

Committee Meeting

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of

ASSEMBLY POLICY AND RULES COMMITTEE

ASSEMBLY BILL No. 1
(Decreases gross income tax rates 5% for taxable years 1994 and thereafter)

ASSEMBLY BILL No. 2
(Increases minimum income necessary to be subject to the gross income tax)

ASSEMBLY BILL No. 3
(Discontinues corporation business tax surtax as of January 1, 1994)

LOCATION: State House
Room 319
Trenton, New Jersey

DATE: February 10, 1994
2:00 p.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Paul DiGaetano, Chairman
Assemblyman Richard H. Bagger, Vice Chairman
Assemblywoman Maureen Ogden
Assemblyman Alex DeCroce
Assemblyman George F. Geist
Assemblywoman Rose Marie Heck
Assemblyman Lee A. Solomon
Assemblyman Wayne R. Bryant
Assemblyman William J. Pascrell, Jr.
Assemblyman Robert G. Smith



ALSO PRESENT:

New Jersey State Library

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

C O M M I T T E E N O T I C E

**TO: MEMBERS OF THE ASSEMBLY POLICY AND RULES
COMMITTEE**

FROM: ASSEMBLYMAN PAUL DIGAETANO, CHAIRMAN

SUBJECT: COMMITTEE MEETING - February 10, 1994

*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 **Thursday,
February 10, 1994 at 2:00 PM, Room 319, in the State House, Trenton, New
Jersey.**

The following bills will be considered:

A-1 Haytaian/Geist	Decreases gross income tax rates 5% for taxable years 1994 and thereafter.
A-2 LoBiondo/Wolfe	Increases minimum income necessary to be subject to the gross income tax.
A-3 Warsh/Corodemus	Discontinues corporation business tax surtax as of January 1, 1994.

New Jersey State Library

Issued 02/03/94

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to the committee aide(s) listed above

Handwritten text, possibly a signature or date, located at the bottom center of the page.

ASSEMBLY, No. 1

STATE OF NEW JERSEY

INTRODUCED JANUARY 27, 1994

By Assemblymen HAYTAIAN, GEIST, Assemblywoman Haines, Assemblymen DiGaetano, Kelly, Mikulak, T. Smith, Corodemus, Azzolina, Zecker, Gibson, Assemblywoman J. Smith, Assemblymen Bateman, Rocco, Assemblywoman Derman, Assemblymen Warsh, Arnone, Assemblywoman Farragher, Assemblymen Oros, Augustine, Frelinghuysen, Lance, Albohn, Assemblywoman Vandervalk, Assemblymen Solomon, Gaffney, Kamin, Assemblywoman Crecco, Assemblymen Malone, Cottrell, DeCroce, Collins, Bagger, Russo, Rooney, Assemblywoman Ogden, Assemblymen Stuhltrager, Felice, Assemblywoman Murphy, Assemblymen Garrett, LoBiondo, Colburn, Kavanaugh, Shinn, Roma, Catania, Wolfe, Lustbader and Assemblywoman Heck

1 AN ACT decreasing the rates of taxation under the gross income
2 tax, amending N.J.S.54A:2-1 and supplementing Title 54A of
3 the New Jersey Statutes.

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

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

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

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

20
21 (1) for taxable years beginning on or after January 1, 1991
22 but before January 1, 1994:

24	If the taxable income is:	The tax is:
25	Not over \$20,000.00.....	2% of taxable income
26		
27	Over \$20,000.00 but not	
28	over \$50,000.00.....	\$400.00 plus 2.5% of the
29		excess over \$20,000.00
30		
31	Over \$50,000.00 but not	
32	over \$70,000.00.....	\$1,150.00 plus 3.5% of the
33		excess over \$50,000.00
34		
35	Over \$70,000.00 but not	
36	over \$80,000.00.....	\$1,850.00 plus 5.0% of the
37		excess over \$70,000.00

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 plus 6.5% of the
 3 excess over \$80,000.00
 4
 5 Over \$150,000.00..... \$6,900.00 plus 7.0% of the
 6 excess over \$150,000.00
 7

8 (2) for taxable years beginning on or after January 1, 1994:

9
 10 If the taxable income is: The tax is:
 11 Not over \$20,000.00..... 1.900% of taxable income

12
 13 Over \$20,000.00 but not
 14 over \$50,000.00..... \$380.00 plus 2.375% of the
 15 excess over \$20,000.00
 16

