
Committee Meeting

of

Assembly Policy and Rules Committee

"The options for providing taxpayer relief and their corresponding impact and benefits to the New Jersey economy"

LOCATION: Belleville Public Library
Belleville, New Jersey

DATE: August 25, 1993
1:00 p.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Paul DiGaetano, Chairman
Assemblyman Nicholas R. Felice

ALSO PRESENT:

Assemblywoman Marion Crecco
Assemblyman Gerald H. Zecker

David L. Sallach
Office of Legislative Services
Aide, Assembly Policy and Rules Committee



Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, CN 068, Trenton, New Jersey 08625





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New Jersey State Legislature

ASSEMBLY POLICY AND RULES COMMITTEE
LEGISLATIVE OFFICE BUILDING, CN-068
TRENTON, NEW JERSEY 08625-0068

COMMITTEE NOTICE

TO: MEMBERS OF THE ASSEMBLY POLICY AND RULES
COMMITTEE

FROM: ASSEMBLYMAN PAUL DIGAETANO, CHAIRMAN

SUBJECT: COMMITTEE MEETING - August 25, 1993

*The public may address comments and questions to David L. Sallach,
Committee Aide, or make bill status and scheduling inquiries to Norma
Morales, secretary, at (609) 984-0231.*

The Assembly Policy and Rules Committee will meet on Wednesday,
August 25, 1993 at 1:00 PM in the Public Library, 221 Washington Avenue,
Belleville, New Jersey.

The Committee will take testimony on "The different options for
providing taxpayer relief and their corresponding impact and benefit to the
New Jersey economy."

Directions:

Turnpike North or South - take Exit 16W (Route 3W)
Continue Route 3W to Route 21S
Route 21S to Nutley/Lyndhurst Exit (1 1/2 to 2 miles)
Go down ramp to stop sign, turn left onto River Road (Nutley)
First light make a right, go up hill to first light. This is Washington
Avenue.
Turn left proceed down Washington Avenue to Library.

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ASSEMBLY, No. 2801

STATE OF NEW JERSEY

INTRODUCED JUNE 17, 1993

By Assemblymen HAYTAIAN, GEIST, Assemblywoman Weber, Assemblymen Zecker, Shinn, Kavanaugh, Assemblywoman Derman, Assemblymen Corodemus, Connors, Catania, Colburn, Assemblywoman Vandervalk, Assemblyman Rocco, Assemblywomen Anderson, Crecco, Assemblymen Collins, Singer, DiGaetano, Felice, Nickles, Russo, Sosa, Lustbader, Kramer, LoBiondo, Augustine, Solomon, Assemblywoman Heck, Assemblyman Warsh, Assemblywomen Ogden, Wright, Assemblymen Stuhltrager, Azzolina, Albohn, Penn, Moran, DeCroce, Cottrell, T. Smith, Roma, Wolfe, Assemblywoman Haines, Assemblymen Kelly, Arnone, Oros, Mikulak, Hartmann, Bagger, Gibson, Assemblywoman J. Smith, Assemblymen Zangari, Dunn and Impreveduto

1 AN ACT reducing rates under the gross income tax, amending
2 N.J.S.54A:2-1, and making an appropriation.

3
4 BE IT ENACTED by the Senate and General Assembly of the
5 State of New Jersey:

6 1. N.J.S.54A:2-1 is amended to read as follows:

7 54A:2-1. Imposition of tax. There is hereby imposed a tax for
8 each taxable year (which shall be the same as the taxable year
9 for federal income tax purposes) on the New Jersey gross income
10 as herein defined of every individual, estate or trust (other than a
11 charitable trust or a trust forming part of a pension or
12 profit-sharing plan), subject to the deductions, limitations and
13 modifications hereinafter provided, determined in accordance
14 with the following tables with respect to taxpayers' taxable
15 income:

16 a. For married individuals filing a joint return and individuals
17 filing as head of household or as surviving spouse for federal
18 income tax purposes:

If the taxable income is:	The tax is:
20 Not over [\$20,000.00]	
21 <u>\$50,000.00</u>	2% of taxable income
22	
23	
24 [Over \$20,000.00 but not	
25 over \$50,000.00.....	\$400.00 plus 2.5% of the
26	excess over \$20,000.00]
27	
28 Over \$50,000.00 but not	
29 over \$70,000.00.....	[\$1,150.00] <u>\$1,000.00</u> plus [3.5%]
30	<u>3.0%</u> of the excess over
31	<u>\$50,000.00</u>
32	
33 Over \$70,000.00 but not	
34 over \$80,000.00.....	[\$1,850.00] <u>\$1,600.00</u> plus
35	5.0% of the excess over
36	<u>\$70,000.00</u>

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 Over \$80,000.00 but not
 2 over \$150,000.00..... [\$2,350.00] \$2,100.00 plus
 3 6.5% of the excess over
 4 \$80,000.00
 5
 6 Over \$150,000.00..... [\$6,900.00] \$6,650.00 plus
 7 7.0% of the excess over
 8 \$150,000.00
 9

10 b. For married individuals filing separately, unmarried
 11 individuals other than individuals filing as head of household or as
 12 a surviving spouse for federal income tax purposes, and estates
 13 and trusts:

14
 15 If the taxable income is: The tax is:
 16 Not over [\$20,000.00]
 17 \$35,000.00..... 2% of taxable income
 18
 19 [Over \$20,000.00 but not
 20 over \$35,000.00..... \$400.00 plus 2.5% of the
 21 excess over \$20,000.00]
 22
 23 Over \$35,000.00 but not
 24 over \$40,000.00..... [\$775.00] \$700.00 plus [5.0%]
 25 4.5% of the excess over
 26 \$35,000.00
 27
 28 Over \$40,000.00 but not
 29 over \$75,000.00..... [\$1,025.00] \$925.00 plus 6.5% of
 30 the excess over \$40,000.00
 31
 32 Over \$75,000.00..... [\$3,300.00] \$3,200.00 plus 7.0%
 33 of the excess over \$75,000.00
 34

35 c. For the purposes of this section, an individual who would be
 36 eligible to file as a head of household for federal income tax
 37 purposes but for the fact that such taxpayer is a nonresident
 38 alien, shall determine tax pursuant to subsection a. of this section.
 39 (cf: P.L.1990, c.61, s.12)

40 2. (New section) The Legislature finds and declares that the
 41 appropriation of monies in the "Taxpayer Relief Fund" to the
 42 Property Tax Relief Fund pursuant to section 3 of this act will
 43 best serve the interests of New Jersey taxpayers.

