

Property Tax, State and Local Taxes and the New Jersey Constitution

Joint Committee on Constitutional Reform
and Citizens Property Tax Constitutional Convention

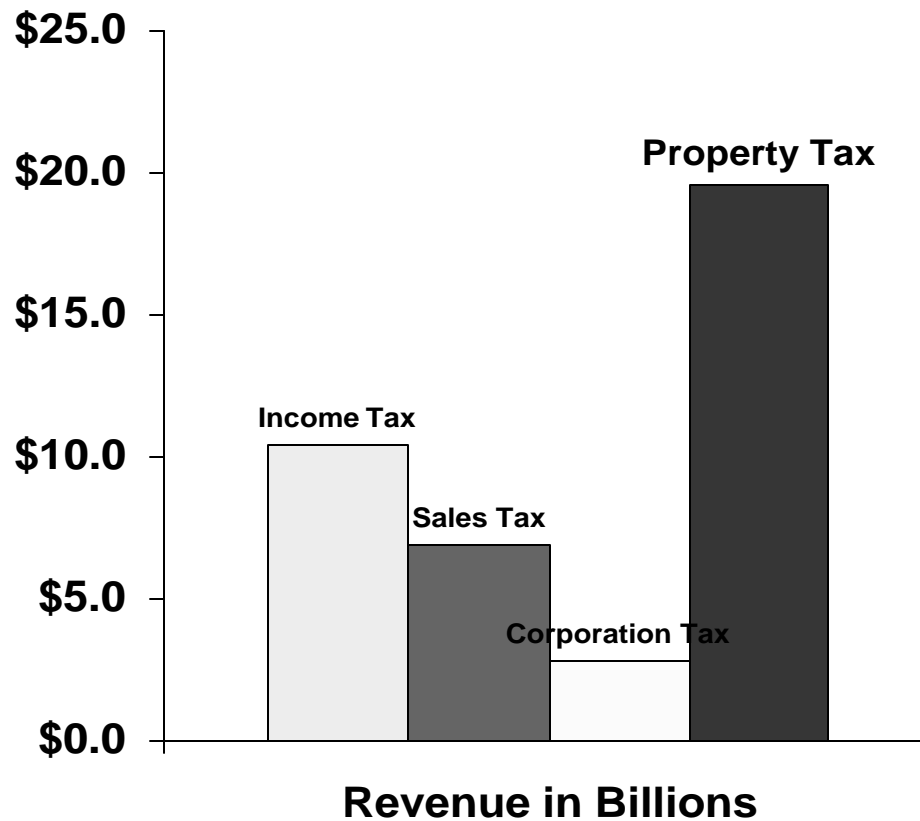
August 2006

Office of Legislative Services

Comparing Major NJ Revenues

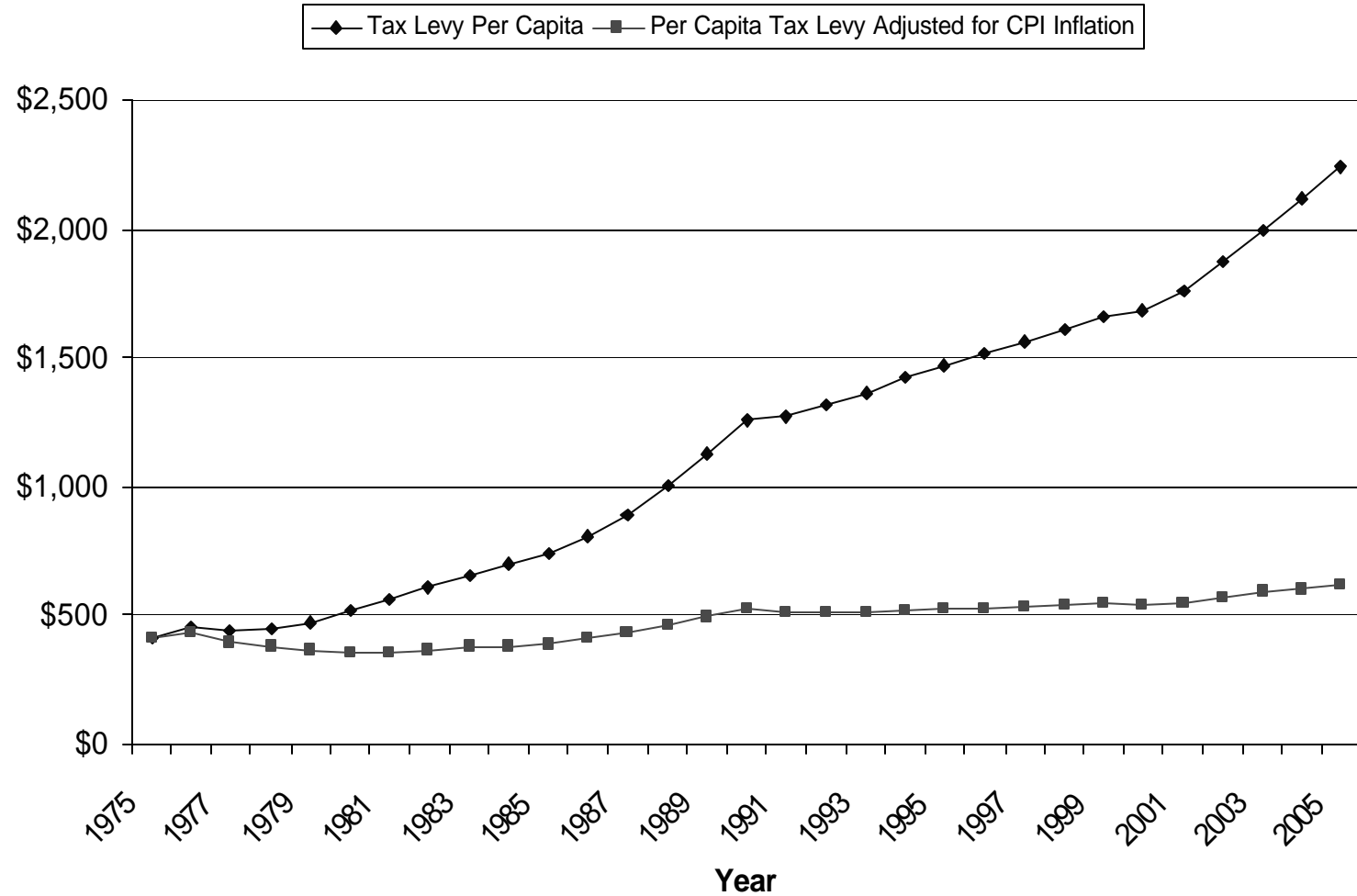
- New Jersey's property tax is the largest State or local revenue source = \$19.6 billion in 2005.
- Income tax = \$10.4 billion in FY05-06.
- Sales tax = \$6.9 billion in FY05-06.
- Corp. tax = \$2.8 billion in FY05-06.