17 Over \$50,000.00 but not
 18 over \$70,000.00..... \$1,092.50 plus 3.325% of the
 19 excess over \$50,000.00
 20

21 Over \$70,000.00 but not
 22 over \$80,000.00..... \$1,757.50 plus 4.750% of the
 23 excess over \$70,000.00
 24

25 Over \$80,000.00 but not
 26 over \$150,000.00..... \$2,232.50 plus 6.175% of the
 27 excess over \$80,000.00
 28

29 Over \$150,000.00 \$6,555.00 plus 6.650% of the
 30 excess over \$150,000.00
 31

32 b. For married individuals filing separately, unmarried
 33 individuals other than individuals filing as head of household or as
 34 a surviving spouse for federal income tax purposes, and estates
 35 and trusts:

36
 37 (1) for taxable years beginning on or after January 1, 1991 but
 38 before January 1, 1994:

39
 40 If the taxable income is: The tax is:
 41 Not over \$20,000.00..... 2% of taxable income
 42

43 Over \$20,000.00 but not
 44 over \$35,000.00..... \$400.00 plus 2.5% of the
 45 excess over \$20,000.00
 46

47 Over \$35,000.00 but not
 48 over \$40,000.00..... \$775.00 plus 5.0% of the
 49 excess over \$35,000.00
 50

51 Over \$40,000.00 but not
 52 over \$75,000.00..... \$1,025.00 plus 6.5% of the
 53 excess over \$40,000.00

1 Over \$75,000.00..... \$3,300.00 plus 7.0% of the
2 excess over \$75,000.00

3
4 (2) for taxable years beginning on or after January 1, 1994:

5
6 If the taxable income is: The tax is:
7 Not over \$20,000.00..... 1.900% of taxable income

8
9 Over \$20,000.00 but not
10 over \$35,000.00..... \$380.00 plus 2.375% of the
11 excess over \$20,000.00

12
13 Over \$35,000.00 but not
14 over \$40,000.00..... \$736.25 plus 4.750% of the
15 excess over \$35,000.00

16
17 Over \$40,000.00 but not
18 over \$75,000.00..... \$973.75 plus 6.175% of the
19 excess over \$40,000.00

20
21 Over \$75,000.00..... \$3,135.00 plus 6.650% of the
22 excess over \$75,000.00

23
24 c. For the purposes of this section, an individual who would be
25 eligible to file as a head of household for federal income tax
26 purposes but for the fact that such taxpayer is a nonresident
27 alien, shall determine tax pursuant to subsection a. of this section.
28 (cf: P.L.1990, c.61, s.12)

29 2. (New section) The Director of the Division of Taxation in
30 the Department of the Treasury shall issue regulations to reflect
31 the entire decrease in tax liability for taxable year 1994 enacted
32 pursuant to P.L. , c. (Now pending before the Legislature as
33 this bill) in reduced withholding from employee wages received
34 after the date of enactment.

35 3. This act shall take effect immediately and section 1 shall be
36 retroactive to January 1, 1994.

37
38
39 STATEMENT

40
41 This bill reduces gross income tax rates 5% for all taxpayers
42 for tax year 1994 and thereafter.

43
44
45 _____
46
47 Decreases gross income tax rates 5% for taxable years 1994 and
48 thereafter.

ASSEMBLY, No. 2
STATE OF NEW JERSEY

INTRODUCED JANUARY 27, 1994

By Assemblymen LoBIONDO, WOLFE, Assemblywoman Haines, Assemblymen DiGaetano, Bateman, Mikulak, T. Smith, Corodemus, Azzolina, Assemblywoman Wright, Assemblymen Haytaian, Zecker, Gibson, Kelly, Assemblywomen J. Smith, Derman, Assemblymen Warsh, Rocco, Arnone, Assemblywoman Farragher, Assemblymen Oros, Augustine, Frelinghuysen, Lance, Assemblywoman Vandervalk, Assemblymen Solomon, Kamin, Gaffney, Assemblywoman Crecco, Assemblymen Malone, Cottrell, DeCroce, Collins, Bagger, Rooney, Russo, Assemblywoman Ogden, Assemblymen Stuhltrager, Felice, Assemblywoman Murphy, Assemblymen Geist, Garrett, Colburn, Kavanaugh, Shinn, Roma, Catania, Lustbader and Assemblywoman Heck

1 AN ACT increasing the minimum income necessary to be subject
2 to the gross income tax, amending N.J.S.54A:2-4 and
3 N.J.S.54A:8-3.1.

