estate tax under their "pick-up" statutes. Only West Virginia shows an inheritance tax liability less than the amount of the federal estate tax credit which is occasioned by the fact that it does not have a "pick-up" act.

It is quite apparent, even in this maze of figures, that there is no clear pattern of tax liability. Many states with less tax on the small estates, have much heavier taxes than New Jersey on the largest ones, and vice versa. Perhaps a better grasp of the relative tax burden can be had by limiting the comparison to a few states. For this purpose, the 11 states with death tax collections in 1967 in excess of \$20 million have been chosen. *Tables 42 and 43* show the relative position of New Jersey with the other 10 states where the various size estates are shared by a widow and two children, on the one hand and by two children on the other, using the \$1 million estate as the focal point.

Here we find (*Table 42*; Widow—2 children) 4 states with heavier taxes at the \$1 million estate level, including Connecticut, Massachusetts and Pennsylvania and 3 at the \$5 million level, Connecticut, Illinois and Wisconsin. Six states have lower taxes at the \$1 million level, including Illinois, California and New York and 7 at the \$5 million level.

Where the estate is shared equally by 2 children (*Table 43*) there are 6 states with heavier death taxes at the \$1 million level, in-

cluding Connecticut, New York and Pennsylvania and only 2 at the \$5 million level, California and New York although 2 more are quite close, Connecticut and Wisconsin.

Summarizing what has been covered step by step, New Jersey death taxes in small estates compare favorably with those in many other states, including Massachusetts, Rhode Island, Connecticut, New York and Pennsylvania. And the tax burden at the \$1 million estate level is heavier in nearly $\frac{1}{3}$ of the States than in New Jersey. It is equally clear, however, that at the \$5 million estate level New Jersey's death tax burden ranks among the highest half dozen states in the Nation. It must be remembered, of course, that we have dealt here with only two beneficiary classification assumptions. Expand these assumptions to include a greater number of children, grandchildren, brothers and sisters and even collaterals and non-relatives and there will be drastic changes in results.

QUESTION OF DOMICILARY SHIFTING

One of the principal arguments in favor of rolling back the rates to 1962 is that this step will tend to retain wealthy individuals as residents of New Jersey, and thus preserve death tax revenues for the State, as well as maintain their support for the New Jersey community activities and the economy generally. Some illustrative cases have been referred to as part of this argument, but none have been sufficiently specific to determine whether the individuals involved were motivated by tax or other considerations in moving a domicile to Florida or Arizona, for example.

One approach to the problem is to compare the number of large estates in New Jersey with those in other states. As shown in *Table 44* New Jersey had 74 estates of over \$1 million in

TABLE 42

STATE DEATH TAXES ON SELECTED SIZE ESTATES, LEFT ONE-HALF TO THE WIFE AND ONE-FOURTH TO EACH OF TWO ADULT CHILDREN, IN ELEVEN STATES WHERE 1967 DEATH TAX COLLECTIONS EXCEEDED \$20 MILLION: TAX LIABILITY DETERMINED AS OF JANUARY 1, 1968
RANKED ACCORDING TO TAX LIABILITY AT THE \$1,000,000 ESTATE LEVEL

State	1967 death tax collections (000)	Net estate after deductions, ^a but before specific exemptions									
		25,000	50,000	100,000	200,000	400,000	600,000	800,000	1,000,000	2,500,000	5,000,000
Wisconsin (1)	22,113	221	806	2,756	8,944	24,590	42,110	59,946	77,740	226,174	488,956
Pennsylvania	62,966	1,440	2,940	5,940	11,940	23,940	35,940	47,940	59,940	149,940	299,940
Connecticut	37,919	65	390	1,365	5,265	14,635	28,065	39,065	54,665	195,065	455,065
Massachusetts (1)	38,102	187	875	2,437	6,601	16,290	27,124	38,907	50,877	157,922	368,437
New Jersey	54,498	100	450	1,400	3,900	11,400	21,400	33,400	46,400	170,900	451,400
Illinois (1)	47,341	.....	100	800	3,256	9,625	18,263	30,583	44,279	183,562	473,400
Michigan	20,720	50	300	1,200	4,200	12,200	20,700	29,700	38,700	133,700	328,700
California (2)	114,176	75	450	1,200	3,200	9,200	17,200	25,200	35,200	132,200	307,200
Washington (1) ..	21,727	.....	100	600	2,254	8,248	15,690	23,404	31,108	93,780	194,850
New York (2)	116,029	50	300	800	2,300	5,800	9,800	14,800	19,800	75,300	200,800
Texas	27,276	.....	.....	.....	500	2,500	5,500	8,500	12,500	48,400	138,800

^a Size of estate is before marital deduction and the deduction of federal estate tax in states which allow this deduction.

¹ Federal estate tax deduction allowed.

² Marital deduction or exemption allowed.

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TABLE 43

STATE DEATH TAXES ON SELECTED SIZE ESTATES, LEFT ONE-HALF TO EACH OF TWO ADULT CHILDREN, IN ELEVEN STATES WHERE 1967 DEATH TAX COLLECTIONS EXCEEDED \$20 MILLION: TAX LIABILITY DETERMINED AS OF JANUARY 1, 1968; RANKED ACCORDING TO TAX LIABILITY AT THE \$1,000,000 ESTATE LEVEL

State	1967 death tax collections (000)	Net estate after deductions, ^a but before specific exemptions									
		25,000	50,000	100,000	200,000	400,000	600,000	800,000	1,000,000	2,500,000	5,000,000
California (2)	114,176	450	1,200	3,200	9,200	25,200	45,200	69,200	97,200	307,200	657,200
Connecticut (3) ...	37,919	390	1,365	3,315	7,865	20,215	35,815	54,015	72,215	228,215	509,080
Wisconsin (1, 4) ...	22,113	546	1,196	3,546	9,139	23,275	38,043	52,478	66,685	181,896	509,080
Pennsylvania	62,966	1,440	2,940	5,940	11,940	23,940	35,940	47,940	59,940	149,940	391,600
Washington (1) ...	21,727	100	600	2,158	7,145	19,457	32,237	45,660	59,320	153,350	391,600
New York (2)	116,029	300	800	2,300	5,800	14,800	25,800	38,800	53,800	200,800	541,800
New Jersey	54,498	150	600	1,600	4,600	13,600	25,600	39,600	53,600	194,600	513,600
Massachusetts (1)	38,102	374	1,000	2,694	6,298	14,892	23,768	33,606	43,852	138,800	391,600
Michigan	20,720	300	800	1,800	5,800	13,800	22,800	32,800	42,800	152,800	391,600
Illinois (1)	47,341	.....	200	1,104	3,140	8,892	14,572	31,310	40,970	160,200	391,600
Texas	27,276	.....	.....	500	2,500	5,500	16,500	24,500	33,200	138,800	391,600

^a Size of estate is before marital deduction and the deduction of federal estate tax in states which allow this deduction.

¹ Federal estate tax deduction allowed.

² Marital deduction or exemption allowed.

³ Including 30% surtax.

⁴ Including 30% surtax.

TABLE 44

NUMBER OF \$1 MILLION, OR OVER, ESTATES REPORTED TO THE INTERNAL REVENUE SERVICE IN 1963
Selected States

State	\$1,000,000 under 2,000,000		\$2,000,000 under 3,000,000		\$3,000,000 under 5,000,000		\$5,000,000 and over		Total	
	No.	% Total	No.	% Total	No.	% Total	No.	% Total	No.	% Total
New York	212	39.2	56	38.9	50	49.5	32	43.2	350	40.7
California	135	25.0	36	25.0	19	18.8	19	25.7	209	24.3
Illinois	65	22.0	21	14.6	15	14.9	8	10.8	109	12.7
New Jersey	48	8.9	15	10.4	6	5.9	5	6.8	74	8.6
Connecticut	36	6.7	10	7.0	3	3.0	6	8.1	55	6.4
North Carolina	14	2.6	2	1.4	3	3.0	2	2.7	21	2.4
Wisconsin	13	2.4	2	1.4	3	3.0	2	2.7	20	2.3
Oregon	11	2.0	1	0.7	...	...	...	...	12	1.4
Mississippi	5	0.9	...	...	1	1.0	...	...	6	0.7
Utah	2	0.4	1	...	1	1.0	...	...	4	0.5
North Dakota .....	...	...	...	...	...	...	...	...	...	...
Total	541	100.0	144	100.0	101	100.0	74	100.0	860	100.0

Source: Statistics of Income, 1965, Fiduciary, Gift and Estate Tax Returns filed during Calendar Year 1963, Table 8, pp. 70-78.

1963. The Bureau reports the same number of estates of that size in fiscal 1967. It is interesting to observe that Connecticut which ranks as high or higher than New Jersey in all the categories shown in *Table 41* had a much larger percentage of million dollar estates for its size than the other states. In general, the number of large estates seems to be more a function of population or urbanization than it is of relative rank in tax burden.

In summary, these conclusions may be drawn from the text and tables:

(1) New Jersey relies more heavily on death taxes to support state government than do most other states.

(2) New Jersey death taxes are heavier than some of the other states, but they are less than some states, and even this generalization requires assumptions as to the composition of the estate assets and the nature of the distribution to lineal, collateral and stranger beneficiaries.

(3) The 1962 rate increases had the smallest effect on lineals in the largest estates.

(4) It is impossible to determine statistically what influence death taxes may have in the selec-

tion of a domicile by wealthy individuals, but there is no statistical evidence that New Jersey has suffered as a result of the 1962 rate increases.

FISCAL EFFECT OF A RATE ROLL-BACK

The Commission has been urged to consider the burden of New Jersey death taxes from the viewpoint of competition from other states to attract people of means to change their domicile and lessen the burden of death taxes on their estates. To this end, the Commission has been urged by the New Jersey Bankers' Association to roll back tax rate on Class A and Class B beneficiaries to the pre-1962 level, making no change in the current rates on Class E beneficiaries or in the exemption of charitable beneficiaries under Class C. The Association had previously proposed a roll-back of all rates to the pre-1962 level, but revised this proposal in order to reduce the revenue loss and to give greater tax relief to widows and immediate members of the family.

The Association estimated that a total roll-back would cause a revenue loss of \$14 million.

An analysis of the statistical study shows that the revenue loss would most likely be \$21 million for 1967, and this could well increase 8% a year so long as present economic trends continue. The Association estimates a revenue loss of \$7.4 million as of 1967 under its revised proposal, but this should be \$11.1 million to allow for the difference between the Association's sample of assessments which totaled \$36.5 million for 1967 as compared with actual state collections of \$54.5 million for the same period.

The Commission recommends—

A roll-back to pre-1962 rates would result in an excessive loss of revenue at this time, and therefore cannot be supported.

SPECIFIC EQUITY ISSUES

A. Real Property held as tenancies by the entirety.

1. *Present Treatment.* All real property held in the names of decedent and surviving spouse is completely exempt from transfer inheritance tax. There are no quantitative (dollar limit) or qualitative (nature of property) restrictions on the exemption.