44 3. There is appropriated from the "Taxpayer Relief Fund"
 45 created pursuant to section 39 of the annual appropriations act
 46 for the fiscal year ending June 30, 1994, P.L.1993, c. (now
 47 pending before the Legislature as Senate Bill No. 2000 of 1993 or
 48 Assembly Bill No. 2800 of 1993), \$150,000,000 to the Property
 49 Tax Relief Fund for the purposes of the Property Tax Relief Fund
 50 as allowed pursuant to law.

51 4. This act shall take effect immediately. Section 1 shall
 52 apply to taxable years beginning on and after January 1, 1994.
 53 Section 3 shall remain inoperative until the enactment of the
 54 annual appropriations act for the fiscal year ending June 30,

1 1994, P.L.1993, c. (now pending before the Legislature as Senate
2 Bill No. 2000 of 1993 or Assembly Bill No. 2800 of 1993).

3

4

5

STATEMENT

6

7 This bill decreases the rate of gross income tax imposed on the
8 middle income brackets that apply to most taxpayers. For
9 married taxpayers filing jointly and single heads of households the
10 rate of tax imposed on taxable income over \$20 thousand up to
11 \$50 thousand is decreased from 2.5% to 2% and the rate of tax
12 imposed on taxable income over \$50 thousand up to \$70 thousand
13 is decreased from 3.5% to 3%. For single taxpayers and married
14 taxpayers filing separately the rate of tax imposed on taxable
15 income over \$20 thousand up to \$35 thousand is decreased from
16 2.5% to 2% and the rate of tax imposed on taxable income over
17 \$35 thousand up to \$40 thousand is decreased from 5% to 4.5%.

18 This bill also appropriates \$150 million from the "Taxpayer
19 Relief Fund" created pursuant to section 39 of the annual
20 appropriations act for the fiscal year ending June 30, 1994,
21 P.L.1993, c. (now pending before the Legislature as Senate Bill
22 No.2000 of 1993 and Assembly Bill No. 2800 of 1993) to the
23 Property Tax Relief Fund to best serve the interests of New
24 Jersey taxpayers. The Property Tax Relief Fund is the fund
25 established for the deposit of all gross income tax collections.
26 The appropriation to the Property Tax Relief Fund will cover the
27 reduction in gross income tax collections anticipated through the
28 tax rate reduction.

29

30

31

32

33 Reduces rates under the gross income tax; appropriates
34 \$150,000,000 from Taxpayer Relief Fund to Property Tax Relief
35 Fund.

ASSEMBLYMAN PAUL DiGAETANO (Chairman): Ladies and gentlemen, can I have your attention, please. I'd like to begin the hearing. We're about 10 minutes late already. I would like to be prompt. I expect some additional members of the Committee. They tell me Assemblyman Pascrell will be here, in the meantime, I would like to begin our testimony.

If you're not aware, this is the Policy and Rules Committee of the Assembly, and our purpose here today-- This is the fourth of a series of hearings around the State to take testimony from the public as to, basically, the best way to spend \$150 million toward a middle-income tax break. The \$150 million has been budgeted in the Fiscal 1994 budget.

The Speaker's charge to this Committee is to take testimony on what the public feels is the best way to employ that money for the benefit of middle-income taxpayers. We're not taking testimony on any specific bill. We're taking testimony on the issue, so your testimony need not be limited to the reduction in the percentages for the income tax. We have heard testimony on various other taxes throughout the State: sales tax, corporate taxes, telecommunication taxes, fuel taxes.

I would like to begin testimony with those who had previously confirmed that they would be here. The first name on our list -- I don't know if he's here -- Mr. Vincent Polito, is he here yet? Okay, if not, Dr. Bob Ortner. I know he's here.

Why don't you come forward and give this Committee the benefit of your knowledge on the subject.

R O B E R T O R T N E R, Ph.D.: Well, I'll try. Mr. Chairman, I did prepare some remarks and was -- do I need this? (indicating microphone)

ASSEMBLYMAN DiGAETANO: That's only for recording, not for amplification.

DR. ORTNER: --and was very interested to hear on my drive coming over here within the past hour that the \$150 million may not be there. However, being an economist, I might point out that as economists sometimes jest, "My mind is made up. Please don't confuse me with the facts." In this regard, I would like to proceed to--

ASSEMBLYMAN DiGAETANO: Please do.

DR. ORTNER: --give you some remarks, and they may be relevant anyway, because what I'm saying is a longer-term perspective. I mean, obviously it has to do with the present situation, but when I say longer-term perspective, I think we need to think in terms of moving in certain directions, in any case. So I would like to make a brief statement, if that's all right with you--

ASSEMBLYMAN DiGAETANO: Please do.

DR. ORTNER: --or as economists sometimes do, tell a short story. Then perhaps if you have some questions, I will try to answer them.

On the spirit of a short story: Once upon a time in America, our economy -- and by that I mean we citizens who work and earn our livelihoods in it -- has benefited from two kinds of government economic policy. One is monetary policy. That's what the federal reserve board does, as I'm sure you're well aware. They try to influence the economy, mainly through interest rates. Currently, it isn't working all that well. They have brought rates down-- The market has brought rates down, but the economy is still dragging.

If and when this low interest rate policy was to help -- begin to help the economy, I think you would see it first in home building activity. But as you are well-aware, home building, or housing starts in particular, haven't been able to get off the ground. That's sort of a little play on words.

Secondly, they might help auto sales. They're not doing all that badly. Some people think that low interest rates help business capital spending throughout our economy.

That, I think, is stretching the point or the idea. In my opinion, they have a relatively minor, maybe an even negligible effect on capital spending. That's important because -- also in my opinion -- capital spending, or the lack of capital spending in our economy is one of the big problems that we have right now.

In general, monetary policy has been much more effective in shutting down the economy over the years when the Fed tightens up on monetary policy than it has been, and than it is currently in boosting the economy when the economy needs a helping hand. Anyway, monetary policy is essentially the prerogative of the Federal government.