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

7 1. N.J.S.54A:2-4 is amended to read as follows:

8 54A:2-4. Minimum taxable income. Notwithstanding any other
9 provisions of this act, a taxpayer filing as an unmarried
10 individual, an estate or trust, a taxpayer determining tax
11 pursuant to subsection a. of N.J.S.54A:2-1, or a married couple
12 filing a joint return, with a gross income of \$3,000.00 or less for
13 taxable years beginning before January 1, 1994 and \$7,500.00 or
14 less for taxable years beginning on and after January 1, 1994,
15 (\$1,500.00 or less for taxable years beginning before January 1,
16 1994 and \$3,500.00 or less for taxable years beginning on and
17 after January 1, 1994 in the case of a married person filing
18 separately), shall not be subject to tax under this act. In the case
19 of a nonresident, gross income shall mean gross income which
20 such nonresident would have reported if he had been a resident.
21 (cf: P.L.1990, c.61, s.14)

22 2. N.J.S.54A:8-3.1 is amended to read as follows:

23 54A:8-3.1. Persons required to file. a. On or before the filing
24 date prescribed in section 1 of this chapter (N.J.S.54A:8-1), an
25 income tax return shall be made and filed by or for an individual,
26 whether filing as unmarried or determining tax pursuant to
27 subsection a. of N.J.S.54A:2-1, an estate or trust, having a gross
28 income in excess of \$3,000.00 for taxable years beginning before
29 January 1, 1994 and \$7,500.00 for taxable years beginning on and
30 after January 1, 1994, and by or for a married couple filing a
31 joint return and having joint gross income in excess of \$3,000.00
32 for taxable years beginning before January 1, 1994 and \$7,500.00
33 for taxable years beginning on and after January 1, 1994
34 (\$1,500.00 or more for taxable years beginning before January 1,
35 1994 and \$3,500.00 or more for taxable years beginning on and
36 after January 1, 1994 in the case of a married person filing
37 separately).

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 b. If the income tax liability of husband and wife is determined
2 on a separate return for federal income tax purposes, they shall
3 each also file a separate return for New Jersey income tax
4 purposes and their income tax liabilities under this act shall be
5 separate.

6 c. If the income tax liabilities of husband and wife, both
7 residents, are determined on a joint return for federal income tax
8 purposes, they shall also file a joint return for New Jersey income
9 tax purposes and their tax liabilities under this act shall be joint
10 and several.

11 d. If either husband or wife is a resident and the other is a
12 nonresident, they shall file separate tax returns under this act on
13 such single or separate forms as may be required by the director
14 in which event their tax liabilities shall be separate unless both
15 elect to determine their joint taxable income as if both were
16 residents, in which event their liabilities shall be joint and several.

17 e. The return for any deceased individual shall be made and
18 filed by his fiduciary or other person charged with his property.

19 f. The return for an individual who is unable to make a return
20 by reason of minority or other disability shall be made and filed
21 by his fiduciary or other person charged with the care of his
22 person or property (other than a receiver in possession of only a
23 part of his property), or by his duly authorized agent.

24 g. Any tax under this act, and any increase, interest or penalty
25 thereon, shall, from the time it is due and payable, be a personal
26 debt of the person liable to pay the same, to the State of New
27 Jersey.

28 h. If both husband and wife are nonresidents but only one
29 spouse earns, receives or acquires income from sources within
30 this State, they shall file separate forms as may be required by
31 the director and their tax liabilities shall be separate, unless both
32 elect to determine their joint taxable income in accord with
33 N.J.S.54A:5-7 and their liabilities under this act shall be joint and
34 several.

35 (cf: P.L.1993, c.178, s.3)

36 3. This act shall take effect immediately and shall apply to
37 taxpayer taxable years commencing on and after January 1, 1994.

38 STATEMENT

39
40
41 This bill increases the minimum taxable income under the gross
42 income tax beginning in tax year 1994. Currently, a single
43 taxpayer, an estate or trust, an individual filing as head of
44 household or as surviving spouse for federal income tax purposes,
45 or a married couple filing a joint return, with a gross income of
46 \$3,000 or less is not subject to tax (a married person filing
47 separately is exempt if gross income is \$1,500 or less). This bill
48 increases the minimum income necessary to be subject to gross
49 income tax to more than \$7,500 (\$3,500 for a married person
50 filing separately).

51

52

53

54 _____
55 Increases minimum income necessary to be subject to the gross
income tax.