Comparing Major NJ Revenues

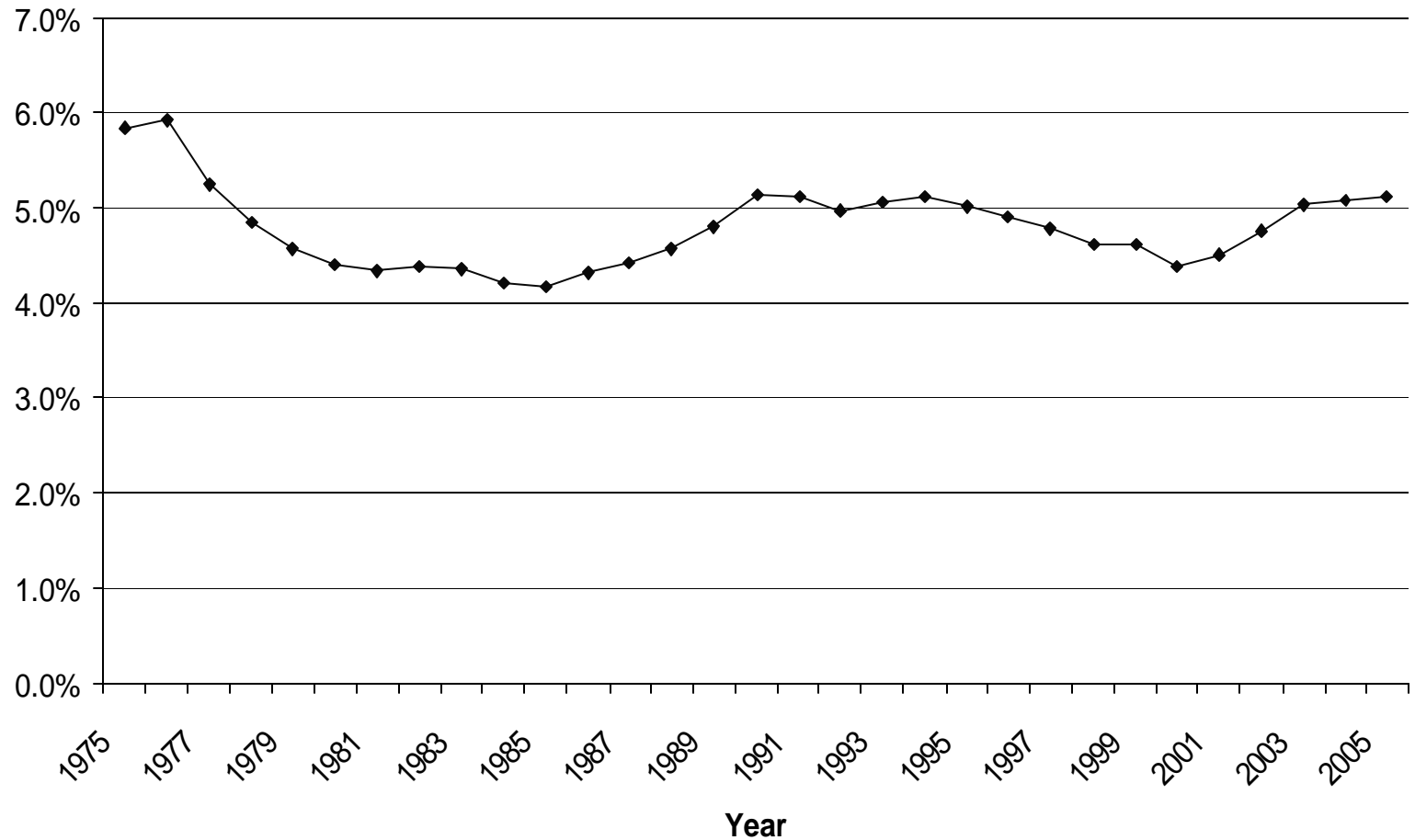


- 72% of local property tax is paid by residences.
- The average residential property tax = \$5,914 in 2005.
- On average, the property tax = 5.1% of personal income, but varies widely.

Total Property Tax Levy Per Capita (Statewide, 1975-2005)



Total Property Tax Levy as a Percent of Personal Income (Statewide, 1975-2005)

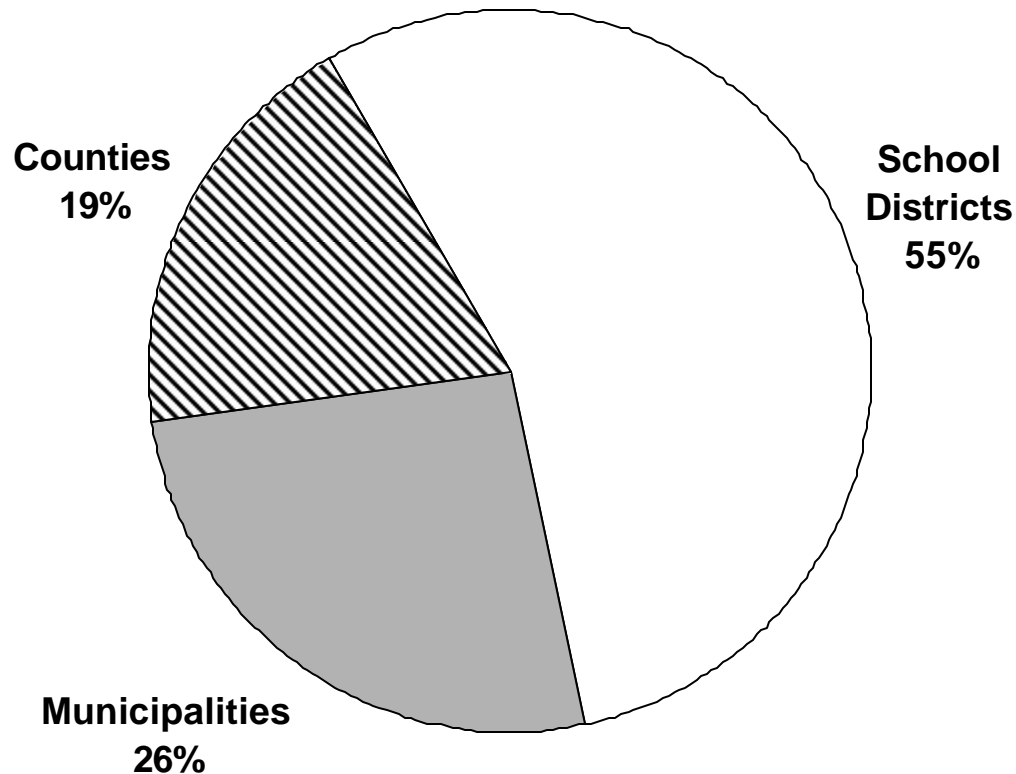


How Do NJ Property Taxes Compare to Other States?

(2004 Data)

- NJ is 1st in property tax per capita.
- NJ is 3d in property tax as a percentage of personal income.

What Do Property Taxes Pay for in New Jersey?



Why do We Rely on Property Taxes?

- Local tax tied to local needs, with local control.
- Reliable annual receipts not subject to sudden increases or decreases due to economic conditions.

What are Some of the Major Concerns About Property Taxes?