The other main policy tool is, or used to be in the good old days, fiscal policy; that is, government taxing and spending. This is a tool that's available to the states as well as to the Federal government. Also in the good old days, this instrument was used to help the economy when the economy was in trouble. If it was weak, as it is now, activity could be boosted. It still could be by raising spending and/or cutting tax rates. If the economy were overheating -- getting too strong -- it could be restrained by the reverse policies, cutting spending or raising taxes.

The economy came out of a not unusual recession in March of 1991, what was or has been unusual is the absence of a typical economic rebound from recession. This recovery has been extraordinarily slow. Through the first two-and-a-quarter years, the national economy generated something like a million-and-a-half jobs.

In perspective, compare that with the same period of time after the 1982 recession, which ended in November of that year. In two-and-a-quarter years, the economy generated more than 7.5 million jobs; and following the two previous recessions prior to that one, around 5.5 million jobs each. So

this recovery, with its additional 1.5 million jobs, is indeed anemic. As a result, the unemployment rate across the country is averaging still close to 7 percent, too high a figure.

Now, with the national economy foundering -- if I can draw an analogy -- like a disabled ship at sea, did the new administration, which just came into office in Washington throw it a lifeline, which it needs? No, it threw it an anchor in the form of a new tax bill which raises taxes. A tax increase is a fiscal depressant. The economy doesn't need to be depressed; it needs to be lifted.

They did this under the slogan that we have to cut the budget deficit, which isn't the problem. I won't go into all the details of exactly why. You can ask me about it if you want. It's all explained in my brilliant book -- that is one word like "damnYankee", they use down South -- my brilliant book, "Voodoo Deficits". My publisher urges me to mention it every time I get an opportunity.

ASSEMBLYMAN DiGAETANO: I can't imagine why.

DR. ORTNER: And in doing this, in effect, it seems to me that they have turned or transformed an effective tool of fiscal policy into a political toy. Now, as I said, the economy needs a lift or a push. I'd even settle for a moderate fiscal push, but here's the rub:

The economy is currently operating at about 80 percent of industrial capacity. In my researches, I find that the data show that when you get to about 82 percent of industrial capacity -- we're not all that far from that -- inflation begins to pick up. So what we need in particular right now is stimulation, the stimulation that would come from more business capital spending, which would add to capacity and add to worker productivity. That would permit the economy to grow, not just for a year or so before inflation begins to kick in, but grow faster on a longer-term basis. However, as far as I'm aware,

that isn't even under consideration -- that kind of push. The prognosis for the national economy therefore may not be dire, but it isn't exactly rosy in my view.

But what does this have to do with New Jersey? Obviously, the national economy has had an effect on ours, but it is absolutely not the whole story. Much of the damage we've done ourselves. Over the past year, for example, personal income in New Jersey grew 3.9 percent, barely keeping up with inflation, and half a percentage point slower than the national economy. In June and July, the New Jersey unemployment rate, at 6.9 percent, had come down from a much higher figure earlier in the year, to what is now close to the national level.

I don't think we can take too much comfort from this apparent improvement in the last two months, because it resulted from a drop in the labor force, which means that people have become discouraged and have given up looking for work. In the last two months, employment in New Jersey actually fell. Some of our competitor states are doing much better. North Carolina, for example, is running with an unemployment rate near 5 percent.

Now, I can't account, in all honesty, for all the reasons why New Jersey is doing poorly, but a couple of economic factors, in my opinion, are clearly detrimental. By the way, The Star-Ledger earlier this year, I noticed, ran an excellent series of reports on the New Jersey economy under the title, "Not Taking Care of Business", for which I commend them. If you haven't seen the articles, I urge you to look at them.

Well, I said a couple of economic factors. First of all, taxes: Governor Florio's first important economic initiative in 1990 was to hit New Jersey with a \$2.8 billion tax increase. This initiative came at a time when the national economy was fluttering along at about a 1 percent growth rate,

which is negligible -- barely growing. Maybe it wasn't growing at all; one percentage point is very hard to measure statistically.

The new taxes took effect when the national economy was entering into recession. They hit it precisely-- These new taxes hit it precisely at the wrong time. Partly because of this tax hike, the U.S. Census Bureau data show that in 1990, New Jersey ranked 13 in the nation in per capita taxes paid. That's fairly high. If I'm not mistaken, we could even be higher, because the income tax increase didn't take effect until January 1, 1991. So our ranking may indeed be higher.

Who ranks higher than New Jersey? Well, New York, Massachusetts, and Connecticut for three of them, states from which industry is also leaving. Who ranks lower than New Jersey in these national figures? All the southeastern states, where industry is going.

A second factor that might be cited is high labor costs. A Department of Labor study shows worker compensation is higher in the northeast -- including New Jersey -- than any other region in the country.

Now, I have no argument with high wages. They're marvelous if they're competitive. But how do you make them competitive? If our wage rates are higher than other sections in the country, the only way that we can remain competitive is if New Jersey workers are more productive than workers in other parts of the country. And how do you make them more productive? You have to have more capital spending in New Jersey, and you have to give the workers the very latest tools and equipment. That requires two things: encouraging investment, and encouraging research and development. The best way you can do that, obviously, is to encourage New Jersey businesses, and new businesses coming into New Jersey to invest in the latest equipment and to invest in new research.

A third factor-- A set of factors that was discussed in The Star-Ledger articles that I mentioned has to do with business concerns, with overregulation, and a general business climate. In some cases, these businesses said that they just didn't feel welcome here, which was the headline of one of The Star-Ledger articles. Now, maybe for all of these reasons three companies with headquarters already here -- BMW, Hoffmann-La Roche and Engelhard -- have or are building new facilities in South Carolina. And having lost them, how can we move quickly to attract others? I'm sure it isn't by promising them periodic tax increases in order to keep up with rising State spending.

In 1990, by the way, South Carolina -- where all of these three companies have moved -- ranked 26 in terms of per capita taxes paid. Now we may have begun to move in the right direction, perhaps turned the corner with a package of tax credits that was just legislated to help New Jersey businesses.

Having said what I have, you won't be surprised if I strongly endorse in particular the tax credits for business investment, and for research and development. The second, I understand, was sponsored or co-sponsored by Speaker Chuck Haytaian, who was also sponsoring Assembly Bill No. 2801 to cut middle-income rates, which I'm also happy to endorse as the next logical step in fiscal policy, given a \$150 million budgetary leeway. The last thing you should do if you have this budgetary leeway is spend it. In view of the State's high national ranking in spending and taxing, it's clear that New Jerseyans are not underspent; they are overtaxed. But I regard this package as only a beginning.