ASSEMBLY, No. 3
STATE OF NEW JERSEY

INTRODUCED JANUARY 27, 1994

By Assemblymen WARSH, CORODEMUS, Assemblywoman Haines, Assemblymen DiGaetano, Mikulak, T. Smith, Azzolina, Assemblywomen Derman, Wright, Assemblymen Haytaian, Zecker, Gibson, Assemblywoman J. Smith, Assemblymen Bateman, Rocco, Arnone, Assemblywoman Farragher, Assemblymen Oros, Augustine, Frelinghuysen, Lance, Albohn, Assemblywoman Vandervalk, Assemblymen Solomon, Kamin, Gaffney, Kelly, Assemblywoman Crecco, Assemblymen Malone, Cottrell, DeCroce, Collins, Bagger, Russo, Rooney, Assemblywoman Ogden, Assemblymen Stuhltrager, Felice, Assemblywoman Murphy, Assemblymen Geist, Garrett, LoBiondo, Colburn, Kavanaugh, Shinn, Roma, Catania, Wolfe, Lustbader and Assemblywoman Heck

1 AN ACT discontinuing the corporation business tax surtax as of
2 January 1, 1994, supplementing P.L.1945, c.162 (C.54:10A-1 et
3 seq.).
4

5 BE IT ENACTED *by the Senate and General Assembly of the*
6 *State of New Jersey:*

7 1. Notwithstanding the provisions of section 1 of P.L.1986,
8 c.144 (C.54:10A-5.1), to the contrary, the rate of surtax imposed
9 pursuant to that section for the report covering the accounting or
10 privilege period ending on or after July 31 of calendar year 1993
11 but no later than June 30 of calendar year 1994 shall be
12 determined by multiplying the percentage rate established
13 pursuant to section 2 of P.L.1986, c.144 (C.54:10A-5.2) for such
14 period by a quotient, the numerator of which is the number of
15 complete calendar months ending before January 1, 1994 in the
16 accounting or privilege period and the denominator of which is
17 the number of complete calendar months in the accounting or
18 privilege period.

19 2. This act shall take effect immediately.
20

21
22 STATEMENT
23

24 This bill discontinues the corporation business tax surtax as of
25 January 1, 1994. The surtax was enacted in 1986 as a temporary
26 five year measure, extended to a sixth year by 1988 amendment.
27 The surtax applies to tax liabilities for tax years ending in fiscal
28 years 1989 through 1994. The surtax rate for tax years ending in
29 fiscal year 1994 is 0.375%.

30 This bill applies to the surtax liabilities of taxpayers with tax
31 years ending after January 1, 1994 in fiscal year 1994. The
32 current 0.375% rate is reduced by the proportion that the number
33 of months of the tax year completed before January 1, 1994 bears
34 to the total months of the tax year. That reduction is the
35 equivalent of only imposing the surtax on the portion of the tax
36 year prior to January 1, 1994, and is equivalent to discontinuing
37 the surtax on January 1, 1994.

1

2

3 Discontinues corporation business tax surtax as of January 1,
4 1994.

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* * * * *

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ASSEMBLYMAN PAUL DiGAETANO, (Chairman): If you all could take a seat so we could call this meeting to order.

Would the Committee Aide please take the role.

MR. SALLACH (Committee Aide): Assemblyman Smith?

ASSEMBLYMAN SMITH: Here.

MR. SALLACH: Assemblyman Pascrell?

ASSEMBLYMAN PASCRELL: Present.

MR. SALLACH: Assemblyman Bryant?

ASSEMBLYMAN PASCRELL: He's on his way, Mr. Chairman.

MR. SALLACH: Assemblyman Solomon?

ASSEMBLYMAN SOLOMON: Here.

MR. SALLACH: Assemblywoman Ogden?

ASSEMBLYWOMAN OGDEN: Here.

MR. SALLACH: Assemblywoman Heck?

ASSEMBLYWOMAN HECK: Here.

MR. SALLACH: Assemblyman Geist?

ASSEMBLYMAN GEIST: Mr. Chairman, I'm here. I will be returning briefly from an appearance before the State Government Committee.

ASSEMBLYMAN DiGAETANO: I understand.

ASSEMBLYMAN GEIST: Thank you, Mr. Chairman.

MR. SALLACH: Assemblyman DeCroce?

ASSEMBLYMAN DeCROCE: Here.

MR. SALLACH: Assemblyman Bateman? (no response)
Vice Chairman Bagger?

ASSEMBLYMAN BAGGER: Here.

MR. SALLACH: Chairman DiGaetano?

ASSEMBLYMAN DiGAETANO: Here.

MR. SALLACH: You have a quorum.