2. *Treatment in Other States.* The tax treatment of property held in tenancies by the entirety is detailed by states in column 1 of *Table 45*.

A. A summary of that information shows:

Exempted	11 states*
Taxed	16 states
50% Taxed	15 states**
Taxed indirectly via "Pickup" tax	6 states
No death tax	1 state
All transfers to spouse exempt ...	1 state

3. *Revision of the Treatment of Tenancies by the Entirety.* Revision could take several forms:

(a) *Federal Treatment*—Tenancies by the entirety would be taxed in the same manner as other jointly owned property. That is, it would be included in the estate of the decedent unless it could be shown that the property was originally contributed by the surviving spouse.

* Includes Massachusetts which entirely exempts single family residential property and partially exempts owner occupied multi-residential property to the extent of \$25,000.

** Includes Virginia which fully taxes property other than single family residential property.

(b) *Virginia Approach*—Same as federal but with respect to single family owner-occupied principal residential property the maximum included in the decedent's estate is one-half.

(c) *Modified Virginia*—Same as above except that relief is extended to some portion of owner-occupied multi-family property.

(d) *Exemption Based on Value*—Exempt all tenancies by the entirety up to some given value limit, e.g., \$30,000 irrespective of the nature of the use of such property.

(e) *Exemption Based on Use*—Exempt owner-occupied single (and a portion of multi-family) principal residential property with or without placing a limit on the value of such exempt property.

4. *Estimated Revenue Gain.* The amount of revenue which would be raised by any of the above suggestions remains pretty much of a guess. The Transfer Inheritance Tax Bureau has no figures on which to make an estimate, and the Federal Estate Tax returns which are filed only in taxable estates exceeding \$60,000 are of limited use.

An educated guess could be arrived at as follows:

(1) Number of estates with surviving spouse	8,000
(2) Percentage of decedents owning own home	65%
(3) Average equity value of home	\$16,000
(4) Estimated non-residence real property held in tenancy by the entirety ..	\$20,000,000
Total	\$100,000,000

Assuming 2.5% as the average tax rate paid by the surviving spouse:

Tax raised under "federal" plan ..	\$2,000,000
Tax raised under "Virginia" plan	\$1,500,000
Tax raised under "\$30,000 exemption" plan	\$700,000
Tax raised under "use exemption" plan	\$500,000

The Commission recommends—

The present total exemption of tenancies by the entirety should be modified so as to limit it to the residence of the decedent and not exceeding a four-family dwelling.

B. Life Insurance Payable to a Designated Beneficiary.

1. *Present Treatment.* Under present New Jersey law life insurance payable to an inter vivos trust or to any beneficiary "other than the estate or the executor or administrator of such decedent" is specifically exempted from taxation under the transfer inheritance tax. Like tenancies by the entirety, there are no quantitative (dollar limits) or qualitative (nature of the beneficiary) restrictions on the exemption.

2. *Treatment in Other States.* The tax treatment of designated beneficiaries of life insurance is detailed by states in column 2 of Table 45. A summary of that information shows:

Exempted	28 states
Taxed	2 states
Taxed but with dollar exemption..	15 states*
Taxed indirectly via "Pickup" tax	4 states
No death tax	1 state

* Exemption ranges from \$10,000 in Wisconsin to \$100,000 in New York; other exempt amounts are \$20,000—4 states, \$25,000—1 state, \$40,000—3 states, \$50,000—3 states, \$75,000—2 states.

Since the exemptions in most of the states which tax designated beneficiary life insurance is rather substantial, the effect is that such insurance is taxed only in a few estates.

Under the Federal Estate Tax life insurance payable to a named beneficiary is includible in decedents' gross estate if the decedent possessed at his death any incidents of ownership, exercisable either alone or in conjunction with any person.

3. *Revision of the Treatment of Life Insurance.* Revision could be:

(a) *Exemption Based on Value*—Exempt designated beneficiary life insurance up to some given dollar limit, e.g., \$50,000.

(b) *Exemption Based on Beneficiary*—Exempt designated beneficiary life insurance made payable either directly or in trust, to surviving spouses and children or to all Class A beneficiaries. A dollar limitation per beneficiary could also be included.

(c) *Federal Treatment*—No exemption—tax all insurance over which decedent retained incidents of ownership.

4. *Estimated Revenue Gain.* We are confronted with a shortage of statistics upon which to base an estimate as to probable revenue yield from the inclusion in the taxable estate of all or part of designated beneficiary life insurance.

In an inheritance tax report in Kentucky in 1961, a study was made of the distribution of insurance paid to designated beneficiaries by size of estate. The results were as follows:

LIFE INSURANCE PAID TO DESIGNATED BENEFICIARIES

Size of Estate	Average per Estate	% of Gross Estate	% of Net Estate
Under \$30,000 ..	\$1,554.40	15.64%	20.43%
\$30,000-\$60,000 ..	5,187.34	10.80	12.43
\$60,000-\$100,000 .	6,909.97	8.18	8.96
\$100,000 and over	12,044.10	4.34	4.67
Average	\$6,084.53	5.66%	6.10%

Applying the 6.10% figure—the average percentage of net estate—to the net taxable estates for New Jersey in 1967 would indicate that the tax base would be increased by about \$60 million if there were no exemption. The rate which would be paid on this insurance depends upon the relationship of those who receive the insurance proceeds. If the average rate were 3%, an additional \$1.8 million revenue would be generated, if 5%, an additional \$3 million. Of course, if there were a dollar limitation on the exemption, the revenue yield would be less.

The Commission recommends—

The present exemption of life insurance proceeds should be retained.

TABLE 45

COMPARATIVE TREATMENT OF DEATH TAX EXEMPTIONS
By States

Federal and State	Tenancies by the Entirety	Designated beneficiary life insurance	Surviving spouse exemptions		Transfers to charitable, religious, etc., organizations	Homestead Exemption
			Husband	Wife		
Federal	taxed	taxed	.....	.....	deductible	no
Alabama	a	a	a	a	a	a
Alaska	exempted	exempted	20,000	10,000	exempt ^d	no
Arizona	b	b	b	b	b	b
Arkansas	a	a	a	a	a	a
California	taxed ^c	taxed over \$50,000	5,000	5,000	exempt-reciprocal	no
Colorado	taxed (1/2)	taxed over \$75,000	10,000	35,000	exempt-reciprocal	no
Connecticut	taxed (1/2)	exempted	50,000 ^e	50,000 ^e	exempt-reciprocal	no
Delaware	taxed (1/2)	exempted	20,000	20,000	exempt	no
Florida	a	a	a	a	a	a
Georgia	a	a	a	a	a	a
Hawaii	taxed (1/2)	exempted	20,000	20,000	exempt	no
Idaho	taxed ^c	exempted	4,000	10,000	exempt-reciprocal	no
Illinois	taxed ^c (1/2)	exempted	20,000	20,000	exempt-reciprocal	no
Indiana	exempted	exempted	15,000	15,000	exempt-reciprocal	no
Iowa	taxed	exempted	40,000	40,000	exempt-reciprocal	no
Kansas	taxed ^c	exempted	75,000	75,000	exempt-reciprocal	no
Kentucky	taxed (1/2)	exempted	5,000	10,000	exempt	no
Louisiana	taxed ^c	exempted	5,000	5,000	exempt-reciprocal	no
Maine	taxed (1/2)	exempted	15,000	15,000	exempt-reciprocal	no
Maryland	exempted	exempted	none	none	exempt-reciprocal	no
Massachusetts	taxed ^f	exempted	10,000 ^g	10,000 ^g	exempt-reciprocal	yes ^f
Michigan	exempted	exempted	30,000	30,000 ^h	exempt-reciprocal	no
Minnesota	taxed ^c	taxed over \$20,000	6,000	30,000	exempt-reciprocal	yes—\$30,000
Mississippi	taxed	taxed over \$20,000	i	i	exempt	no
Missouri	exempted	exempted	20,000 ^j	20,000 ^j	exempt-reciprocal	yes—\$20,000
Montana	taxed (1/2)	taxed over \$50,000	10,000	20,000	exempt-reciprocal	no
Nebraska	taxed (1/2)	exempted	10,000	10,000	exempt-reciprocal	yes
Nevada	k	k	k	k	k	k
New Hampshire	l	exempted	l	l	exempt-reciprocal	l
New Jersey	exempted	exempted	5,000	5,000	exempt ^m	no
New Mexico	taxed	exempted	n	n	exempt-reciprocal	no
New York	taxed	taxed over \$100,000	o	o	exempt	no

North Carolina	taxed (1/2)	taxed over \$20,000	2,000	10,000	exempt-reciprocal	no
North Dakota	b	taxed over \$25,000	b	b	b	b
Ohio	taxed (1/2)	exempted	10,000	10,000	exempt-reciprocal	no
Oklahoma	taxed	taxed over \$20,000	p	p	exempt-reciprocal	yes—\$5,000
Oregon	taxed (1/2)	taxed over \$75,000	q	q	exempt-reciprocal	yes
Pennsylvania	exempted	exempted	none	none	exempt	no
Rhode Island	taxed	taxed over \$50,000	10,000	10,000	exempt-reciprocal	no
South Carolina	taxed	taxed	r	r	exempt	no
South Dakota	taxed (1/2)	exempted	15,000	15,000	exempt-reciprocal	no
Tennessee	taxed (1/2)	taxed over \$40,000	s	s	exempt-reciprocal	no
Texas	taxed (1/2)	taxed over \$40,000	25,000	25,000	exempt	no
Utah	taxed (1/2)	exempted	t	t	exempt	no
Vermont	exempted	exempted	15,000	15,000	exempt	yes
Virginia	taxed ^u	exempted	5,000	5,000	exempt	yes ^u
Washington	exempted	taxed over \$40,000	10,000	10,000	exempt	no
West Virginia	taxed (1/2)	exempted	15,000	15,000	exempt-reciprocal	no
Wisconsin	taxed (1/2)	taxed over \$10,000	5,000	15,000	exempt-reciprocal	no
Wyoming	exempted	exempted	10,000 ^v	10,000 ^v	exempt-reciprocal	yes—\$4,000

Source: CCH, Inheritance, Estate and Gift Tax Service, 7th Edition, and Indiana Commission on State Tax and Financing Policy, Report on Death Taxation, 1966.