In considering new proposals, I urge that you keep in mind that the true test of whether they are worthwhile; whether you should consider them; whether you should do them is not what it costs the State Treasury. We can balance the State budget at 8 or 9 percent unemployment, and we can balance

the State budget at 5 percent unemployment. The proof of the pudding is in New Jersey's economy and in New Jersey jobs. You can tell whether our policies are successful, at least moving in the right direction if we can stop the hemorrhage of businesses and jobs from New Jersey, and move quickly to reverse that direction.

End of story, end of statement.

ASSEMBLYMAN DiGAETANO: Thank you, Dr. Ortner.

Any questions from the audience?

DR. ORTNER: I thank you, by the way, for your invitation.

ASSEMBLYMAN DiGAETANO: Our pleasure.

Any questions of Dr. Ortner? (no response)

Thank you so much. We do appreciate your testimony. If by chance you have the opportunity to produce that for the Committee, we would appreciate that as well.

DR. ORTNER: Yes, okay. I can't just copy these, because they won't make any sense to you.

ASSEMBLYMAN DiGAETANO: Okay, fine.

DR. ORTNER: If, you-- Do you have this on tape?

ASSEMBLYMAN DiGAETANO: We have this on tape, yes.

DR. ORTNER: Would you-- I don't know if-- Which way would be better? Maybe you could send me a copy of it, and I'll write it up from that.

ASSEMBLYMAN DiGAETANO: Okay, I thought you were reading from your written notes.

DR. ORTNER: Well, I have some notes, but they're kind of scattered.

ASSEMBLYMAN DiGAETANO: Fine. Thank you, Doctor.

DR. ORTNER: Thank you.

ASSEMBLYMAN DiGAETANO: The next witness will be Dr. Horace DePodwin.

Good afternoon, thank you for coming.

H O R A C E J. D e P O D W I N, Ph.D.: How do you do, Mr. Chairman, ladies and gentlemen. Thank you for the opportunity to speak on the merits of Assembly Bill No. 2801. I'm Horace DePodwin, for many years the Dean of the Graduate School of Management at Rutgers University. I'm Professor Emeritus from that school. I am also President of Economic Studies, an economic consulting firm in Newark, New Jersey. I commend the originators, the sponsors, and the supporters of the bill that's at issue here today. I think it represents an important step forward in lightening the burden of State taxes, and it comes at a most propitious time.

What the bill does essentially is, it increases disposable personal income at a very critical time in the business cycle, and hopefully it will lead to a more rapid recovery in New Jersey than elsewhere. The current issue of New Jersey economic indicators, I think, summarizes the state of the economy well. May I read?

Analysts of the New Jersey economy continue to be challenged by a confusing set of erratic and contradictory indicators that permit little better than an impressionistic picture of how the economy has been performing during the recent period. However, after cutting through some of the statistical fog, it would appear that the State's economy is very slowly but unevenly on the mend, more or less mirroring national economic developments, except that New Jersey is on a more subdued, underlying growth trajectory. Let's hope it's a trajectory, and simply not someone's imagination.

But by and large, the bill is a very positive step forward. It's a positive sign to businesses considering New Jersey as a location, or in reevaluating their presence here. Equally important, the bill, if enacted, would encourage fiscal responsibility on the part of State government. What it shows is that Parkinson's Law, as applies to government expenditures,

may not hold true for the State; that is, expenditures may not rise to consume the funds available, and what the bill does is reduce the funds available.

Now, I would have hoped that the bill could have hit the higher income brackets beyond those that are covered in the legislation, but I recognize the scarcity of money and the fact that the relief probably leveled at the middle class is perhaps better used at that level. But I would like to point out that by taxing the very highest income levels in the State, I think that you really lose high-income citizens. I know any number of people in their 60s and beyond still working in New Jersey, who work very, very diligently to make sure that they spend less than half their time in the State. They leave, go to Florida or some other resort place, and establish that place as their residence.

So I think the heavier taxes on the highest income levels ultimately prove counterproductive, because by and large, you lose the income from those groups and you discourage them from setting up -- keeping their businesses in the State. But be that as it may, the bill is a very useful, important, and positive step. I would like to suggest, however, that you -- as people who are interested in taxation, and I'm sure have the very best interest of the State in mind -- that you give consideration to business taxes as well.

Now, the Legislature has done a good deal in the last year to help and promote businesses in the State of New Jersey. What they've done basically is to adopt a Taxpayer's Bill of Rights, which gives New Jerseyans the same considerations in administrative procedures that they get from other states and the Federal government.

They've adopted changes in property tax assessments to help clarify the issue of business/personal property used in manufacturing. They've established a new jobs investment credit. They've established a manufacturing investment tax

credit. They've repealed the business/personal property tax, and they've enacted provisions for subchapter S corporations which give better tax treatment to smaller businesses. So the Legislature is certainly forward-looking. It's considering the effects of taxes on business, and certainly helping in that direction.

There are some additional things that might be done. One of the things I think you should do is try to eschew, put aside, repeal, change the taxes that are targeted towards specific lines of business, or services produced by specific lines of business.

Take, for example, the tax on telephone calls. What you have here is a tax that essentially is a 6 percent tax. What it does to a financial organization or a telemarketing organization is essentially push them out of the State. So, if you determine where some of our major New York City financial houses are doing their telephone work, it's not in New Jersey. Call Citicorp, for example, and you get an operator in North Dakota; call Merrill Lynch, and you get an operator in some other state. By and large, what we've done is push those businesses out of the State. Because when you tax with a tax of 6 percent on such calls, what you're doing is making that inordinately expensive for those businesses that use that service.

The same thing is essentially true of the tax on energy or petroleum -- look at it however you will. That tax was converted from a straight franchise tax at some, I believe, 13.5 percent, to an energy tax that puts it on a unit of energy basis. Now, what it does essentially is, the retail level-- It means that electricity generated carries a 10 percent tax based on the oil that's consumed, plus the equivalent 13 percent tax on the units of energy. That's the combination of the petroleum products tax, which is levied on the first sale of those products in the State, plus the tax on the energy.