ASSEMBLYMAN DiGAETANO: Ladies and gentlemen, welcome to this hearing of the Assembly Policy and Rules Committee. I'm going to accede to Assemblyman Geist. As you heard, he has to testify before another Committee, and he will be rejoining us shortly as soon as his testimony is complete.

But as you should know, this is another hearing, and we expect action today on Assembly Bill Nos. 1, 2, and 3. This is really the compilation of Governor Whitman's proposal to modify New Jersey's income tax structure.

You may remember in the last session, Speaker Haytaian, Assemblyman Geist, and the rest of the Assembly Republicans first put forward the concept of cutting income taxes. That was approximately a year ago. Many look at that action in this House and suggested that it was an election-year gimmick. But today we are not in an election year. The election has passed, and that initiative takes its first step toward realization.

It is important to reflect, however, on some of the testimony that this Committee took last year when it first took up the issue. Those Committee members who attended the series of four hearings learned the importance of targeting any tax cut so that it has the most beneficial effect on jobs creation and the economy.

And as we heard in testimony last week at our hearing in Newark, corporate executives base their decisions on where to move, expand, and create jobs largely -- or at least in large part -- on how much personal income taxes they will pay, and those who are making those corporate decisions, on how much they will have to increase the remuneration of their employees so that they can take home the same amount of money as in other areas of the country. It seems in that regard, New Jersey has been at a serious disadvantage.

Let me reiterate that the bills before us today represent the first steps in Governor Whitman's plan to reduce income taxes 30 percent over the next few years. This first step is an accelerated package of bills, in that the original plan was to begin the tax reduction July 1 of '94, and these are retroactive to January 1 of '94. But again, this is only the first step toward stimulating the economy and creating jobs.

The next step will be reducing income taxes 10 percent and will be targeted at providing additional tax relief to the middle class; that is, those earning less than \$80,000.

The goal of this Committee is to examine the needs, appropriateness, and economic impact of these proposed changes. Once voted out by this Committee, the bills will be referred to the Assembly Appropriations Committee, where there will be a technical review and a review for fiscal appropriateness.

I might add that the Assembly Appropriations Committee is scheduled to hear these bills next Thursday, and that our Treasurer, Brian Clymer, was unavailable to testify here today, but has assured us he will be testifying before the Assembly Appropriations and the Senate Appropriations Committee next week.

We have with us again today fiscal experts and business leaders. I understand there will be some local officials, as well. We have with us several of the bill's sponsors. Assemblyman Warsh, seated in the front row, and Assemblyman Wolfe, are sponsors of a very important piece of this package.

Before we begin our hearing today, however, we have two new members. As some of you may know, we lost two of our members to commissionerships in this new administration. We regret their loss; however, we welcome back Assemblywoman Maureen Ogden, who was a member of the Committee in the last session. She has very graciously rearranged her committee schedule so she could be back on this Committee with us. We welcome you back, Maureen.

Lee, this is your first time on the Committee, but I will tell you that I'm sure all my colleagues join in welcoming Assemblyman Lee Solomon to a Committee that certainly epitomizes the dynamics of the people's House.

Now, Assemblyman Warsh has a Regulatory Oversight Committee, which he chairs this afternoon, and is actually scheduled to begin as we speak. So out of courtesy, we will ask Assemblyman Warsh to present his testimony to this Committee first.

Assemblyman?

A S S E M B L Y M A N J E F F W A R S H: Thank you, Mr. Chairman, and members of the Committee. As an alumni also of this Policy and Rules Committee, it is a pleasure to appear before you this afternoon.

The bill that you have before you is Assembly Bill No. 3 that I am the prime sponsor of, along with Assemblyman Steve Corodemus from the 11th District in Monmouth County. The bill discontinues the corporate business surtax as of January 1, 1994. This surtax was enacted in 1986 as a temporary, five-year measure. As many temporary measures go in government, it was extended to a sixth year by a 1988 amendment.

The surtax applies to tax liabilities for tax years ending in Fiscal Years 1989 through 1994, and the surtax rate is 0.375 percent. I think the import of Assembly Bill No. 3 is clear. Not only does it have a real economic impact upon very strapped industries and corporations in the State of New Jersey, but it sends a clear message at the beginning of the 206th Legislature, which coincides with a new gubernatorial term, that finally in the State of New Jersey, business is business.

Not only is it important in the fact that this bill was scheduled -- this law rather, this surtax of 0.375 percent -- was scheduled to sunset, it's important that we do it not only retroactively, but that once and for all we settle in the minds of businesses in the State of New Jersey that it's not going to be reenacted as it was by an amendment in 1988.