- Disproportionate dependence on one revenue source.
- Not tied to ability to pay.
- Wide variance in tax burden between jurisdictions.
- Distorts land use decisions.

Taxpayer Impact Illustrations



- Three households in identical homes on the same street.
- Each worth \$7,000 in local property tax.
- Tax burdens can vary significantly...

Taxpayer Impact Illustrations (continued)

- **1. Family of four.**
Income \$90,000.
- \$7,000 property tax (7.8% of income).
- \$1,575 State income tax (1.8% of income).
- Eligible for \$250 homestead rebate.
- Net taxes of \$8,325 = 9.3% of income.



Taxpayer Impact

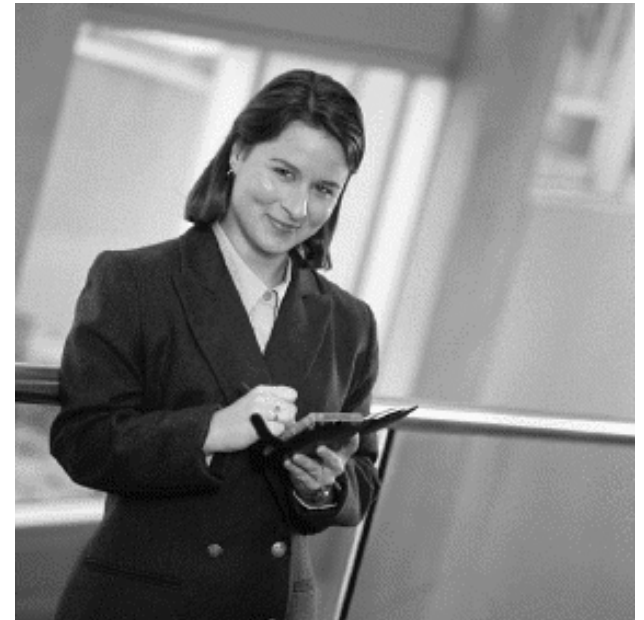
Illustrations (continued)



- **2. Retired couple.** Mostly pension and S.S. income \$40,000.
- \$7,000 property tax less \$850 for 2 years of “senior freeze” benefit = \$6,150 (15.4% of income).
- Pay \$0 State income tax.
- Eligible for \$1,200 homestead rebate.
- Net taxes of \$4,950 = 12.4% of income.

Taxpayer Impact Illustrations (continued)

- **3. High income individual.** Income \$400,000.
- \$7,000 property tax (1.8% of income).
- \$22,844 State income tax (5.7% of income).
- Not eligible for homestead rebate.
- Net taxes of \$29,844 = 7.5% of income.



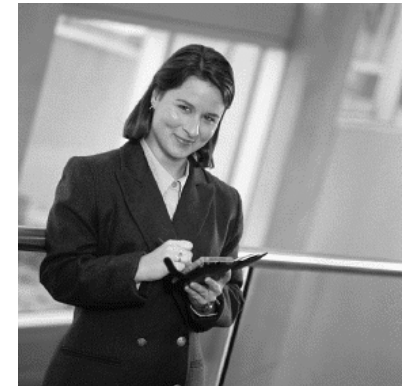
Taxpayer Impact Illustrations (Summarized)