- a. "Pickup" tax act. Provisions of federal estate tax act control.
- b. Estate tax with "pickup" tax act, patterned after federal estate tax act.
- c. Tenancy by the entirety not recognized. Treated as other jointly held property.
- d. *Alaska*: Prior to July 22, 1960, transfers to public hospitals, seminaries of learning, churches or institutions of charity in Alaska were exempt up to \$2,500 with balance taxed at graduated rates from 5 to 17½%.
- e. *Connecticut*: This is a class exemption.
- f. *Massachusetts*: Single-family residential property held by husband and wife as tenants by the entirety is exempt; multiple-family residential property held by husband and wife as tenants by the entirety, when used by them as a domicile, is exempt to the extent of \$25,000 of the value.
- g. *Massachusetts*: \$10,000 or less, no tax; over \$10,000, no exemption.
- h. *Michigan*: Widow entitled to an additional \$5,000 exemption for each minor child to whom no property is transferred.
- i. *Mississippi*: Imposes an estate tax. Exemption \$60,000.
- j. *Missouri*: In addition, ½ of value of estate, or ¼ of value if decedent is survived by lineal descendants.
- k. *Nevada*: Does not impose a death tax.
- l. *New Hampshire*: Transfers to the surviving spouse, parents, lineal descendants and adopted children are totally exempt; all other transferees are taxable at a flat rate of 10%.
- m. *New Jersey*: The exemption for educational institutions is on a reciprocal basis.
- n. *New Mexico*: There is only one \$10,000 exemption for all beneficiaries in Class 1, including the surviving spouse.
- o. *New York*: Imposes an estate tax.
- p. *Oklahoma*: Imposes an estate tax. Aggregate \$15,000 exemption for spouse, lineals, *et als.* is deducted from net estate.
- q. *Oregon*: Imposes a combination inheritance and estate tax.
- r. *South Carolina*: Imposes an estate tax.
- s. *Tennessee*: \$20,000 for the class.
- t. *Utah*: Imposes an estate tax.
- u. *Virginia*: But as to a single family residence held by the entirety, only ½ is taxable to the surviving spouse, unless survivor can show that more than ½ originally belonged to him.
- v. *Wyoming*: This is a class exemption.

C. Exemption for Surviving Spouse.

1. *Present Treatment.* Under the present New Jersey law, the first \$5,000 passing to each Class A beneficiary (widow, widower, parents, children, and grandchildren) is exempt from tax. The next \$10,000 is taxed at 1%; the next \$35,000 at 2%, and the next \$50,000 at 3%, etc. Graphically the rate structure is:

\$0- \$5,000	0%
\$5,001- \$15,000	1%
\$15,001- \$50,000	2%
\$50,000-\$100,000	3%

2. *Treatment in Other States.* The extent to which surviving spouses are granted exemptions in other states is detailed in column 3 of *Table 45*. A summary of that information shows:

Equal exemption for widow and widower	21 states*
Greater exemption for widow than widower	8 states**
Pickup tax	6 states
Estate tax	6 states
Class exemption	4 states
No exemption	3 states***
Spouse not taxed	2 states

* Ranges from \$5,000 to \$75,000.

** Widows' exemption ranges from \$10,000 to \$35,000. Widowers' exemption ranges from \$2,000 to \$10,000.

*** Includes Massachusetts, which imposes no tax if transfer is less than \$10,000—if over, no exemption.

3. *Does the Exemption Come "off the top" or "off the bottom?"*

In other words, if the exemption were raised to \$10,000 would the rate schedule then be:

<i>"Off the bottom"</i>	
\$0 - 10,000	0%
\$10,001- 15,000	1%
\$15,001- 50,000	2%
\$50,001-100,000	3%
or	
<i>"Off the top"</i>	
\$0 - 10,000	0%
\$10,001- 20,000	1%
\$20,001- 55,000	2%
\$55,001-105,000	3%

The difference is significant in terms of revenue loss to the state. If the exemption for the surviving spouse were raised to \$50,000 but transfers over that amount were taxed starting at 3% (i.e. "off the bottom"), the most tax that would be lost from any one estate would be \$800; whereas "off the top" it could be as much as \$8,000.

4. *A \$50,000 Exemption "off the bottom."* While such an exemption might not be very significant in the large estate (tax saving of \$800), it could be important to the surviving spouse in a small estate. In addition, such an exemption might relieve the Bureau of the administrative burden of processing a large number of returns for estates whose tax yield is nominal.

The effect of such an exemption was computed using the Banker's analysis for four months of fiscal 1967. *Table 46* shows that the revenue loss if the exemption applied to both widows and widowers would be about \$3.6 million, and for widows alone \$2.4 million.

5. *Exemptions "off the top."* The extent of the revenue loss which would result if the increased exemption were taken "off the top" (i.e. the existing rate structure were merely shifted up) depends on the upper bracket of the affected transfers. The revenue loss to the state (tax benefit to the beneficiary) would be the maximum rate to which the transfer is subject times the amount of the exemption to the extent that it is absorbed within that bracket plus the next highest rate times the amount of the exemption not absorbed in the highest bracket. (For example, the revenue loss from a \$15,000 exemption on a transfer of \$110,000 assuming that transfers of over \$100,000 are taxed at 4% would be $.04 \times \$10,000 + .03 \times \$5,000$ or \$550.00).

On the basis of the data in *Table 47* the revenue loss resulting from a \$50,000 exemption "off the top" has been computed to be about \$5.2 million or about 44% of the total tax collections from this group.

TABLE 46

STATE OF NEW JERSEY
 NET REVENUE REDUCTION FROM \$50,000 EXEMPTION ("OFF THE BOTTOM")
 ON TRANSFERS TO WIDOWS AND WIDOWERS ESTIMATES FOR FISCAL 1967

<i>Transfer</i>	<i>Estimated assessment</i>	<i>Annual collections at 150% of assessments</i>	<i>Number of Estates</i>
Widows:			
On transfers of less than \$50,000	\$1,167,243	\$1,750,865	5,145
On transfers of more than \$50,000	864,000	1,296,000	1,080
Total tax on widows	\$2,031,243	\$3,046,865	6,225
Widowers:			
On transfers of less than \$50,000	258,570	\$387,855	1,326
On transfers of more than \$50,000	108,000	162,000	135
Total tax on widowers	\$366,570	\$549,855	1,461
Total tax on surviving spouses	\$2,397,813	\$3,596,720	7,686

6. *Other Questions.*

(a) Should the exemption apply equally to surviving widows and widowers? (Note: eight states treat surviving widows more favorably.)

(b) Should the exemption for other Class A beneficiaries be increased?

(c) Should the exemption be for transfers to the Class? That is, if there were no surviving spouse as a beneficiary, the exemption could be used by the surviving children, etc.; if there were transfers to both the spouse and the children, the exemption would apply to both groups; and if the total transfers to the spouse

and children exceeded the amount of the exemption, the exemption could be prorated among them. (Note: four states have class exemptions.)

(d) Should the amount of the surviving spouse's exemption be greater if there are dependent children? (Note: in Michigan the \$30,000 exemption applies to both widows and widowers but the widow's exemption is increased by \$5,000 for each dependent child.)

The Commission recommends—

No change in the present exemption of \$5,000 to the surviving spouse.

TABLE 47

DISTRIBUTION OF AMOUNTS INHERITED BY SURVIVING HUSBANDS AND WIVES,
BY TOP TAX BRACKET GROUPS
FISCAL 1967

<i>Tax Bracket of Amount Inherited</i>	<i>Rate</i>	<i>Transfers to Husbands</i>		<i>Transfers to Wives</i>		<i>Total Transfers to Spouses</i>	
		<i>No. of Husbands</i>	<i>Amount</i>	<i>No. of Wives</i>	<i>Amount</i>	<i>No. of Spouses</i>	<i>Amount</i>
Under \$5,000.	0	186	\$365,928	321	\$688,167	507	\$1,054,095
\$ 5,000.01 to 15,000.	1	654	5,693,307	2,652	24,364,155	3,306	30,057,462
\$ 15,000.01 to 50,000.	2	486	12,511,758	2,172	57,040,065	2,658	69,551,823
\$ 50,000.01 to 100,000.	3	66	4,234,629	564	40,239,969	630	44,474,595
\$ 100,000.01 to 150,000.	4	39	4,590,900	216	26,048,091	255	30,638,994
\$ 150,000.01 to 200,000.	5	.....	.....	117	20,521,695	117	20,521,695
\$ 200,000.01 to 300,000.	6	12	3,085,533	93	21,890,958	105	24,966,494
\$ 300,000.01 to 500,000.	7	18	7,057,134	54	19,016,349	72	26,073,483
\$ 500,000.01 to 700,000.	8	.....	.....	15	8,664,216	15	8,664,216
\$ 700,000.01 to 900,000.	9	.....	.....	6	4,638,444	6	4,638,438
\$ 900,000.01 to 1,100,000.	10	.....	.....	3	2,863,122	3	2,863,122
\$1,100,000.01 to 1,400,000.	11	.....	.....	9	10,991,055	9	10,991,055
\$1,400,000.01 to 1,700,000.	12	.....	.....	.....	.....	.....	.....
\$1,700,000.01 to 2,200,000.	13	.....	.....	3	5,461,143	3	5,461,143
\$2,200,000.01 to 2,700,000.	14	.....	.....	.....	.....	.....	.....
\$2,700,000.01 to 3,200,000.	15	.....	.....	.....	.....	.....	.....
Over \$3,200,000.	16	.....	.....	.....	.....	.....	.....
TOTALS		1,461	\$37,539,189	6,225	\$242,427,432	7,686	\$279,966,621

APPENDICES

APPENDIX TABLE A
 SALES TAX EXEMPTIONS OF PRODUCTS AND SERVICES
 BY STATE, 1968
 T = Taxable; X = Exempt)

State	Tax rate %	Vendor compensation	Medicines—drugs							Prosthetic aids	Food		
			Prescription	Non-prescription	Animal, bird, fish use			On-premise Generally					
Totals	45	23	22	22	23	39	6	44	1	29	16	45	0
Alabama	4-	(1)		T-		T-		T-		T-		T-	
Alaska	(6)												
Arizona	3-		No		X(16)-	T-		X(16)-		T-		T(46)-	
Arkansas	3-	(2%)		T-		T-		T-		T-		T-	
California	4-		No		X-	T-		T-		T-		T-	
Colorado	3-	(3½%)			X-	T-		T-			X-	T-	
Connecticut	3½ (17)-		No		X-	T-		T-			X-	T(15)-	
Delaware	(6)												
Florida	4-(79)	(3%)			X-		X-	T-			X-	T-	
Georgia	3-	(3%)		T-		T-		T-		T-		T-	
Hawaii	4-		No	T-		T-		T-		T-		T-	
Idaho	3-		No		X-	T-		T-		T-		T-	
Illinois	4¼-	(2%)		T-		T-		T-		T-		T-	
Indiana	2-		No		X-	T-		T-		T-		T-	
Iowa	3-		No	T-		T-		T-		T-		T-	
Kansas	3-		No	T-		T-		T-		T-		T-	
Kentucky	5-(77)	(2%) (77)		T-		T-		T-		T-		T-	
Louisiana	2-	(2%)		T-		T-		T-		T-		T-	
Maine	4½-		No		X-	T-		T-		T-		T-	
Maryland	3-	(2%)			X-		X-	T-			X-	T(47)-	
Massachusetts	3-	(2%)			X-	T-		T-			X-	T(60)-	
Michigan	4-	(7)		T(10)-		T-		T-		T-(61)		T-	
Minnesota	3-		No		X-		X-	T-			X-	T-	
Mississippi	3½-		No	T-		T-		T-		T-		T-	
Missouri	3-	(2%)		T-		T-		T-		T-		T-	