As you can tell from the fiscal note that is before you, the surtax is expected to account for approximately \$40 million for Fiscal Year 1994. The expected surtax revenue reduction based on the fact it is a six-month period would be approximately \$2 million.

Mr. Chairman, I thank you for posting this bill for early consideration, and I urge members of the Committee to support it in haste.

ASSEMBLYMAN DiGAETANO: Thank you. Assemblyman, we would also like, if your schedule permits in your Committee, for you to rejoin us as soon as that schedule may permit this afternoon.

On a procedural note--

ASSEMBLYMAN SMITH: Are there any questions?

ASSEMBLYMAN PASCRELL: Can we ask questions, Mr. Chairman?

ASSEMBLYMAN DiGAETANO: Well, he has to chair a Committee, so I think out of courtesy we can let him--

ASSEMBLYMAN PASCRELL: Can we ask the questions to you?

ASSEMBLYMAN DiGAETANO: Yes, why don't we do that.

But on a procedural note, I'd like to thank CTN. As I understand it, we're being televised live, and I'm sure members of the Committee will join me in thanking CTN for that.

Additionally, we have a letter which was faxed to us from our colleague, Assemblyman LoBiondo, from the southern most point of the State. It is brief, and he asked me to read it to you and read it into the record.

"Dear Chairman DiGaetano, due to hazardous road conditions I will be unable to attend today's Committee meeting to testify on behalf of A-2. However, I'm taking this opportunity to stress the importance of releasing the bill from the Policy and Rules Committee.

"As you are aware, A-2 would eliminate State income taxes for anyone making \$7500 a year or less. This would be a 100 percent tax cut for the poorest 350,000 taxpayers in the

State of New Jersey, of whom some 70,000 are senior citizens, and this measure would provide a maximum savings of \$130 per taxpayer.

"Mr. Chairman, I've always believed that lower taxes and less government spending would be good for the State. Regardless of any member's philosophies on how government should tax the public, there can be no justification for government taking money out of the pockets of people who have so little. I therefore respectfully urge the members of the Policy and Rules Committee to vote in favor of A-2.

"Again, I deeply regret being unable to attend today's Committee meeting as I had planned. Thank you for your consideration and understanding."

I'm sorry, Assemblyman Pascrell, but out of courtesy to Assemblyman Warsh, who is chairing another Committee this afternoon, we allowed him to leave. If there are any questions that you want to ask at this point, we'll--

ASSEMBLYMAN PASCRELL: I appreciate it. Very briefly, Mr. Chairman.

ASSEMBLYMAN DiGAETANO: Sure.

ASSEMBLYMAN PASCRELL: As I read A-3, and went back over the legislation which was passed in 1986, which was extended in 1988, I believe, this tax -- surcharge, rather, I'm sorry -- was scheduled to be eliminated five months from now. Am I correct?

ASSEMBLYMAN DiGAETANO: Yes. We heard testimony on that at our hearing in Newark.

ASSEMBLYMAN PASCRELL: I just wanted to make sure that I'm reading the right legislation and reading it correctly. In the direct savings on this legislation to corporate America -- to the businesses -- is \$2 million?

ASSEMBLYMAN DiGAETANO: I heard those estimates. Somewhere between \$2 million and \$3 million, depending on whose estimates you take.

ASSEMBLYMAN PASCRELL: So what we're simply doing is accelerating the time within which this surcharge becomes extinct.

ASSEMBLYMAN DiGAETANO: Yes, exactly. And as discussed at the last Committee meeting, it would make all corporations basically subject to the same taxation as of January of this year.

ASSEMBLYMAN PASCRELL: Having asked those questions, let me ask the question I was getting to.

ASSEMBLYMAN DiGAETANO: Sure.

ASSEMBLYMAN PASCRELL: Mr. Chairman, I'm prepared to vote for this. I think five months breathing room is better than letting-- There is so little money that is involved that it's immaterial. But how is this going to -- I'm not clear in my mind -- how is this going to help create jobs in New Jersey?

ASSEMBLYMAN DiGAETANO: Well, from my point of view, the more we tax business, the less attractive New Jersey becomes to business. We have seen many, many businesses struggling over the past few years in these recessionary times. They're scrimping, and they're downsizing; they certainly aren't looking to expand. They're not looking to put any more people to work, and they're struggling to pay their taxes.