- \$90,000 income
- \$8,325 comb. tax
- 9.3% tax burden



- \$40,000 income
- \$4,950 comb. tax
- 12.4% tax burden

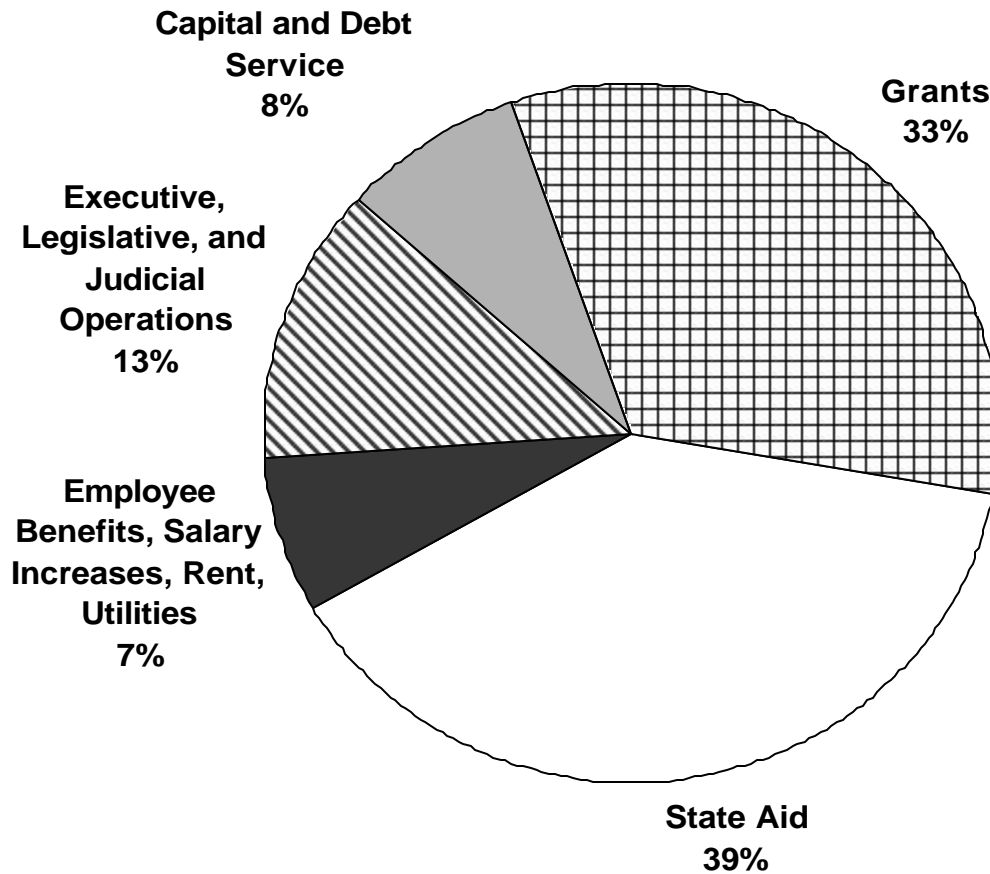


- \$400,000 income
- \$29,844 comb. tax
- 7.5% tax burden

How to Reduce Dependence on a Resource that Provides \$20 Billion Annually?

- **Reduce local spending.**
- **Shift State spending to
increase State Aid.**

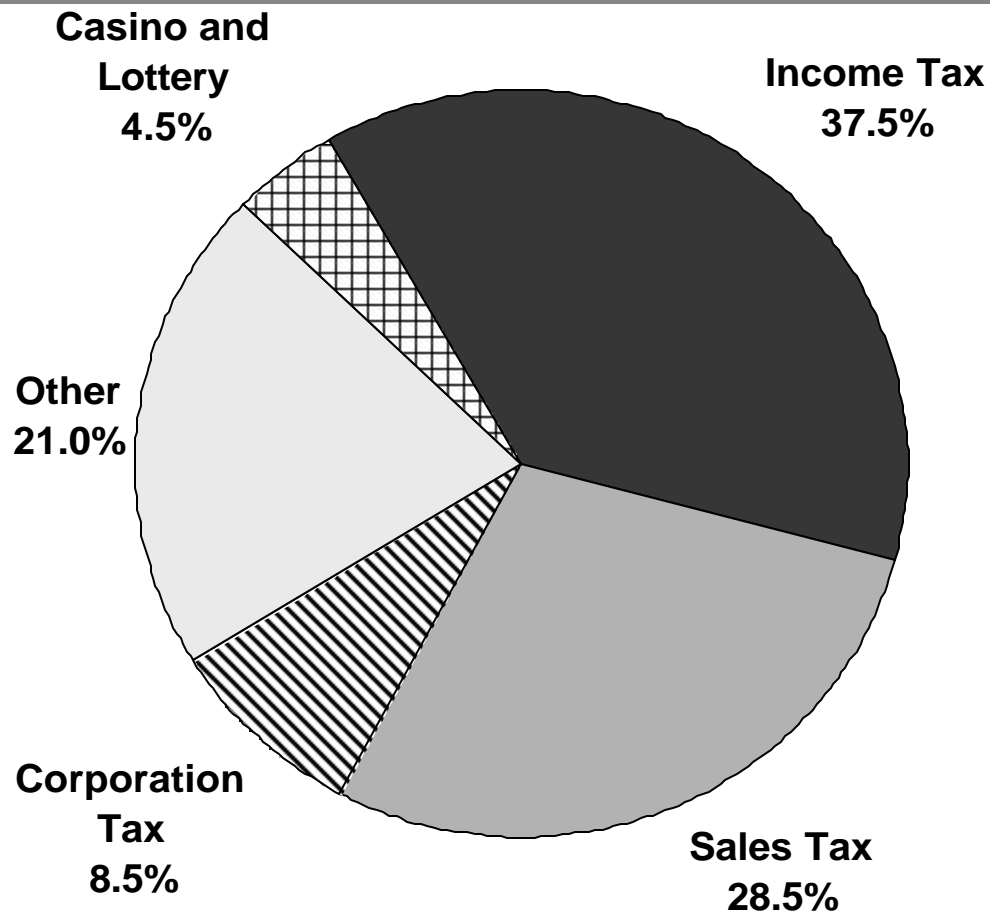
State Budget Spending



How to Reduce Dependence on a Resource that Provides \$20 Billion Annually?