State	Tax rate %	Vendor compensation	Medicines—drugs			Prosthetic aids	Food	
			Prescription	Non-prescription	Animal, bird, fish use		On-premise	Generally
Montana	(6)							
Nebraska	2½(4)-	(3%)		X-	T-	T-	X-	T-
Nevada	2(5)-	(1½%)	T-		T-	T-	T-	T-
New Hampshire	(6)							
New Jersey	3-	No		X-	T-	T-	X-	T-
New Mexico	3-	No	T-		T-	T-	T-	T-
New York	2-	No		X-	X-	T-	X(64)-	T(63)-
North Carolina	3(18)-	(3%)		X-	T-	T-	X-	T-
North Dakota	3-	No		X-	T-	T-	T-	T-
Ohio	4-	(1%)(13)		X-	T-	T-	X-	T-
Oklahoma	2-	(3%)	T-		T-	T-		T-
Oregon	(6)							
Pennsylvania	6-	(1%)		X-	T-	T-	X-	T(48)-
Rhode Island	5-	No		X-	X-	T-	X-	T-
South Carolina	3-	(8)	T-		T-	T-	T-	T-
South Dakota	3(19)-	No	T-		T-	T-	T-	T-
Tennessee	3(20)-	(2%)	T-		T-	T-	T-	T-
Texas	2(21)-	(1%)(14)		X-	T-	T-	X-	T-
Utah	3-	No	T-		T-	T-	T-	T-
Vermont	(6)							
Virginia	2(3)-	(3%)		X-	T-	T-	X(66)-	T-
Washington	4½-	No	T-		T-	T-	T-	T-
West Virginia	3-	No	T-		T-	T-	T-	T-
Wisconsin	3-	(2%)		X-	X-	T-	T-	T-
Wyoming	3-	No	T-		T-	T-	T-	T-
District of Columbia..	3-	No		X-	X-	T-	X-	T-

State	Food			Alcoholic beverages			
	On-premise	Off-premise	Pet	On-premise	Off-premise	Beer	
	Special provision					On-premise	Off-premise
Montana	(6)						
Nebraska		T(68)	T-	T-	T-	T-	T-
Nevada		T-	T-	T-	T-	T-	T-
New Hampshire	(6)						
New Jersey			X- T-		X- T-		X- X-
New Mexico		T-	T-	T-	T-	T-	T-
New York	Exempt under \$1		X- T-	T-	T-	T-	T-
North Carolina		T-	T-		X-	X- T-	T-
North Dakota		T-	T-		X-	X-	X-
Ohio			X- T-	T-	T-		X- X-
Oklahoma		T-	T-	T-	T-		X- X-
Oregon	(6)						
Rhode Island	Exempt under \$.50		X- T-	T-	T-	T-	T-
Pennsylvania			X- T-	T-	T-	T-	T-
South Carolina		T-	T-	T-	T-	T-	T-
South Dakota		T-	T-		X-	X-	X- X-
Tennessee		T-	T-	T-	T-	T-	T-
Texas			X- T-		X(65)-	X-	X(65)- X-
Utah		T-	T-	T-	T-	T-	T-
Vermont	(6)						
Virginia		T-	T-	T(67)-	T(67)-	T(67)-	T(67)-
Washington		T-	T-	T-	T-	T-	T-
West Virginia		T-	T-	T-	T-	T-	T-
Wisconsin			X- T-	T-	T-	T-	T-
Wyoming		T	T	T-	T-	T-	T-
District of Columbia..		T(11)-	T-	T-	T-	T-	T-

State	Candy, confectionery, etc.	Carbonated beverages	Soap, soap products, cleansers	Household paper products	Household plastics, foil, etc.	Clothing	
						Generally	Fabrics, thread, yarn, needles, etc.
Montana	(6)						
Nebraska	T-	T-	T-	T-	T-	T-	T-
Nevada	T-	T-	T-	T-	T-	T-	T-
New Hampshire	(6)						
New Jersey	T-	T-	T-	T-	T-	E-	E-
New Mexico	T-	T-	T-	T-	T-	T-	T-
New York	T-	T-	T-	T-	T-	T-	T-
North Carolina	T-	T-	T-	T-	T-	T-	T-
North Dakota	T-	T-	T-	T-	T-	T-	T-
Ohio	T-	T-	T-	T-	T-	T-	T-
Oklahoma	T-	E-	T-	T-	T-	T-	T-
Oregon	(6)						
Pennsylvania	E-	T-	T-	T-	T-	E-	E-
Rhode Island	T-	T-	T-	T-	T-	T-	T-
South Carolina	T-	T-	T-	T-	T-	T-	T-
South Dakota	T-	T-	T-	T-	T-	T-	T-
Tennessee	T-	T-	T-	T-	T-	T-	T-
Texas	T-	T-	T-	T-	T-	T-	T-
Utah	T-	T-	T-	T-	T-	T-	T-
Vermont	(6)						
Virginia	T-	T-	T-	T-	T-	T-	T-
Washington	T-	T-	T-	T-	T-	T-	T-
West Virginia	T	T-	T-	T-	T-	T-	T-
Wisconsin	E	T-	T-	T-	T-	T-	T-
Wyoming	T	T-	T-	T-	T-	T-	T-
District of Columbia ..	T-	T-	T-	T-	T-	T-	T-

APPENDIX TABLE A—Continued
 SALES TAX EXEMPTIONS OF PRODUCTS AND SERVICES
 BY STATE, 1968
 (T = Taxable; E = Exempt)

State	Grave stones, markers		Mobile homes (30' x 8')		Pollution control equipment		Rodent, pest control services		Services in repair of					
									Residential heating		Residential plumbing		Other personal property	
Totals	43	2	44	1	38	7	13	32	4	41	5	40	15	30
Alabama	T-		T(75)		T-			E		E-		E-		E-
Alaska	(6)													
Arizona	T-		T-		T-			E		E-		E-		E-
Arkansas	T-		T-		E-			E		E-		E-		E-
California	T-		T-		T-			E		E-		E-		E-
Colorado	T-		T-		T-			E		E-		E-		E-
Connecticut	T-		T-			E-		E		E-		E-		E-
Delaware	(6)													
Florida	T-		T(2%)-		T-			E-		E-		E-		E-
Georgia	T-		T-			E-		E		E-		E-		E-
Hawaii	T-		T-		T-		T-		T-		T-		T-	
Idaho	T-		T(50)-		T-			E		E		E		E
Illinois	T-		T-			E-		T-		E		E		T
Indiana	T-		T-		T-			E		E		E		E
Iowa	T-		T-		T-			E		E-		E-		E-
Kansas	T-		T-		T-			E-		E-		E-		E-
Kentucky	T-		T-		T-			E-		E-		E-		E-
Louisiana	T-		T-		T-			E-		E-		E-		T
Maine		E	T-		T-			E-		E-		E-		E-
Maryland	T-		T-		T-			E-		E-		E-		E-
Massachusetts	T-		T-		T-			E-		E-		E-		E-
Michigan	T-		T-			E(62)-		E-		E-		E-		E-
Minnesota	T-		T-		T-			E-		E-		E-		E-
Mississippi	T-		T-		T		T		T		T		T	
Missouri	T-		T-		E			E-		E-		E-		E-

State	Grave stones, markers	Mobile homes (50' x 8')	Pollution control equipment	Rodent, pest control services	Services in repair of		
					Residential heating	Residential plumbing	Other personal property
Montana	(6)						
Nebraska	T-	T-	T-	E-	E-	E-	E-
Nevada	T-	T-	T-	E-	E-	E-	E-
New Hampshire	(6)						
New Jersey	T-	T-	T-	T-	E(74)	T-	T-
New Mexico	T-	T(76)-	T	E-	E-	E-	E-
New York	T-	T-	T	T-	T-	T-	T-
North Carolina	T-	T-(75)	T-	E-	E-	E-	E-
North Dakota	T-	T(75)	T-	E-	E-	E-	T
Ohio	T-	T-	E-	E-	E-	E-	E-
Oklahoma	T-	T(76)	T-	E	E-	E-	E-
Oregon	(6)						
Pennsylvania	E-	T-	T	T-	E-	E-	T-
Rhode Island	T	T-	E	E-	E-	E-	E-
South Carolina	T-	T-	T-	E-	E-	E-	E-
South Dakota	T-	T-(76)	T-	T-	T-	T-	T-
Tennessee	T-	T-	T-	T-	E-	E-	T-
Texas	T-	T-(76)	T-	E	E-	E-	E
Utah	T-	T-	T-	T-	E-	E-	T-
Vermont	(6)						
Virginia	T-	T-(76)	T-	E-	E-	E-	E-
Washington	T-	T-	E-	T	E-	E-	T-
West Virginia	T-	T-(76)-	T-	T-	E-	E-	T-
Wisconsin	T-	E(73)-	T-	T-	E-	E-	T-
Wyoming	T-	T-	T-	T-	E-	E-	T-
District of Columbia ..	T-	T-	T-	E	E-	E-	E-

APPENDIX TABLE A—Continued

SALES TAX EXEMPTIONS OF PRODUCTS AND SERVICES
BY STATE, 1968

(T = Taxable; E = Exempt)

96

State	Automotive vehicles	Agricultural			Industrial					
		Materials (55)	Machinery		Materials (54)	Machinery				
Total	45	—	2	43	30	15	—	45	32	13
Alabama	T(75)-			E	T(1.5%)-			E	T(1.5%)	
Alaska	6									
Arizona	T-			E	T			E	T	
Arkansas	T-			E	T			E	T	
California	T-			E	T			E	T	
Colorado	T-			E	T			E	T	
Connecticut	T-			E	T			E	T	
Delaware	6									
Florida	T(75)			E		E		E	T(56)	
Georgia	T-			E		E		E	T	
Hawaii	T-			E	T			E	T	
Idaho	T-(50)			E		E		E		E
Illinois	T-			E	T			E	T	
Indiana	T-			E		E		E		E
Iowa	T-(76)			E	T			E	T	
Kansas	T-			E	T			E	T	
Kentucky	T-			E	T			E	T(57)	
Louisiana	T			E	T			E	T	
Maine	T-			E	T			E	T	
Maryland	T(76)			E	T			E	T	
Massachusetts	T-			E		E		E		E
Michigan	T-			E		E		E		E
Minnesota	T-			E	T-			E	T	
Mississippi	T(75)			E	T(51)			E	T(58)	
Missouri	T-			E	T			E		E

APPENDIX TABLE A—Continued
 SALES TAX EXEMPTIONS OF PRODUCTS AND SERVICES
 BY STATE, 1968
 (T = Taxable; X or E = Exempt)