Easing the burden of these remaining businesses -- and I do not know how many of these remaining businesses are paying these taxes -- this Committee would hope, and I think it's the hope of this new administration that this tax relief both to business and to individuals will spur the economy; that money will be invested in the economy by these businesses, specifically in creating new jobs and expanding our economy, which is the best thing that we can do for the people of New Jersey, because we're talking about tax cuts, and that's very, very important. But certainly a tax cut to someone without a job is meaningless.

So it is the belief of the Chairman here, and the Whitman administration, that these tax cuts -- accelerated tax cuts, because you're correct, these are all set to expire at the end of Fiscal '94 -- will cause these businesses to invest that money in our economy.

ASSEMBLYMAN PASCRELL: Mr. Chairman, in the past four or five years, because there has been so much discussion about taxes and how each tax is related to the general tax picture in the State of New Jersey, we have examined -- both sides of the aisle -- corporate taxes in the State of New Jersey -- I'll be brief, I can assure you -- and when we looked at the corporate taxes compared to the other states in our area, New Jersey came out very favorable. I think we ought to take a second look at this, because all of the different components that we're talking about today bring us closer and closer to looking at the total tax structure in the State of New Jersey. We're going to be forced to do that, because there is going to be much debate and gnashing of teeth. While everybody wants to cut taxes -- they should want to -- but we want to do it in a responsible way.

Now, what does that mean to me? To me responsible means that we will still have enough revenue to provide the resources to clean the snow from the highways of the State of New Jersey. It means those things to all of us who are in other levels of government, that there will be a give and take, a State Federalist approach -- our Constitution was based on the "Federalist Papers," as you well know -- a sharing of tax dollars back to the source of origin.

But when we're beginning to pick off different areas of this tax program without looking at it in comprehension of the total picture, as a gestalt, I don't know how you do this. I don't know where we're heading, and I'm going to look to you, who I respect in terms of saying it like it is, as to where does all of this go?

We're going to be dealing with a couple of other bills today, and the bills are flying at us from all over, from both sides of the aisle. Everybody is "jumping on" this bandwagon. I don't know what bandwagon that is, but I read it in all the newspapers. Where are we going with this in terms of a responsible tax system in the State of New Jersey that is fair -- that is fair? Where do you see us going?

ASSEMBLYMAN DiGAETANO: I tend to agree with your concerns. Assemblyman DeCroce has asked to respond. But let me just say very, very briefly: This is a tax which we all agree was put on for a specific purpose. The money was never used for that purpose, and it is proper to remove this tax. Anything we can do to spur business and the economy I think, if the minority will agree, we should do.

But Assemblyman DeCroce wishes to make a comment in response.

ASSEMBLYMAN DeCROCE: Thank you, Mr. Chairman. I'm really quite surprised at my colleague's remarks, frankly, because I think, if anything, we have a leader now who has shown a probusiness attitude, which is something we haven't had for the past several years. In fact, it was over the last several years that a group of taxes were imposed on not only business, but the public of the State of New Jersey, frankly, and took an awful lot out of their pockets, and showed the people who wanted to come into the State of New Jersey that we weren't too anxious to have a lot of new businesses, new corporations, and new residents come to this State. I think we're showing that by virtue of this--

You yourself said, "This is only \$2 million. It doesn't mean a heck of a lot." It really doesn't, but it shows that we're sending a message. I hope the people of the State of New Jersey, the corporations of the State of New Jersey, and the small businessmen, of which I am one, will understand that we're trying to send a message to the residents and the

businesses and corporations that New Jersey is responsive to their needs. I hope you really understand that.

Thank you.

ASSEMBLYMAN DiGAETANO: Do you want to continue on that line?

ASSEMBLYMAN PASCRELL: Yes.

ASSEMBLYMAN DiGAETANO: Go ahead. Assemblywoman Heck will respond after that.

ASSEMBLYMAN PASCRELL: Mr. Chairman, having served on the Appropriations Committee, I do know that neither party, in fact, for years -- in fact, recession -- introduced legislation to increase corporate taxes in the State of New Jersey. Both parties supported New Jersey's favorable position in terms of the corporate taxes.

Now, if you're talking about an addendum of these that came about because of certain environmental policies, nine-tenths of those policies were instituted in 1983, 1984, and 1985. I think you're well aware of it. Both parties, as far as I know -- I have tried to keep my eye on this, and we've sponsored some legislation along those lines together -- both parties have attempted to hemorrhage that flow of policies since 1983 and 1984, and to begin the rebuilding process.