So, by and large, it makes it economical for an operator of an electric generating plant to create it in New Jersey and sell the power over into New York City to Con Edison, because that tax is relieved on exports. So essentially Public Service becomes uneconomical. You have any number of other such taxes which are really quite specific, but in the long run, and in the short run -- from a rather narrow point of view, they seem kind of equitable.

Why not a 6 percent tax on all of these things, or why not try to discourage the consumption of energy? When you get right down to it and check out the effects on individual businesses, what you'll find is you're killing jobs. You can handle the conservation issue in other ways. That's why I'm commending that what you do is institute a general review of business taxes, because essentially what we're doing now in this State is driving out individual kinds of businesses to no advantage.

In a general sense, I would advocate some other things. I think that here we need a more cohesive effort among the individual branches of government, because, as I'll illustrate, what you often find is that one branch is working against another branch. First of all, I think there needs to be a substantial effort in New Jersey in downsizing and simplifying State government. There are any number of things that could be done to simplify State government and cut its size.

The second thing you need to do arises out of my experience as the Chairman of the Supreme Court's Probation Advisory Committee to the Court. I've held that position for almost a dozen years, and what I find is that we need a fundamental thrust in criminal justice which would drive us away from the penchant we have for incarcerating individuals, rather there are many other alternative, less costly sentencing options. Now, Doug Eakeley, who is formerly Assistant Attorney

General, has a committee that's looking into that. By and large, they may well come up with something. But should they not, I would say that it's time the Legislature took a good look at that, because the expense of keeping people incarcerated at a cost of over \$30,000 a year is just too much.

Next, I think what we need to do is restrain the inclination of the Legislature to seek a legislative remedy for a multitude of problems of limited scope. Where you need to look are at fundamental things; such as, tax structure, entitlement programs, and gaining greater efficiency and effectiveness in public education. It's a big issue; it's not going to be solved by any one Legislature.

And then, lastly, I think you need to look hard at long-term investment for the enhancement of the State's human and physical infrastructure. There are still too many young people there who are not getting the education they need, who will only be a burden on society. We'll be paying for it in the kind of entitlement programs that burden State government.

I apologize for using some of my time to get into some subjects that I think to be critical. But I know that the Legislature has been a very constructive one these last few years, as evidenced by Assembly Bill No. 2801, and as evidenced by the other things I mentioned that have been done to lower the cost of business in the State of New Jersey. Thank you.

ASSEMBLYMAN DiGAETANO: Thank you, Doctor.

Any questions? Yes, Assemblyman Zecker.

ASSEMBLYMAN ZECKER: Mr. Chairman, Doctor, I introduced the legislation recently to do away with the phone tax for exactly the reasons that you've stated. A friend of mine has a business in New Jersey, relocated it to Pennsylvania. He can afford to hire a limo driver and a limo, still can probably save \$150,000 to \$250,000 a year on top of that, and have, in effect, happier and better employees who are living in a cheaper cost -- you know, a lower cost of living.

The one thing you're going to have is, if you eliminate any tax, you're going to have a budget gap. With the telecommunications tax, you're going to have a \$150 million--

DR. DePODWIN: To be sure.

ASSEMBLYMAN ZECKER: --vacant space in that budget. My contention is that if you phase in budget cuts, for example, for this \$150 million or \$200 million loss, don't do it in one year; do it over three to five years. As an economist, is it not sound thinking that if you do this over a phased-in period, you may not even see any reduction because the new business that is brought in or comes back into the State might, in effect, generate revenues, and you won't even see a loss of \$150 million at the end of a phased period?

DR. DePODWIN: Mr. Zecker, you're absolutely correct. You're absolutely correct. The growth will take care of it, and I think that--

ASSEMBLYMAN ZECKER: So I can use your testimony today as justification?

DR. DePODWIN: You can use my testimony. I'll--

ASSEMBLYMAN ZECKER: When I get my head beat in, I'm going to say I did this on your advice.

DR. DePODWIN: I'll write you a letter, and I'll sign it.

ASSEMBLYMAN ZECKER: I thank you.

ASSEMBLYMAN DiGAETANO: Any further questions?

ASSEMBLYMAN ZECKER: No.

ASSEMBLYMAN DiGAETANO: Thank you, Doctor. We appreciate it.

Assemblyman Zecker, I take it you're going to be amending that bill, then, to provide for a six-year phase-in, 1 percent a year.

ASSEMBLYMAN ZECKER: Well, that was my intention all along. Shock everyone in the beginning, and then come up with a compromise along the way.

ASSEMBLYMAN DiGAETANO: Excellent thinking.

Has Vincent Polito arrived?

Vince, why don't you come on up? From the Society of Certified Public Accountants-- I called you a little earlier, I guess you--

V I N C E N T P O L I T O, CPA: I got caught up in the office, sorry about that.

ASSEMBLYMAN DiGAETANO: That's okay.

MR. POLITO: I'd like to start off by thanking you for the invitation to testify on the Assembly Bill No. 2801. I'm testifying on behalf, or in my capacity as Chairman of the State -- New Jersey State Tax Subcommittee, organized by the New Jersey Society of CPAs. The group is called the Tax Simplification and Equity Subcommittee. Our charge is basically to review New Jersey individual tax structure. I previously served on the S corporation Subcommittee, and was happy to see that that bill was passed. I think this is a great step, and speaking on behalf of the members in the group, I'm sure that they will all agree that this is a great step in the direction of achieving tax equity.

However, we're going to look more towards the area of simplification in our group. Just to give you a little background, what we're looking at-- It's starting-- We're trying to look at New Jersey's taxes as a starting point, instead of the whole gross income tax structure. We would start with Federal AGI -- many states are using Federal AGI -- and make additions and subtractions based on various items -- State income taxes, Social Security.

Well, we're trying to determine what the actual costs are and what the benefits are of this right now. But right now, as far as I know, the IRS is piloting a program where they collect the data with their Federal returns, and they can send this information to the State in a wire transfer or some other means. In turn, it would really cut down the administration on the part of the State, and when--

One of the points I will give to you later is that that would allow the State to put more of a concentration of their personnel into the compliance or enforcement end of the taxes, rather than-- I don't know how many of you have problems with New Jersey tax notices, but in my profession we're just riddled with NJ-601's, which are the notices of adjustment that are done based on computer printouts.

But just to get back to the bill at hand, I looked it over, and my comments as a practitioner about the reduced rates-- It seems that, as in the original increase, we are penalizing married individuals with this bill. I don't know if you'd like me to hand you this right now, just to show you?