- **Reduce local spending.**
- **Shift State spending to increase State Aid.**
- **Replace property tax with other revenues.**

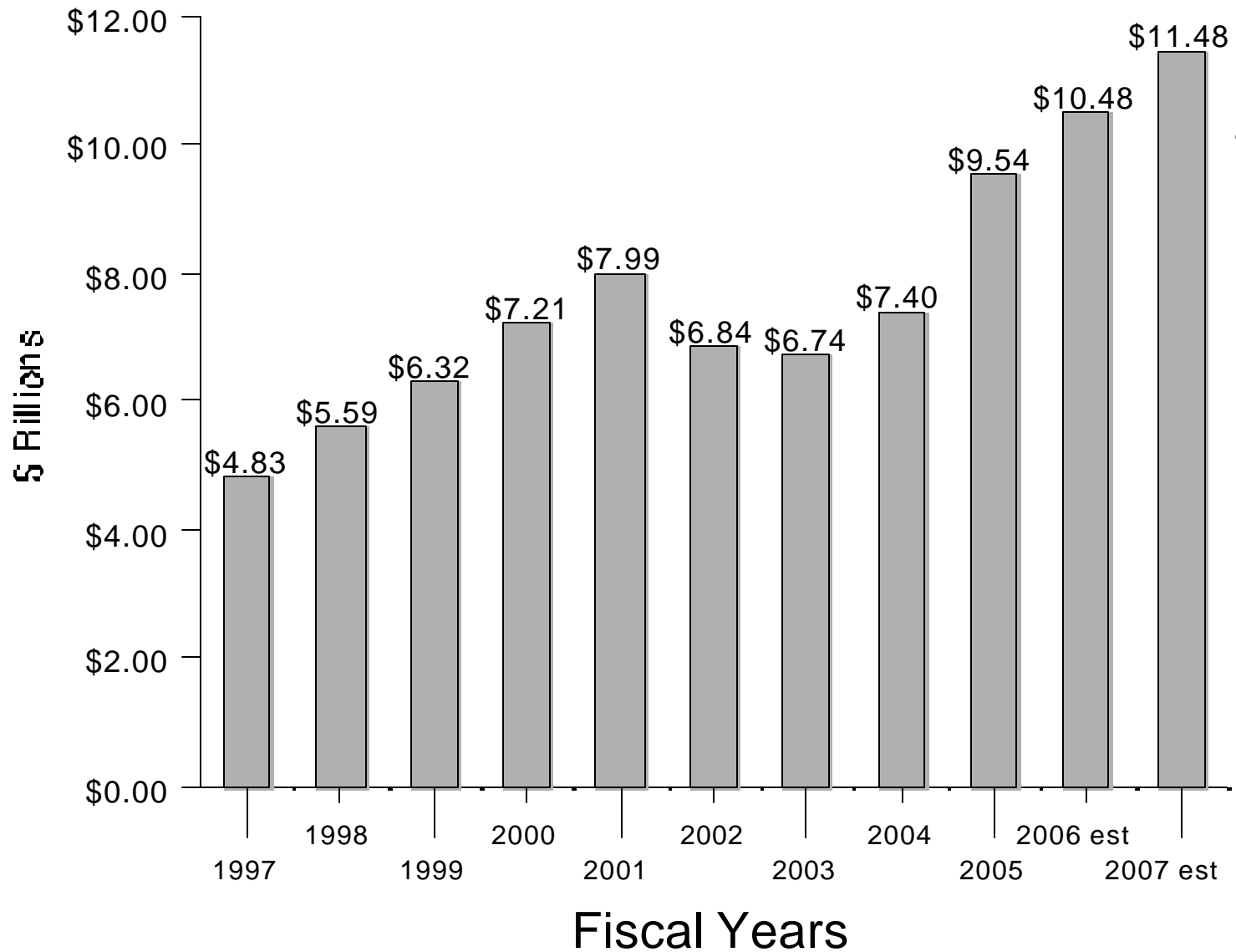
FY 2007 State Revenues



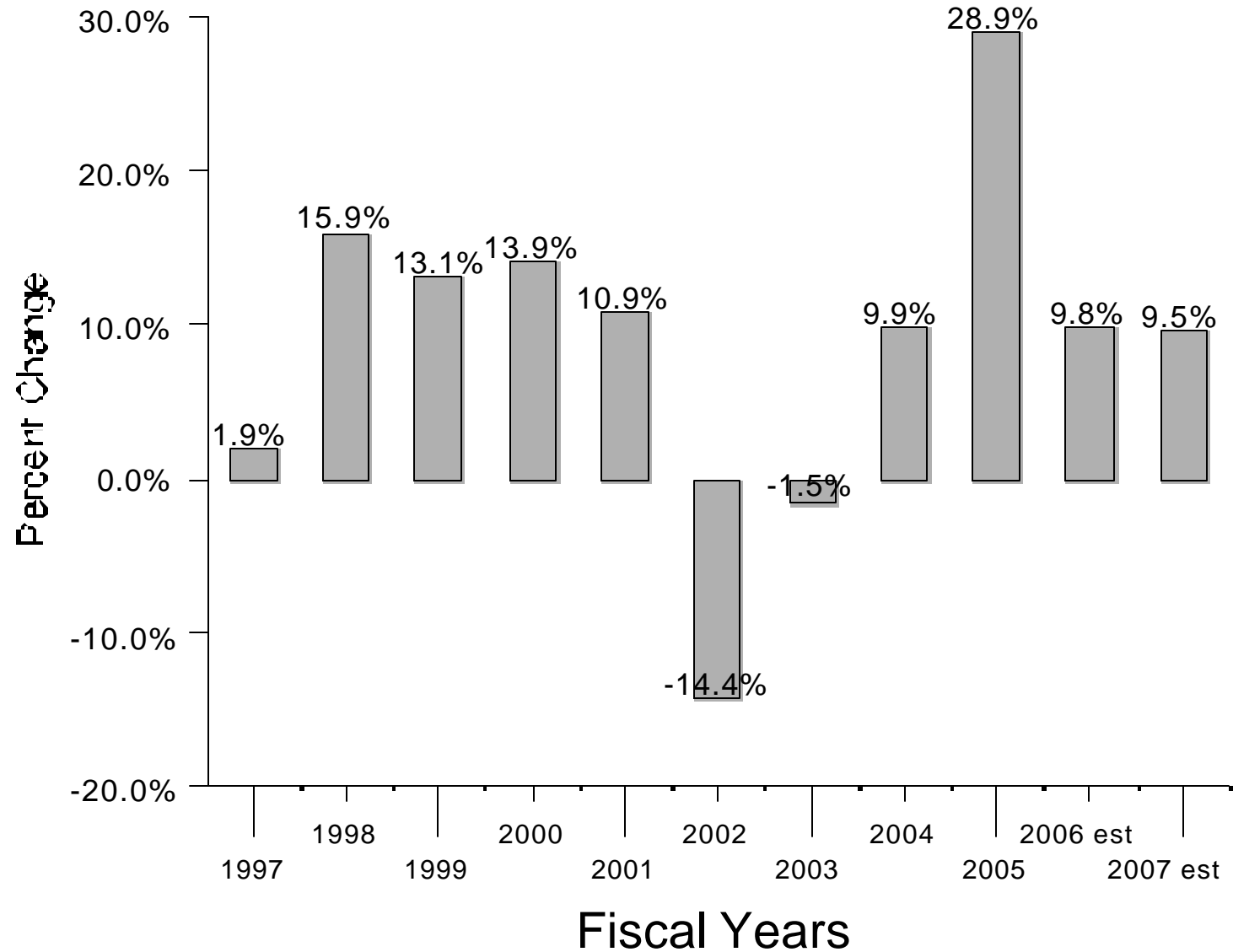
NJ Gross Income Tax

- About half the size of local property taxes.
- Dedicated to “Property Tax Relief Fund”, for school/municipal aid and rebates.
- Highly graduated (rates from 1.4% to 8.97%).
- Top 20% (>\$100,000) pay nearly 80% of total.
- Top 1% (>\$500,000) pay about 40% of total.
- Four of five seniors report NJ taxable income below \$50,000. More than half of seniors pay no income tax.