96

State	Automotive vehicles	Agricultural		Industrial	
		Materials (55)	Machinery	Materials (54)	Machinery
Montana	6				
Nebraska	T	E	T	E	T
Nevada	T	E	T	E	T
New Hampshire	6				
New Jersey	T	E		E	E
New Mexico	T(76)	E	T(1%)	E	T
New York	T	E		E	E
North Carolina	T(75)	E	T(1%)	E	T(1%)
North Dakota	T(75)	E	T	E	T
Ohio	T-	E		E	E
Oklahoma	T(76)	T(52)	T	E	E
Oregon	6				
Pennsylvania	T(76)	E		E	E
Rhode Island	T-	E		E	T
South Carolina	T-	E		E	E
South Dakota	T-(76)	T(52)-	T(2%)	E	T
Tennessee	T-	E	T-	E	T(59)
Texas	T-(76)	E		E	T
Utah	T	E(53)		T	E
Vermont	6				
Virginia	T(76)	E		E	E
Washington	T-	E	T	E	T
West Virginia	T(76)	E		E	E
Wisconsin	T-	E		E	T
Wyoming	T-	E	T	E	T
District of Columbia	T(76)	E	T	E	T

APPENDIX TABLE A—Continued

SALES TAX EXEMPTIONS OF PRODUCTS AND SERVICES
BY STATE, 1968

(T = Taxable; E = Exempt)

State	Installation services		Sale of materials to manufacturers, producers, processors (23)		Sale of materials to repairers (22)		Sale of equipment to contractors, manufacturers, producers and repairers (24)		Sale of materials to contractors (22)		
	10	35	2	43	33	8	37	8	Supplier liable for tax	9	Contractor liable for tax
Totals	10	35	2	43	33	8	37	8	36	9	2
Alabama		E(25)		E(33)(34)	T		T		T		
Alaska		(6)									
Arizona		E(25)		E(33)	T		T			E	
Arkansas		E(25)		E(33)	T		T		T		
California		E(25)		E(33)	T(37)		T		T		
Colorado		E(25)		E(33)(34)	T		T		T		
Connecticut		E		E(33)	T(37)		T		T		
Delaware		(6)									
Florida	T			E(33)	T		T		T		
Georgia		E(25)		E(33)	T		T		T		
Hawaii	T		T		T		T		T		
Idaho		E(25)		E	T		T		T		
Illinois		E(25)		E(33)		E	T			E(44)	
Indiana		E		E(33)	T		T			E	T(45)
Iowa		E(25)		E(33)	T		T		T		
Kansas		E(25)		E(33)(34)	T		T		T		
Kentucky		E(25)		E(33)	T(37)		T(40)		T		
Louisiana		E(25)		E(33)	T		T		T		
Maine		E(25)		E(33)(35)	T		T		T		
Maryland		E(25)		E(36)	T		T		T		
Massachusetts		E		E	T			E	T		
Michigan		E(25)		E(33)(35)	T		T		T		
Minnesota		E		E	T		T		T		
Mississippi	T(27)			E	T		T		T		
Missouri		E(25)		E(33)(34)		E		E	T		

66

State	Installation services	Sale of materials to manufacturers, producers, processors (23)	Sale of materials to repairers (22)	Sale of equipment to contractors, manufacturers, producers and repairers (24)	Sale of materials to contractors (22)	
					Supplier liable for tax	Contractor liable for tax
Montana	(6)					
Nebraska	E(25)	E	T	T	T(43)	
Nevada	E(25)	E(33)	T(37)	T	T(43)	
New Hampshire	(6)					
New Jersey	T	E	T(37)	E	T	
New Mexico	T(28)	T	T(28)	T	T(28)	
New York	T	E(33)	E(38)	E	T	
North Carolina	E(25)	E(33)	E	T	T-	
North Dakota	E(25)	E(33)	T(39)	T	T	
Ohio	E(25) (30)	E	T	E	T	
Oklahoma	E	E(33)	T	T	T	
Oregon	(6)					
Pennsylvania	T(31)	E	T	E	T	
Rhode Island	E(25)	E(33) (36)	T	T	E	
South Carolina	E(25)	E(33) (34)	T	E	T	
South Dakota	E	E(33)	E	T	T-	
Tennessee	E(32)	E(33)	T	T(41)	T	
Texas	E	E(33)	T(38)	T	E	
Utah	T	E(33)	E	T	E	
Vermont	(6)					
Virginia	E(25)	E(33)	E	T	T-	
Washington	T	E(33)	T	T	E	T
West Virginia	T(28)	E(33)	E	E	E	
Wisconsin	E(25)	E(33)	T(28)	T	T	
Wyoming	E(25)	E(33) (34)	T(39)	T	E	
District of Columbia ..	E(25)	E(33)	T	T(28)	T(43)	

Source: CCH, All-State Sales Tax Service.

- (1) Alabama—Discount of 5% of the first \$100 of tax and 2% of tax in excess of \$100 when tax is timely paid.
- (3) Virginia—Effective September 1, 1966; 3% after June 30, 1968.
- (4) Nebraska—Effective June 1, 1967; 2% on and after January 1, 1969.
- (5) Nevada—2% state rate; 1% county rate, effective July 1, 1967.
- (6) Alaska, business license tax; Delaware, merchants license tax; Montana, motor vehicle sales tax; New Hampshire, no sales tax; Oregon, no sales tax; Vermont, meals, rooms, motor vehicles tax.
- (7) Michigan, vendor may deduct \$50 of monthly gross receipts.
- (8) South Carolina, less than \$100, 3%; \$100 but less than \$1,000, 2%; \$1,000 or more, 1%, subject to annual limit of \$5,000.
- (9) Texas, 2% where tax is prepaid.
- (10) Michigan, 50% of prescription drugs exempt.
- (11) District of Columbia, rate on sale of off-premise food, 1%.
- (13) Ohio, plus additional credits of 2% or 1% for advance payments.
- (14) Texas, plus additional credit of 2% if timely paid.
- (15) Connecticut, meals under \$1.00 are exempt.
- (16) Arizona, prescription drugs exempt, effective March 22, 1968, including veterinarian prescriptions.
- (17) Connecticut, 1½% on sales under 15c, if records are kept.
- (18) North Carolina, 1% on machinery, equipment, supplies purchased by certain commercial and industrial businesses and farmers, maximum tax, \$80; 1½% on motor vehicles, boats, airplanes, maximum tax on motor vehicles and airplanes, \$120.
- (19) South Dakota, 2% on farm machinery.
- (20) Tennessee, 1% on industrial machinery and parts, water and energy fuels used indirectly in manufacturing, processing, fabricating. 1% limit on each article of farm machinery and equipment over \$250.
- (21) Texas, motor vehicles, 2%.
- (22) Generally, if sale to contractor or repairer is exempt, sale by him is taxable, and vice versa. Exempt if contract makes contractor government agent.
- (23) Producing tangible personal property for sale.
- (24) Refers to tools, machinery and equipment not becoming part of product.
- (25) Exempt when billed separately from material.
- (26) Where value of material relatively small.
- (27) Taxed according to class of business.
- (28) Probably.
- (29) Services to agricultural producers with respect to agricultural products exempt.
- (30) To extent of charges for installing and applying personalty.
- (31) If part of original sale or transaction.
- (32) Taxable if incidental to sale.
- (33) If becoming a component part of property manufactured.
- (34) Fuel used in manufacture, specifically exempt.
- (35) Fuel and electricity taxable.
- (36) Gas, electricity, coal, steam and oil used in manufacture specifically exempt.
- (37) Where value of material furnished by repairer is small part of repair charge.
- (38) If purchased for resale.
- (39) Except where repairer separately bills work and materials.

- (40) Exempt when for new or expanded industry.
- (41) Low rates apply.
- (42) Fixtures are taxable on sale by contractor, not on sale to him.
- (43) Unless resale certificate obtained from contractor.
- (44) Taxable if converted into real property by contractor.
- (45) Contractor may purchase on resale certificate and charge tax to owner.
- (46) Arizona, on-premise food taxed at 1½%.
- (47) Maryland, \$1.00 or less is exempt.
- (48) Pennsylvania, \$0.50 or less is exempt.
- (50) New mobile home subject to tax on 40% of the sale price.
- (51) Mississippi, farm tractors taxed at 1%.
- (52) Oklahoma, South Dakota, feed exempt.
- (53) Utah, seed taxed if used to grow feedstuffs.
- (54) Raw materials becoming a part of a product for sale, non-returnable containers, labels, etc., used in manufacture.
- (55) Fertilizers, feedstuffs, seed, insecticides, etc., used in agricultural production.
- (56) Florida, maximum tax on industrial machinery \$1,000.
- (57) Kentucky, machinery for new and expanded industry in state is exempt.
- (58) Mississippi, industrial machinery over \$500 for use in state is exempt.
- (59) Tennessee, machinery for new and expanded industry in state taxed at 1%.
- (60) Massachusetts, has a 5% tax on meals costing \$1 or more; meals are exempt from sales tax.
- (61) Michigan, sales of artificial limbs and eyes when designed for a particular disabled person are exempt.
- (62) Michigan, air pollution control equipment exempt.
- (63) New York, meals costing less than \$1 are exempted, but if alcoholic beverages are in price, then all taxable regardless of price.
- (64) New York, but only when designed for the use of a particular individual.
- (65) Texas, taxable if served with meals.
- (66) Virginia, exempt when sold on prescription.
- (67) Virginia, exempt when sold by Alcoholic Beverage Control Board.
- (68) Nebraska, but an income tax credit is allowed.
- (71) Connecticut—Children's clothing exempt.
- (72) Florida—Exempt when sale of candy is 25c or under.
- (73) Wisconsin—Only ⅓ of selling price of a mobile home is taxable.
- (74) New Jersey, limited to 3 family dwellings.
- (75) Following states apply special rates to sales (or registration) of motor vehicles: Alabama, 1½%; Florida, 2%; Mississippi, 2%; North Carolina, 1½%, maximum, \$120; North Dakota, 2%.
- (76) Following states (D. of C.) tax motor vehicles under statutes separate from sales tax acts: District of Columbia; Iowa; Maryland; New Mexico; Oklahoma; Pennsylvania; South Dakota; Texas; Virginia; West Virginia.
- (77) Kentucky, rate increased from 3% to 5%, effective April 1, 1968. Discount rate: 2% on first \$1,000 of tax, 1¼% in excess of \$1,000.
- (78) Maryland, sec. 326, Art. 81.
- (79) Florida, rate increased from 3% to 4% effective April 1, 1968 through June 30, 1969. Motor vehicle rate increased from 2% to 3%.
- (80) Massachusetts, up to \$175 of sale price of any article of clothing.