ASSEMBLYMAN DiGAETANO: Please do.

MR. POLITO: (distributes literature) The current structure that we have, or the tax brackets are basically penalizing married families filing jointly by approximately \$200.00. If you have a sharp tax accountant or someone that really understands this, they will understand that if you're married with two incomes -- roughly in the \$30,000 to \$40,000 range, or somewhere: \$30,000, \$20,000, \$40,000, whatever -- you should be filing separately to take advantage of the tax break that the New Jersey code allows.

This bill, Assembly Bill No. 2801, does the same thing. It provides the tax cut to the middle class, but it also leaves the benefit for, or the advantages of filing separately. I don't know if that's brought out in terms of our simplification charge to the New Jersey public. I mean, would they really know that? Most people think when they're married, they should be filing jointly.

What I have here is a summary. The top is the current bill the way it's proposed, and then on the bottom I just wrote down some suggested changes on how you can make it a little more equitable or even for married filing jointly or filing separately.

As you can see, the column here that we put down was marriage penalty. You can see the tax rate that's different for these individuals. If you have two people earning, say, \$30,000 a year, they'd be pushed into a higher bracket if they filed separately, rather than if they file -- I'm sorry, if they file jointly rather than filing separately.

I think the problem with the New Jersey economy is that families are being hit awfully hard, and I think that we should really look to providing a benefit or reduced taxes, especially in the middle-class family. Single people earning \$50,000 are doing a lot better than a married couple earning \$50,000, and that's really what I'd like to address with this table.

The other issue I understand we were addressing was the property tax, or a way to administer the property tax. Is that the correct?

ASSEMBLYMAN DiGAETANO: Actually, Vincent, at the opening of this hearing, I indicated that the Committee is taking testimony on the issue of a middle-income tax cut. We're not tied to -- I was going to say married, but I didn't want to use any puns here -- but we're not tied to any particular tax cut. We're taking testimony on what the public feels is the most beneficial use of \$150 million that's budgeted in the Fiscal '94 budget for this purpose, so feel free to talk about property tax recommendations or any other tax cuts that you may feel are appropriate.

MR. POLITO: Okay. Well, on another handout that I'll give you, these are just some recommendations from members of the CPA Society. These aren't the opinions of the Society itself, but just some ideas that people have talked to me about. (distributes literature)

The first one is being addressed with this bill, which I'm sure the members will be happy to see. Again, this was pointed out that there was a differential for the middle-class family, rather than someone that's single in that range.

The second one kind of ties out -- or ties into the one on the second page, the item 6, which was my idea about the Federal AGI. With the enactment of the S corp bill and the new LLC bill, there is great confusion for practitioners and especially for the general public as to how to complete their taxes if they have a partnership; if they're going to have an S corporation; any venture that would, you know, encourage someone to start a small business in the State.

Right now everything is treated as buckets. Partnership is one bucket; rental income would be another bucket. You know, S corps is going to have its own category. I think we're going to be-- By not allowing losses in this State, the whole gross income tax structure is really a disadvantage to the taxpayers.

I think if you compare -- which I wanted to put together, but I didn't have enough time to do this-- I wanted to put an average scenario of someone who owns a Schedule-C business -- a local candy store or something -- and, you know, had some investments in stocks, interest in dividends, and some wages -- maybe their spouse works in a company -- and just show the difference of how that resident would compare to someone in New York State.

The Tax Simplification and Equity Committee has been designed to see where we can simplify that. The reason why we start at this Federal AGI as a starting point is because, with the new enactment of these bills -- the S corp and LLC -- it's going to complicate things a lot more. Someone could have a terrific year in business -- or I should say start out, have a loss the first two years, and then all of a sudden they have a good year and they start picking up. They won't get the benefit of those carried forward losses in New Jersey. That is going to confuse the issue and, I think, confuse taxpayers an awful lot.

I think if we look to the area of starting out with Federal AGI, allowing the same deductions that Federal government allows, and then working backwards, we can try to determine what the tax base would have to be. Obviously, to change the structure right now is very difficult because we have an extremely high tax base within the State. Originally, our tax rate was lower, but now if you compare it with New York, we have a very high tax base because we disallow the losses and we have very high tax rates. You combine the two and it's going to be very difficult to scale back to an AGI approach.

But I think this is just something that I'd like to bring to the Committee's attention so we could maybe plan for the future in possibly working with the IRS to see if they can provide this service to the State, and reduce the State costs. I don't want to beat this one to death. I'd like to entertain some questions on it later, but I'd like to go back to the second page we have here, the corporation business tax. Again, this is an area where a few of our members felt that we can have a graduated tax structure.

Right now, we are going to have the-- It's 9.375 percent and, again, the small businesses we feel are getting beat up upon by paying that higher rate. If you were to start a local candy store corporation, shoe store, or anything like that -- if you take in \$100, the Federal government gets 28 percent as a schedule C; then they get the 14 percent on top of that; and then New Jersey would come in and get another 9 percent. Before you start out, you're way over 50 percent in tax. So this is another area that we thought may be addressed in the future or currently.

The Homestead Rebate: I guess what we're coming up with here is, in terms of a way to use the \$150 million, one would be to allow the deduction of property taxes again like it

used to be allowed. Not that that would help out a great deal, but for the families that really need it, it would give them a little bit of a tax break.

The sales and use tax category: We have accelerating the payment structures, making people pay on a little bit quicker basis to generate the cash flow.

That's what I have from the members of the Society, just highlights of that. I think that's about it, unless there's some questions I can answer in some specific areas.

ASSEMBLYMAN DiGAETANO: Certainly.

Any questions from the Committee?

Thank you very much. Thank you for taking the time to come. I find your presentation pretty interesting. Thank you.

MR. POLITO: Thank you.

ASSEMBLYMAN DiGAETANO: Okay. We have Stanley Kaminski.

S T A N L E Y K A M I N S K I: Right here. I don't have anything to say on this agenda. I didn't even read the bill. I had a few comments about--

ASSEMBLYMAN DiGAETANO: Why don't-- If you want to come forward and give testimony on the middle-income tax cut, it doesn't have to be on the bill, Mr. Kaminski, as I stated earlier.