Annual Income Tax Revenue



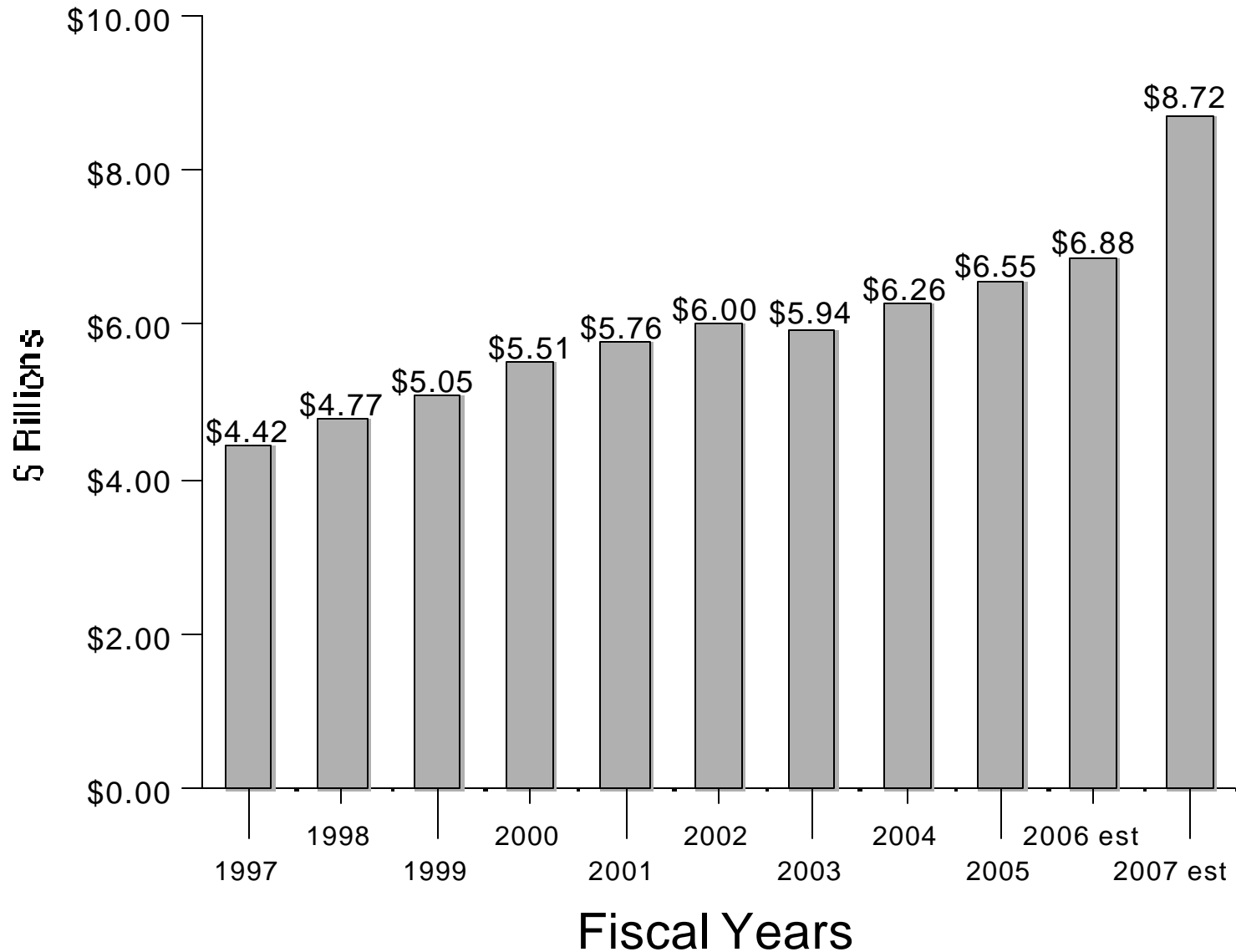
Annual Income Tax Growth



New Jersey Sales Tax

- New 7% rate matches highest state rate, nationally.
- Most other states allow local option sales tax rate added to state rate. Highest state/local total is 11.5% in Arkansas.
- NJ exempts food and clothing.
- NJ ranked 20th in sales tax per capita in 2005 (\$752). Could rise to about 11th in 2007.

Annual Sales Tax Revenue



Constitutional Considerations

Constitutional Underpinnings of the Local Property Tax

- Uniformity Clause – all classes of property within a “taxing district” must be assessed under same standards and the same general tax rate must be applied.

Constitutional Underpinnings of the Local Property Tax (continued)

- Exceptions to the Uniformity Clause based on the personal status of the property owner must be provided for in the Constitution.
- Exceptions include – veteran's deductions, senior and disabled deductions, and homestead rebates.

Constitutional Underpinnings of the Local Property Tax (continued)

- The Constitution provides exemptions for property used exclusively for religious, educational, charitable, or cemetery purposes.
- The Constitution allows for certain long- and short-term exemptions for redevelopment and rehabilitation.
- The Constitution also provides for a reduced assessment for farmland.

Revenues Dedicated in the Constitution

- Gross Income Tax – Article VIII, Sec. II, par. 7
- Casino Revenue – Article IV, Sec. VII, par. 2D
- Lottery Revenue – Article IV, Sec. VII, par. 2C
- Transportation: Motor Fuels, Petroleum Products, and Sales Tax – Article VIII, Sec. II, par. 4
- Environment: Corporation Business Tax – Article VIII, Sec. II, par. 6
- Open Space: Sales Tax – Article VIII, Sec. II, par. 7

Proposed Constitutional Amendments: 212th Legislature

- Amendments on assessment/imposition (6).
- Restructuring of revenue or spending (11).
- Reductions/rebates for veterans (16), for seniors (16), and for volunteer fire and first aid squad members (4).
- Constitutional conventions or special sessions (10).