APPENDIX TABLE B

SALES TAX EXEMPTIONS OF SALES BY AND TO NON-PROFIT ORGANIZATIONS
BY STATE AND TYPE OF ORGANIZATION, 1968
(T = Taxable; E = Exempt)

Taxing States (44 and D. C.)	United States		State- Subdivisions		Religious Organizations		Charitable Organizations		Non-profit Organizations		Civic and Service Organizations		Special Comments
	To	By	To	By	To	By	To	By	To	By	To	By	
Totals													
Alabama	E		E	T(3)	T	T	T	T	T(2)	T(2)	T(1)	T(1)	American Red Cross exempt.
Arizona	E		T		T	E	T	E					
Arkansas	E		T	T(4)	T								Orphans', children's homes exempt.
California	E		T		T	T(5)	T	E					American Red Cross exempt.
Colorado	E		E	T	E	T	E	T	T		T		
Connecticut	E		E		E	T(1)	E	T(1)					American Red Cross exempt.
Florida	E		E	T	E	T(6)	E	T	T	T	T	T	Volunteer fire companies taxable.
Georgia	E		E	E(1)	T	T	T	T	T	T	T	T	American Red Cross exempt.
Hawaii	E		E	E	E	E	E	E	E(7)	E(7)	E	E	
Idaho	E		E	T	T(1)	T(1)	T	T	T	T			
Illinois	E		E	T	E	E	E	E			T	T	
Indiana	E		E	T	E	E	E	E	E	E	E	E	
Iowa	E		E	E	E(1)	E	E	E(1)	E	E			(8)
Kansas	E		E	E(1)	E	T	T	T	T	T	T	T	
Kentucky	T		T	T	E	T	E	T	T	T			
Louisiana	E		T	T(1)	T	T(1)	T	T(1)	T	T	T	T	
Maine	E	E	E	T	E	T(1)	T	T	T	T	T	T	
Maryland	E		E	E(1)	E	E	E	E	T(1)	T(1)			
Massachusetts	E		E	E	E	E(1)	E	E(1)	T(1)	T(1)			
Michigan	E		E	E(1)	E	T	E	T	T	T	T	T	Veterans org. sales to exempt; sales by taxable.
Minnesota	E		E	E(1)	E	E(1)	E	E(1)					Churches, charities, occasional meals exempt.
Mississippi	E		E	T(1)	T(1)	T(1)	T(1)	T(1)					
Missouri	E		E	E(1)	E	E	E	E			T	T	Fraternities, sororities taxable. YMCA exempt.
Nebraska	E	T	E	T(1)	E	T(9)	T(1)	T(1)					
Nevada	E		E	T(1)	E	T(1)	E	T(1)					
New Jersey	E		E	E	E	E	E	E					Veterans organizations taxable.
New Mexico	E		E	E	E	T(1)	E	E	T(1)				
New York	E		E	E	E	E	E	E					Veterans organizations taxable.
North Carolina	E		T	T	T(10)	T	T(10)	T	T	T	T	T	PTA, Scouts, civic org. taxable.
North Dakota	E		E	E(1)	T	T(1)	T	T(1)					Fraternities, sororities taxable.
Ohio	E		E	E	E	E	E	E					
Oklahoma	E		E	T(11)	E	E	T(11)	T(11)	T(11)	T(11)	T(11)	T(11)	
Pennsylvania	E		E	E(1)	E	E	E	E	E(12)		E		YM-YWCA, Scouts, CYC, SPCA, exempt.
Rhode Island	E		E	E(1)	E	E(1)	E	E	E	E	E	E	
South Carolina	T		T	T	T	T	T	T	T	T	T	T	
South Dakota	E		E	E(1)	T	E	T	E					Sororities, fraternities taxable on purchases.
Tennessee	E		E	E(1)	E(13)	E	E(13)	E					
Texas	E	T	E	E(1)	E	T(14)	E	T	T	T(14)	T	T(14)	Sales of draft beer made taxable 7-1-67.
Utah	E		E	T	E	E	E	E	T	T	T	T	
Virginia	E		E	T	T	T	T	T	T	T	T	T	
Washington	E	E	T	T	T	E	T	E					
West Virginia	E		E	T	E	T	E	T	T	T			Equipment sold to Vol. Fire Co. exempt.
Wisconsin	E		E	E	E	E	E	E					Equipment sold to Vol. Fire Co. exempt.
Wyoming	E		E	E(1)	E	E(1)	E	E(1)					
District of Columbia	E		E	E(1)	E	T	E	T	E	T	E	T	

Source: CCH, All-State Sales Tax Service.

- (1) Presumed from lack of specific exemption.
- (2) Alabama, but there are specific exemptions for: YMCA, YWCA, YMHA, Jewish Community Centers, Seamen's Home of Mobile, Catholic Maritime Club of Mobile, Knights of Pythias Lodges, Salvation Army, Jefferson County Community Chest, Alabama Masonic Home, New Hope Industries of Dothan, Cystic Fibrosis Research Foundation of Ala., Jefferson Tuberculosis Sanatorium, Federal and State credit unions, National Farm Loan Assns., State Bar Assn.
- (3) Alabama, but sales by political subdivisions are taxable.
- (4) Arkansas, except food sold in public, common and high school and college cafeterias and lunch rooms.
- (5) California, other than meals sold to raise funds.
- (6) Florida, except churches.
- (7) Hawaii, sales to or by senior citizen housing facilities, cemetery associations, Hansen's disease sufferers, Agricultural Co-op. Assns.
- (8) Iowa, sales to fraternities, sororities taxable; by them exempt.
- (9) Nebraska, church sales of meals, candy, etc., exempt.
- (10) North Carolina, subject to refund.
- (11) Oklahoma, sales by subdivisions taxable; sales to and by Community Funds, Red Cross, Fraternal organizations, Scouts, American Legion, YM-YWCA, lodges, civic clubs.
- (12) Pennsylvania, but not including lodges, civic groups, trade groups, veterans organizations, auxiliaries.
- (13) Tennessee, but they are taxed on the purchase of property for resale. Sales to homes for aged, orphanages, USO, hospitals, boys clubs are exempt.
- (14) Texas, sales of meals, candy, soft drinks by a church, student organization, schools, PTA are exempt.

APPENDIX TABLE C
 STATE OF NEW JERSEY
 COMMISSION ON STATE TAX POLICY
 ANALYSIS OF SALES TAX EXEMPTIONS
 Proposed or Adopted, 1967

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<i>Proposed Exemptions</i> (1)	<i>Bills Making Proposals</i> (2)	<i>Exemptions added by c. 25 Laws of 1967 (A-705)</i> (3)	<i>Proposed Exemptions Omitted from c. 25 Laws of 1967 (A-705)</i> (4)	<i>Estimated Revenue Loss [1] (\$000)</i> (5)
1. All medicine and drugs for human, animal, bird, fish use, whether prescription or nonprescription	A-31 A-551	_____	Same as in column (1).	_____
2. All medicines and drugs for human use, whether prescription or nonprescription	A-237 S-150 S-29 S-55	_____	Same as in column (1).	3,000
3. Removal of prescription requirement for artificial devices designed to correct or alleviate physical incapacity	A-31 S-29 A-237 S-55 A-551 S-150	Same as in column (1).	_____	Nominal
4. Medical oxygen	A-31 A-237 A-551	Same as column (1).	_____	Nominal
5. Medical oxygen equipment.	A-31 A-237 A-551	Medical oxygen equipment (not specifically mentioned but probably covered by "artificial devices designed to correct, etc." (line 3 above).	_____	Nominal
6. _____	_____	Human blood and its derivatives, when sold for human use.	_____	Nominal
7. Hearing aid parts and batteries	A-31 S-55 A-237 S-150 A-551 S-29	(Covered by phrase "Replacement parts for any of foregoing.")	_____	_____
8. Walkers	S-29	(Covered by "artificial devices designed to correct or alleviate physical incapacity.")	_____	_____

9. Artificial physical devices.	S-29 S-55 S-150	Artificial devices designed to correct or alleviate physical incapacity.	_____	_____
10. Related accessories	S-29 S-55 S-150	(Not specifically mentioned but probably covered by "replacement parts etc.")	_____	_____
11. Service charges <i>re</i> above-listed equipment	S-29 S-55 S-150	(Covered by amendment of Sec. 3 (b) (2) (ii).)	_____	187
12. Sales to non-commercial purchasers of: fabric, thread, knitting yarn, buttons, zippers, needles, patterns, dress forms ...	A-31 S-54 A-551 S-29	Same as column (1).	_____	1,300
13. Soap, soap products, detergents, household cleansers, cleaning agents	A-31 S-29 A-237 S-150 A-551	_____	Same as in column (1).	4,000
14. Disposable household paper products: paper towels, paper napkins, toilet tissue, facial tissue, cleaning tissue	A-31 S-29 A-237 S-150 A-551	_____	Same as in column (1).	1,300
15. Household paper, plastic, foil or similar products for packaging, preserving or cooking foods	S-29 S-150	_____	Same as in column (1).	_____
16. Candy, confectionery, fruit drinks (70%), soft drinks, sodas and beverages ordinarily sold at soda fountains	A-31 A-237 A-551	Fruit juices containing less than 70% of natural fruit juices.	Same as in column (1) except fruit drinks (70%).	5,100
17. On premise sale of food and drink where charge for each person served is less than \$1.00	A-237 A-551	_____	Same as in column (1).	7,400
18. Pet foods	S-150	_____	Same as in column (1).	900
19. United States flag	A-31 S-150	Same as column (1).	_____	Nominal
New Jersey flag	A-194 A-95 A-551			

APPENDIX TABLE C—Continued
 STATE OF NEW JERSEY
 COMMISSION ON STATE TAX POLICY
 ANALYSIS OF SALES TAX EXEMPTIONS
 Proposed or Adopted, 1967

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<i>Proposed Exemptions</i> (1)	<i>Bills Making Proposals</i> (2)	<i>Exemptions added by c. 25 Laws of 1967 (A-705)</i> (3)	<i>Proposed Exemptions Omitted from c. 25 Laws of 1967 (A-705)</i> (4)	<i>Estimated Revenue Loss [1] (\$000)</i> (5)
20. Text books approved by Department of Higher Education	A-31 A-237 A-551	Same as column (1).	_____	Technical
21. Gravestones, grave markers	A-133	_____	Same as in column (1).	750
22. Mobile home (30' x 8')	A-167	_____	Same as in column (1).	90
23. Air and water pollution abatement equipment ...	S-297 A-777	_____	Same as in column (1).	_____
24. Insignia, decorations, etc., worn on uniforms of the Armed Forces of the U. S.	A-95	_____	Same as in column (1).	_____
25. Sewer service	A-31 A-237 A-551	Same as column (1).	_____	[2]
26. _____	_____	Garbage removal service.	_____	[2]
27. Machinery, equipment, etc., for use in the construction or operation of sewerage systems	A-31 A-551	Machinery, equipment, etc., for use in the operation of sewerage systems.	Machinery, equipment, etc., for use in the construction of sewerage systems.	_____
28. Domestic heating system repairs, repair parts, and services in connection with the operation thereof in single and multiple family dwellings	A-491 A-905	Maintenance, service and repair of residential heating system serving not more than 3 families living independently of each other and doing their cooking on the premises.	Multiple family dwellings, beyond 3 families, not included.	495
29. Domestic plumbing system repairs, repair parts and services in connection with the operation thereof in single and multiple family dwellings	A-905	_____	Same as in column (1).	_____