MR. KAMINSKI: I've been active in some education meetings I've been going to, and I have an article here I got from the AARP. It looks like-- I'm just trying to point out our problems. New Jersey, we're spending over \$9000 per student for education. In a state like North Dakota, they're spending less than \$4000; Iowa, spending \$4800; and they both rank number one and two in SAT scores and eighth grade scores. I think that's one of our biggest problems. We're just throwing money down the drain, and then we talk about property taxes. You have to pay your property taxes based on education, and they have nothing to say about it. They just assess it.

A friend of mine in Georgia who is going to be retiring soon -- I asked him where he wants to move to when he retires. He said, "I'd be foolish to move away from Georgia. When I turn 62, there's no more education taxes in my property taxes. It gets eliminated." And I hear in Michigan they just eliminated the whole deal for education taxes coming through property taxes.

I think that's a major problem that we have in this State. One of the things-- I just read this in the paper the other day that we have senior citizen rebates, or rebates coming to people-- The court has said that there are about 50,000 citizens that are not eligible for rebates because they live in government-owned apartments and so forth, and they say it's not feasible to check it out and to eliminate giving them the rebate.

We're talking about 50,000 people for maybe \$500 each; that's \$25,000,000. Why aren't we going to pursue something like that? It just doesn't make sense to me. We're just going to give out the rebates because they applied? The courts ruled against it. The Federal Tax Court ruled in February that tenants living in tax-exempt housing such as government-owned senior citizen homes are ineligible for the rebate program, which was designed for property tax relief. Isn't that like a major concern? There's \$20,000,000 to \$25,000,000. We're not going to pursue it?

ASSEMBLYMAN DiGAETANO: Mr. Kaminski, who said that they're unable to pursue that? I don't have that article, who said that? (no response)

Any questions of Mr. Kaminski? (no response)

Do you have other testimony that you want to give?

MR. KAMINSKI: Well, I just wanted to pass that on as ways of trying to save money. I have a copy here. (distributes literature)

ASSEMBLYMAN DiGAETANO: The paragraph I think applies says, "State Division of Taxation will not institute a program to weed out the ineligible seniors, Shure said." That's the Governor's spokesman. "But the State will deny rebate checks if the State comes across ineligible seniors through audits unrelated to the rebate program. Relatively few tax returns are audited." So it seems like the Governor's office is saying that they will not have the Division of Taxation institute this program. We'll have to look into that.

MR. KAMINSKI: One other statement: An article here I read recently -- this is in New York State, which is \$500 less per pupil year than New Jersey -- in 1940, the schools cost \$90 per pupil; 1960, \$450. If you adjust the 1960 rate for inflation, it comes out to \$2000 in today's figures and we're spending \$9,000. Thanks a lot.

ASSEMBLYMAN DiGAETANO: Thank you, Mr. Kaminski.

Tony, Tony Russo.

T O N Y R U S S O: First of all, thank you, Paul, for inviting me to speak here today--

ASSEMBLYMAN DiGAETANO: Thank you for coming.

MR. RUSSO: --and we've talked about taxes, you and I together, and I'm here just representing myself. I'm a small business person in Nutley. I own and operate an insurance agency along with my wife and my brother, and I do feel that your little income tax bill is a very, very small step in the right direction. It doesn't go far enough. The \$150 or \$200 that a family would save in income tax -- what are they going to spend it on?

One of our problems is the economy is sagging. We have to boost the economy. The only way to boost the economy and get business back to hiring people is if people have enough money to buy. Some people may have enough money, but the perception they have of government is such that they're scared to spend the money that they have; that sooner or later you're

going to come looking for it, take it away from them, and increase taxes. What are they going to do next year? So you have to, as a State legislative body, get the confidence of the people back into government. It's totally gone. I get this not from myself, but -- yes, from myself, but from other people that I talk to.

Several weeks ago, The Star-Ledger ran a report where the Assembly Speaker said that the \$2.8 billion increase of Florio of three years ago was totally unnecessary. Now, either that's a lot of political hype or it's true, one or the other. Since none of you came out and said it was political hype, I have to believe it's true. If that was \$2.8 billion too much in taxes that the government imposed on us, this \$117 million you're talking about here is peanuts. Where's the rest of it?

We read about people getting appointed to government jobs at \$70,000, \$80,000, \$90,000 a year -- no-show jobs. When we read this in the papers and we see this going on-- It's a total waste of our taxpayers' money that we work damn hard for to give it to you people to throw away. We're tired of it. That's getting a little off the subject, but it's my opportunity to be heard.

The middle-income tax cut, I said, is a step in the right direction, but it's got to go to the upper-income people as well. These are the people who spend their money on big-ticket items. You will recoup it in your sales tax, so you're not going to lose anything. It's a proven fact over the years that taxing the rich doesn't stimulate the economy; it caused loss of jobs to the middle-income people. One very good example that I'm very familiar with is the Federal government's 10 percent luxury tax on high-ticket items; such as, boats, cars, and so on, so forth. That affected us in New Jersey terribly.

According to the reports, we have 5,000 people or more out of work because the boat building industry in New Jersey is dead. It's going to take a long time, even after they've knocked off this luxury tax, to build itself. You might want to even think about, to encourage people buying Jersey built, manufactured, produced items, eliminating the sales tax completely on anything made in New Jersey and sold in New Jersey. Stimulate our own people, our own businesses in New Jersey -- a suggestion to you.

Okay, a couple other things, I'm not going to be too long here:

We as citizens owning a business as I do, or running a household as I do, we have to live within our income. We can't spend our money and next year worry where we're going to get it. We can't do it that way. We need our government to have a little more fiscal responsibility. Don't spend it until you have it in the pocket, then spend it. I am sure if you look harder than what you have looked, or maybe some of you begin to look, there are ways of cutting the spending going on in Trenton.

We look at all the money -- and there was too little here before -- that goes to education, and I am sure that a lot of State money goes to our inner-city schools. I have no idea how much, but I am sure it's tremendous. It's probably in the millions and millions of dollars. It's a proven fact throwing money into education isn't going to educate the children. You look at areas where it costs half the amount that it does in Newark or Jersey City. We have far better students with better scores, so money is not the answer.

Our property taxes continue to go up and up and up. I've been a home owner for twenty years, and every year they've gone up. They've never gone down. We hear-- We read in the paper where, "Oh, we're going to put this tax in and it should reduce property tax." Mine have not been reduced. Why?

These senior citizens that were alluded to before -- \$25,000,000 or more. How many other items are there in similar situations where you can look to cut your spending, thereby cutting our taxes?

That's it. Thank you for listening.

ASSEMBLYMAN DiGAETANO: Thank you, Tony. Just one point I want to make is -- we didn't get a chance to go over it earlier -- one of the reasons why I feel so strongly about the Legislature moving on a bill like this is that if that money doesn't go back to the taxpayers, I'm pretty confident it's going to be spent; therefore, the taxes will be just as high, and for all intents and purposes, the taxpayers won't get the benefit of it. One way I'm sure that government won't spend it is to give it back to the people. If we don't have it this year--

MR. RUSSO: How about not collecting it in the first place?

ASSEMBLYMAN DiGAETANO: Wait, wait, wait. Oh, right, right, but next year we won't. If we reduce the brackets, next year it won't be collected.

So the point is, this is really the best opportunity to put government on a diet. Take it out right now; spend that \$150 million. The revenues should be somewhere between \$100 million and \$150 million less next year. That's that much less that the government has to spend. On both sides of the aisle -- there are no Democrat Assemblypeople here today -- but on both sides of the aisle, when things are good and the money is there to spend, there's the penchant to spend it. And the better things get, the greater the penchant to spend more. It's unfortunate, but that's a fact of life. The best way to put government in New Jersey on a diet is to not have it take the money in. So if we reduce the brackets now -- reduce the percentages in the brackets now, the only way they can get more --

MR. RUSSO: I'm in favor of the bill.

ASSEMBLYMAN DiGAETANO: Well, I'm explaining it to you. The only way they can get more money later is to raise them again. And I want to tell you, I don't think there is the intestinal fortitude in this Legislature, or even any Legislature in the near future in New Jersey to do that. So I think it's an opportunity--

MR. RUSSO: Well, we have some of our legislators in Washington that disagree with you there, but that's another matter.

ASSEMBLYMAN DiGAETANO: Well, that's another reason why I think this needs action.

MR. RUSSO: In other words, with people in my situation -- and you know, I'm earning a nice living out of my business, but I've worked hard to build it--

ASSEMBLYMAN DiGAETANO: Sure.

MR. RUSSO: --over the years. My dad started it ahead of me. I took over 13 years ago. My brother, my wife, and I -- we work very hard, long hours to get where we are, and we want to keep some of it. You know, some day we're going to retire. We know we can't depend on Social Security. That may not be there, or it is not certainly going to be enough. We've got to have something to put away, and the more you guys take from us, the less we're going to have to put away or to spend.

ASSEMBLYMAN DiGAETANO: That's exactly why the issue here is to give it back this year, and not take it in subsequent years.

MR. RUSSO: Pass the bill, and then go on further and reduce them more is what I'm telling you.

ASSEMBLYMAN NICHOLAS R. FELICE: Mr. Chairman.

ASSEMBLYMAN DiGAETANO: Yes, Assemblyman Felice.

ASSEMBLYMAN FELICE: Before he leaves, just a point that we hear about government, especially the Legislature: Government creates all these no-show jobs. As you know, we cut

the budget by \$1.1 billion, and they said like 15,000 jobs would be lost in New Jersey and the State would be at a standstill. But the main thing is, we specified that those jobs \$50,000 and above, which were mostly a lot of appointments made by the executive branch and everyone else -- we specified that those were the jobs that should go first, because most of them were appointment jobs and jobs that were given by -- at the office -- the executive office.

The courts knocked us down and said that we cannot tell the Governor that those appointments that he made, whether they be no-show or otherwise -- we could not tell the Governor where to cut the jobs. We just said that we could cut the budget. So even though we tried with that in mind, to cut those political jobs, the courts even knocked us down.

MR. RUSSO: The Government can't spend the money-- The Governor cannot spend the money unless you guys give it to him.

ASSEMBLYMAN FELICE: Well, we cut \$1.1 billion that he couldn't spend, so that helped.

MR. RUSSO: Why not \$2.2 billion?

ASSEMBLYMAN FELICE: Well, there's a limit to what you can do in one shot.

MR. RUSSO: Well, he did \$2.8 million take-in in one shot. Why can't we do \$2.8 million, give them back in one shot?

ASSEMBLYMAN FELICE: Because by the time we got to cut it back, he had already spent most of it.

ASSEMBLYMAN DiGAETANO: Assemblyman Zecker.

MR. RUSSO: Well, he's talking about \$2.8 billion a year, so he's had a couple years of that and you guys have had a couple years to cut it back. While you've done some of it, you haven't done enough.

ASSEMBLYMAN ZECKER: Mr. Russo, I just wanted you to know there's probably nothing you've said that anyone at this side of the table would disagree with. I think the time to

save a lot of money was in the '80s, when more money was coming in than people knew how to spend. I would get phone calls at my legislative office for \$20,000-a-year jobs just to pick up the phone. That's how desperate employers were.

Well, the economy changed and we know where we sit today. But many of the mistakes were made, as Paul has said, when many of us made budget cut proposals in the '80s. We were looked upon as if we were lunatics, and yet that was the time to do it. Reduce the size of the government in the 1980s, when everybody could have left and got higher-paying jobs in private industry.

So sometimes government does not react when they should. But I think next year -- and Assemblyman DiGaetano has said it -- next year we're in for some hard times, and whether elected officials like it or not, there's got to be massive cuts in the size of government next year. So I think probably one of the things that keeps me involved is, I think next year is going to be the year I'm going to enjoy being in Trenton, because you're going to have to see government reduced, unless we're going to sell more highways.

MR. RUSSO: Like the government in the early to mid-80s, we did very well too. Our business was booming like all the other business was in this State. When the hard times hit in the late '80s, in the early '90s we were forced to cut back in my business, lay some people off. Our income went down; my taxes went up. So I lost twice.

ASSEMBLYMAN DiGAETANO: Thank you very much.

Anything further from the Committee?

I'd like to thank you all for coming today. Those are the only witnesses we have to testify here. Some others had signed up, but were unable to make it.

I'd like to thank my colleagues Assemblyman Zecker, Assemblyman Felice, Assemblywoman Crecco for taking the time

out of their schedules to be here and, of course, our staff from Trenton. Thank you very much for making the trek up here to help us with this for this issue.

Thank you very much, have a good day.

(MEETING CONCLUDED)