			Tampons and like products.		400
	31.		Bible and similar sacred scripture.		Nominal
	32.	A-583		Same as in column (1).	} 7,500
	33.	A-583		Same as in column (1).	
	34.	A-407 S-159		Same as in column (1).	—
107	35.	A-407 S-159		Same as in column (1).	1,000
	36.	A-407 S-159		Same as in column (1).	—
	37.	A-363		Same as in column (1).	2,300
	38.	S-461		Same as in column (1).	—

APPENDIX TABLE C—Continued

STATE OF NEW JERSEY
 COMMISSION ON STATE TAX POLICY
 ANALYSIS OF SALES TAX EXEMPTIONS
 Proposed or Adopted, 1967

<i>Proposed Exemptions</i> (1)	<i>Bills Making Proposals</i> (2)	<i>Exemptions added by c. 25 Laws of 1967 (A-705)</i> (3)	<i>Proposed Exemptions Omitted from c. 25 Laws of 1967 (A-705)</i> (4)	<i>Estimated Revenue Loss [1] (\$000)</i> (5)
39. Eliminate exemption of on-premise sales of alcoholic beverages, in restaurants, taverns, etc., and by caterers	S-413	_____	Same as in column (1).	_____
40. Receipts from sales under \$0.17	A-95	_____	Same as in column (1).	2,430
41. Boarding house eliminated from definition of "hotel"	A-95	_____	Same as in column (1).	_____
42. Occupancy in hotel operating only between May 30 and September 30	A-95	_____	Same as in column (1).	_____
43. Exclude from "receipts" any account not paid in money or credit (presumably bad debts)	A-527	_____	Same as in column (1).	Nominal
44. Residents 62 years of age, or over	A-561	_____	_____	18,300
45. (a) Contractors, subcontractors and repairmen to be liable for payment of tax on materials and supplies used in erection, alteration or repair of real property	A-865	_____	Same as in column (1).	_____
(b) Relieve vendor of such property of liability for collection and payment of tax		_____	Same as in column (1).	_____
46. Admissions, all of the pro-	A-810	_____	_____	_____

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46.	Admissions, all of the proceeds of which inure exclusively to the benefit of a volunteer fire, ambulance, first aid or emergency company or squad	A-810	Same as column (1).	_____	_____
47.	Historical or genealogical purposes	A-810	_____	Same as in column (1).	Nominal
48.	_____		Locomotives, railroad cars and other rolling stock, including repair and replacement parts, to a railroad regulated by ICC or PUC of N. J.	_____	N. A.
49.	_____		Buses and repair parts to a bus company regulated by ICC or PUC of N. J. and to carriers of school children.	_____	575
50.	Any department, post, auxiliary, unit or society or an organization of war veterans chartered by Congress or incorporated under Title 15	A-70 A-237 A-450 A-551	_____	Same as in column (1).	N. A.
51.	Civic or service organization	A-237 A-450 A-551	_____	Same as in column (1).	_____
52.	Volunteer fire, ambulance, first aid rescue or emergency company or squad.	A-237 S-150 A-450 A-645 A-551 A-810	(Rescue squad probably included by Sec. 9 (f) (1) (A).)	_____	Nominal
53.	Service organization or parent-teacher association of a public or private school	A-237 A-810 A-450 A-551	Parent-teacher association of a public or private school.	Service organization of a public or private school.	Nominal
54.	Any auxiliary or brotherhood society of any fire, first aid, ambulance rescue or emergency company or squad	A-665	_____	Same as in column (1).	_____

[1] By Division of Taxation.
 [2] Already exempted by Division of Taxation regulation.

APPENDIX TABLE D
BALANCE SHEET AND INCOME
STATEMENT
HYPOTHETICAL MANUFACTURING
CORPORATION

BALANCE SHEET			
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash	\$1,160,000	Notes Payable	\$20,000
Securities	800,000	Accounts Payable	710,000
Stock of subsidiary	500,000	Accrued State and Local Taxes	500,000
U. S. Government Securities	750,000	Accrued Federal Taxes	1,000,000
Accounts Receivable	1,560,000		
Inventory—		Total Current Liabilities	\$2,230,000
Finished Products	860,000	Notes Payable—	
Work in Process	220,000	Maturing After One Year	130,000
Raw Materials	230,000		
		<i>Capital and Surplus</i>	
Total Current Assets	\$6,080,000	Capital Stock	7,350,000
		Surplus	290,000
<i>Plant Property and Equipment</i>		Total Shareholders' Equity	\$7,640,000
Land	150,000		
Buildings and Improvements	1,830,000		
Machinery, Equipment and Fixtures	1,900,000		
Total Plant Property and Equip- ment	\$3,880,000		
<i>Prepaid Expenses</i>			
Prepaid Insurance	40,000		
Total Assets	<u>\$10,000,000</u>	Total Liabilities and Surplus	<u>\$10,000,000</u>

INCOME STATEMENT

<i>Sales and Revenues</i>	
Gross Sales	\$13,910,000
Interest on U. S. Securities	22,500
Taxable Dividends (for federal) ..	15,000
Other Income	32,500
Total	\$13,980,000
<i>Cost and Expenses</i>	
Cost of Goods Sold	\$6,430,000
Salaries and Wages	4,080,000
Provision for Depreciation	450,000
State Corporate Tax	100,000
Other State and Local Taxes	700,000
Other Expenses	495,000
Total	\$11,955,000
Income Before Federal Taxes	2,025,000
Federal Normal and Surtax	1,000,000
Net Income	<u>\$1,025,000</u>

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APPENDIX TABLE E
COMPARATIVE TAX LIABILITIES OF A MANUFACTURING CORPORATION
IN NEW JERSEY AND PENNSYLVANIA, 1968

NEW JERSEY		
<i>Net Worth Tax</i>		
Net Worth	\$7,640,000	
Plus:		
Debt to Shareholder ...	130,000	
Appreciation in Securities	100,000	
Subtotal	\$7,870,000	
Less:		
Portion of Subsidiary ..	\$200,000	
Total	\$7,670,000	
Rate .....	.002	
Tax	\$15,340.00	
<i>Income Tax</i>		
Taxable Income	\$2,025,000	
Plus:		
State Corp. Income Tax	100,000	
Dividends	35,000	
Total	\$2,160,000	
Rate .....	.0325	
Tax	\$70,200.00	
<i>Machinery and Equipment Tax</i>		
Book Value	\$1,900,000	
Taxable Value	950,000	
Rate .....	.013	
Tax	\$12,350.00	
TOTAL TAXES*	\$97,890.00	
As % of Income before federal tax	4.84%	
PENNSYLVANIA		
<i>Income Tax</i>		
Taxable Income	\$2,025,000	
Less:		
Dividends	15,000	
Interest on U. S. Securities	22,500	
Total	\$1,987,500	
Rate .....	.07	
Tax	\$139,125.00	
<i>Capital Stock Tax</i>		
Valuation factors—		
Earnings capitalized at 10%	\$10,250,000	
Dividends capitalized at 8%	7,490,000	
Equity	7,640,000	
Total	\$25,380,000	
Valuation	8,460,000	
Average Taxable Assets	.25	
Average Total Assets ..	\$2,115,000	
Rate .....	.006	
Tax	\$12,690.00	
TOTAL TAXES*		
As % of Income before federal tax	\$151,815.00	7.50%

* Excluding real estate taxes.

Comparison of the tax treatment of corporations in New Jersey and Pennsylvania. If local property taxes are excluded, a comparison of the corporate burden in the two states of Pennsylvania and New Jersey may illustrate the complex factors which make any generalization unreliable.

Net Worth Tax. The operation of the New Jersey net worth tax has been explained. Pennsylvania has a comparable tax—the Capital Stock Tax. The tax is upon the property and assets of domestic corporations. Foreign corporations are subject to a similar tax, the Franchise Tax. The valuation of Capital Stock for tax purposes is based on various considerations including (1) average selling price of the corporate stock; (2) earnings of the corporation; (3) dividends paid by the corporation; and (4) the equity or actual value of the

corporation's net assets. These factors and others are averaged together in order to arrive at the valuation. The tax which is now at the rate of 6 mills per dollar is then applied to the portion of the capital stock valuation which is equal to the corporation's average taxable assets/average total assets. The difference between the numerator and the denominator of this fraction represents assets which are exempt from the tax.

The most important exemption from this tax is the portion of capital of companies organized for manufacturing or processing purposes which is invested and actually and exclusively employed in carrying on manufacturing or processing within the state. The rules relating to this exemption are technical but generally in-state capital engaged in manufacturing and processing is excluded.*

Other exemptions from the tax include the stock of other Pennsylvania corporations subject to the capital stock tax, stocks of foreign corporations where the taxpayer owns more than 50% of the voting control, and tangible personal property located outside of the state. It is in the exemption area that the Pennsylvania tax differs most significantly from the New Jersey Net Worth Tax.

Income tax. Both the New Jersey and the Pennsylvania corporate income taxes use the Federal income tax base in computing the tax. Under the New Jersey tax this base is adjusted by adding back interest which is exempt under the federal tax, not allowing a deduction for certain interest paid to stockholders, not allowing a deduction for the New Jersey corporation business tax, and allowing a deduction for 50% of dividends received rather than 85% as under the federal law. The tax rate in Pennsylvania is 7% and New Jersey 3¼%.

Under the Pennsylvania corporate net income tax the base is adjusted by deducting interest on U. S. Securities, excluding 100% of dividends received, excluding net gain on sale of tangible capital assets located outside of Pennsylvania. Unlike the New Jersey tax, the Pennsylvania Corporate Net Income Tax is a deduction from its own base.

The allocation formula for income under both taxes is based on the three factor "Massachusetts formula": (1) real and tangible property, (2) receipts and (3) payrolls. Both states include in the numerator of the receipts factor only sales shipped to a destination within the taxing state.

General Property Tax. The real property of corporations in both Pennsylvania and New Jersey is subject to the general local property tax with local assessment at local rates. Pennsylvania exempts tangible personal property from its property tax, but there is some indication that this exemption may lead to a more inclusive definition of real property to include some machinery and equipment; for example, rolling-mill equipment. In New Jersey busi-

ness tangible personal property, except inventory, is subject to the Business Personal Property Tax at the rate of \$1.30 per \$100 of taxable value (50% of original cost).

Comparison. The above taxes are the most significant state and local taxes imposed on manufacturing corporations. The relative tax impacts for hypothetical New Jersey and Pennsylvania corporations with a balance sheet and Table D is computed in Appendix Table E.

In the case of the above hypothetical corporation, the tax burden in Pennsylvania (exclusive of real estate tax) turns out to be much greater than in New Jersey. Of course, this is largely due to the 7% state income tax in Pennsylvania.

About Table 24—The dollar amounts are from the Corporate Tax Bureau's Master Cash records for the year 1965. They are deficient for present purposes in that they precede several changes which have been made in the corporation business tax law. With respect to the net worth tax, these changes are the dropping of the mandatory 40% of intangibles from the total asset allocation formula and the addition of a new minimum alternative—the capital stock tax. With respect to the income tax, the business allocation formula has been changed to attribute sales to the state of the destination in the receipts factor, and the rate has been increased to 3¼%.

The figure for net income tax in the table has been increased to reflect the 3¼% rate but the effect of the other changes has not been accounted for. In fact, the effect of these changes is not yet known.

Appendix Tables F and G divide the figures in Table 24 into two groups. Table F analyses those corporations whose tax is greater than the \$25 or \$50 minimum but less than \$223 which is the maximum tax payable by those corporations which compute their tax under the short table on total assets.

Appendix Table G analyses those corporations whose tax is greater than \$223 but less than \$200,000, which is the point at which the tax rate becomes graduated downward (i.e. 2 mills X \$100 million = \$200,000).

* For a detailed explanation of the exemption, see Mahon and Habermehl, *State Taxation of Corporations in Pa.*, pp. 89-144 (9th Ed., 1963).

APPENDIX TABLE F

ESTIMATED EFFECT ON TAX YIELD FROM CONVERTING THE CORPORATE NET WORTH TAX TO AN ALTERNATIVE MINIMUM TO THE NET INCOME TAX, AT SELECTED RATES OF RETURN ON NET WORTH AND AT SELECTED INCOME TAX RATES.

CORPORATIONS WITH NET WORTH TAX ABOVE MINIMUM BUT \$223 OR LESS

Class	Rate of Return of Allocated Net Income on Allocated Net Worth, by classes	Tax Rates Corresponding to Classes	Number of Corporations in bracket	Allocated Net Worth	Allocated Net Income	Net Worth Tax	Net Income Tax
1	Under 4.00%	Over 5.00%	21,097	\$841,932,455	\$5,533,691	\$1,683,865	\$179,845
2	4.01% to 4.21%	4.99 to 4.75%	264	10,873,710	445,784	21,747	14,488
3	4.22% to 4.44%	4.74 to 4.50%	296	13,607,185	589,425	27,214	19,156
4	4.45% to 4.71%	4.49 to 4.25%	320	13,823,770	631,922	27,647	20,537
5	4.72% to 5.00%	4.24 to 4.00%	350	15,339,430	744,755	30,679	24,205
6	5.01% to 5.33%	3.99 to 3.75%	425	18,335,755	947,742	36,671	30,802
7	5.34% to 5.71%	3.74 to 3.50%	443	18,966,120	1,047,544	37,932	34,045
8	5.72% to 6.15%	3.49 to 3.25%	479	21,870,770	1,295,641	43,741	42,108
9	Over 6.15%	Under 3.25%	18,324	865,272,880	220,396,803	1,730,546	7,162,896
Total			41,998	\$1,820,022,075	\$231,633,307	\$3,640,044	\$7,528,082

APPENDIX TABLE G

ESTIMATED EFFECT ON TAX YIELD FROM CONVERTING THE CORPORATE NET WORTH TAX TO AN ALTERNATIVE MINIMUM TO THE NET INCOME TAX, AT SELECTED RATES OF RETURN ON NET WORTH AND AT SELECTED INCOME TAX RATES.

CORPORATIONS WITH NET WORTH TAX OVER \$223 BUT NOT OVER \$200,000

Class	Rate of Return of Allocated Net Income on Allocated Net Worth, by classes	Tax Rates Corresponding to Classes	Number of Corporations in bracket	Allocated Net Worth	Allocated Net Income	Net Worth Tax	Net Income Tax
1	Under 4.00%	Over 5.00%	5,605	\$5,241,413,440	\$62,727,300	\$10,484,827	\$2,038,637
2	4.01% to 4.21%	4.99 to 4.75%	143	182,021,415	7,504,973	364,043	243,911
3	4.22% to 4.44%	4.74 to 4.50%	133	86,687,370	3,734,334	173,375	121,366
4	4.45% to 4.71%	4.49 to 4.25%	153	181,039,730	8,188,968	362,079	266,141
5	4.72% to 5.00%	4.24 to 4.00%	167	177,117,655	8,622,383	354,235	280,227
6	5.01% to 5.33%	3.99 to 3.75%	187	243,920,100	12,530,946	487,840	407,256
7	5.34% to 5.71%	3.74 to 3.50%	202	88,872,040	4,902,896	177,744	159,344
8	5.72% to 6.15%	3.49 to 3.25%	252	226,818,310	13,488,017	453,637	438,361
9	Over 6.15%	Under 3.25%	8,530	8,384,767,995	1,535,743,369	16,769,532	49,911,659
Total			15,372	\$14,812,656,055	\$1,657,443,186	\$29,625,312	\$53,866,903

APPENDIX H



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
TRENTON

RICHARD J. HUGHES
GOVERNOR

April 14, 1967.

MY DEAR SENATOR TOOLAN:

In March of 1962, the Legislature enacted substantial increases in the New Jersey Transfer Inheritance Tax rates. In the interim, questions have arisen as to rates and general structure. Recent proposals for review have centered mainly around the following aspects:

Proposals that the tax rate increases enacted in 1962 be revised downward.

Proposals for revision of the scope of exemptions and the tax treatment of particular interests such as estates by the entirety and insurance proceeds.

Proposals for conversion of the form of the New Jersey death levy from the present collateral inheritance tax based on relationship to the decedent and the size of the distributive share to an estate tax of the type levied by the Federal Government and many state jurisdictions, including New York.

Expressions of concern in various quarters that the New Jersey Inheritance Taxes are relatively unfavorable in relation to the death taxes of other states so that persons of material wealth have been and will be induced to move from the State so as to avoid the imposition of the New Jersey Inheritance Tax.

Accordingly, the Commission on State Tax Policy is respectfully requested to undertake a comprehensive examination of the New Jersey Transfer Inheritance Tax laws with particular emphasis on, but not necessarily limited to, rates, exemptions, the relative merits of a collateral inheritance tax versus an estate tax, and the relative death tax burden in New Jersey and other state tax jurisdictions. As to the last, it is recognized, of course, that a sound evaluation of the economic impact of a state death tax cannot be made separate and apart from the impact of the total state tax structure upon individuals. For example, New Jersey does not impose a personal income tax.

Your Commission is respectfully requested to determine to what extent the existing inheritance tax structure should be modified or otherwise changed to insure a fair and equitable death tax levy and to report on your findings and recommendations in this regard to me (and to the 1968 Legislature) by March 1, 1968.

Sincerely,

RICHARD J. HUGHES,
Governor.

Hon. John E. Toolan
First Bank & Trust Co. Bldg.
Perth Amboy, New Jersey

APPENDIX I



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
TRENTON

RICHARD J. HUGHES
GOVERNOR

MY DEAR SENATOR TOOLAN :

A number of proposals involving basic tax considerations and concomitant fiscal implications for the State of New Jersey have arisen in the recent past. It is my feeling that these proposals should be carefully studied by the Commission on State Tax Policy. The proposals fall into three categories.

The first relate to means of providing relief to local property tax payers. Three suggestions which are worthy of study and review involve, provisions for a homestead tax exemption for owner-residents within a municipality, the levying of a payroll tax on wages earned in a municipality and payment in lieu of taxes by the state to municipalities for state facilities located within the municipality.

The second group of proposals concern reform of certain tax concepts related to the taxation of corporations by the State of New Jersey. The suggestions set forth call for reform of the concept of net worth tax to provide for an exemption for manufacturing and research capital employed in New Jersey, and a related exemption for holding company investments of subsidiary capital in assets outside of the state. The elimination of taxation of dividends received by a parent company from a subsidiary company and finally providing an investment credit against the New Jersey Corporate Income Tax as an incentive for industrial growth in New Jersey.

A third area involving tax considerations which requires further study concerns the propriety of local tax exemptions for publicly owned property in a municipality and payments in lieu of taxes on such property. This would include a study of existing statutes to ascertain where such payments are required or permitted.

Your commission is respectfully requested to undertake a comprehensive study of the above proposals and is respectfully requested to report back to me and the New Jersey Legislature by March 1, 1968 with the commissions findings and recommendations.

Sincerely,

RICHARD J. HUGHES,
Governor.

Hon. John E. Toolan
First Bank & Trust Co. Bldg.
Perth Amboy, New Jersey
May 25, 1967

APPENDIX J

RESOLUTIONS

SALES AND USE TAX—EXEMPTIONS

JOINT RESOLUTION No. 8

ASSEMBLY JOINT RESOLUTION No. 12

A JOINT RESOLUTION requesting the Commission on State Tax Policy to study exemptions to the New Jersey Sales and Use Tax.

WHEREAS, Chapter 30 of the laws of 1966 provides for a sales and use tax in the State of New Jersey; and

WHEREAS, There has been introduced in the 1967 session of the Legislature Assembly Bill No. 705 which would provide for certain exemptions from the New Jersey Sales and Use Tax Act, which exemptions do not involve a significant reduction in the amount of revenue to be derived from the New Jersey Sales and Use Tax Act of 1966 and are in accordance with the policy of the New Jersey Sales and Use Tax Act of 1966; and

WHEREAS, Additional exemptions have been proposed which would involve a significant reduction in the amount of revenue derived from the New Jersey Sales and Use Tax Act of 1966 and are of a more complex nature; and

WHEREAS, It is desirable that the Commission on State Tax Policy study the scope of exemptions provided in the New Jersey Sales and Use Tax Act of 1966, now therefore,

Be It Resolved by the Senate and General Assembly of the State of New Jersey:

1. The Commission on State Tax Policy is hereby requested to study whether it is desirable to provide exemptions from the Sales and Use Tax Act of 1966 for the sale of household supplies, the sale of veterinary drugs, the sale of nonprescription drugs, the sale of pet food, the sale of building materials to contractors, subcontractors, and repairmen and whether exemptions should be provided for civic clubs, veterans' groups, fraternal organizations, social clubs and woman's clubs and whether any other exemptions from the New Jersey Sales and Use Tax as proposed in any legislation introduced in the 1967 session of the Legislature other than those provided for in Assembly Bill No. 705 of 1967, are desirable and necessary, and further to study the total scope of exemptions presently provided in the New Jersey Sales and Use Tax Act of 1966.

2. The commission shall report to the Governor and the Legislature on or before July 1, 1968 as to its findings and recommendations as to whether any exemptions from the Sales and Use Tax Act of 1966 set forth in section 1 herein are desirable and shall further make recommendations as to the entire scope of exemptions presently provided in the New Jersey Sales and Use Tax Act of 1966. The commission may make such interim reports prior thereto as its studies shall dictate.

3. This joint resolution shall take effect immediately.

Approved and effective July 7, 1967.