I'm sure that the present Governor, and I give her credit, but I believe we will see and are seeing that the business policies of this Governor are no different than the business policies of the past Governor, because both parties have adhered to keeping the corporate tax at a very favorable position and not increasing it. I think we'll have to agree there was no attempt to do that, to place a further burden on business in this State, except for those policies that had been instituted seven years before -- six years before -- the former administration raised its hand.

ASSEMBLYMAN DiGAETANO: I'm not so sure the truck dealers and the boat manufacturers of New Jersey would agree

with that, but we didn't come here to debate former and current governors.

ASSEMBLYMAN PASCRELL: No, we didn't. But it would seem to me-- I'm glad you brought up the specifics. It allows me to bring up a specific. The telecommunications tax, which certainly should be wrapped around on that, in all fairness is something that I feel deserves more than just observance. It would seem to me that it would have a lot more to do with at least the potential -- the opportunity for creating jobs, than this legislation.

I'm glad you brought up those specifics. I think it's something we might address together, hopefully within the next month or so. It would mean a lot less revenue to the State than this certainly does, but I think it would go a lot further in what you said, Assemblyman DeCroce, and I agree with you, in providing that message.

I don't know what signal this sends.

ASSEMBLYMAN DeCROCE: Well, Mr. Chairman, through you, I'm not so sure that that particular measure is on the table or off the table. I have not heard that.

ASSEMBLYMAN DiGAETANO: Well, it is. If you'll allow me to interject, let me assure everyone here that that issue is going to be dealt with in this Committee. The bills are currently in this Committee, and I suspect -- although I cannot assure you -- but I suspect that this Committee is going to take some action to resolve at least part of that issue prior to June 30 of this year. So this Committee will deal with it. We will all be part of that.

But if I could get to some other Committee members, I would appreciate it. We have Assemblyman Wolfe waiting to testify, who also has another Committee to get to.

Assemblywoman Heck, I know you have been waiting very patiently, Assemblywoman. We thank you for your patience. We will take any comments that you have right now.

ASSEMBLYWOMAN HECK: I'll be brief. As a new member, I just wanted to convey to you some of the thoughts that came to me through two very small chambers of commerce, one in Lodi and one in Hasbrouck Heights. I'm a member of those groups and have occasion to talk to these people. This, to me, is a marvelous good-faith measure that shows the little guy that we care about him. He sees we take care of the pennies at that level, and then we watch the dollars take care of themselves.

As far as I'm concerned, the paperwork alone that a little businessperson, a mom-and-pop goes through, has to be cut to a minimum. This is one of those moves. Maybe not a big significant amount to you, Assemblyman, but I'm sure these pennies are going to be gratefully received, and the fact that the paperwork will no longer be is going to be a positive.

ASSEMBLYMAN DiGAETANO: Thank you.

Assemblyman Wolfe, would you please follow Assemblywoman Heck's comments with your testimony on Assembly Bill No. 2. We'll move forward.

A S S E M B L Y M A N D A V I D W. W O L F E: Mr. Chairman, thank you for inviting me. Colleagues, thank you very much. Assembly Bill No. 2, which you have before you, is a very brief bill. It's only two paragraphs in length, and yet I believe the significance and impact goes back to what Assemblywoman Heck was talking about when she mentioned businesses. This particular piece of legislation is designed for residents of our State who are on the lower end of the income scale that many of us very often speak for or about. What it does is increase the minimum income that will be subject to the gross income tax in the State of New Jersey from \$3000 to \$7500 for couples, and \$1500 to \$3500 for individuals for filing.

Now, the way the bill is written, it will become retroactive to January 1 of this particular year, 1994. It

would affect approximately 350,000 residents of the State, and would generate for those individuals a return of approximately \$130 to \$135 per person filing.

I think some people may look at this, again, as a rather insignificant amount, but I think this is a beginning; this is a start. This is something that's long overdue, because I think what the Legislature and the administration together are doing is sending the signal that we are getting our fiscal house in order. We're about to address the very difficult task of the finances of our residents.

The bill, as I said before, is only two paragraphs in length. However, I think its impact is far-reaching, and hopefully will set a model for other types of legislation that we may be considering later.

I thank you for your indulgence, and if you have any questions to ask, I will be glad to answer them, or I will step aside for any other people who wish to testify.

ASSEMBLYMAN DiGAETANO: Any questions of the sponsor? (no response) No? (no response)

Thanks, David.

ASSEMBLYMAN WOLFE: As I conclude, I would like to say maybe I didn't need to say anything, because my cosponsor, Assemblyman LoBiondo, sent a very nice fax that basically said the whole thing. But now that I'm done, thank you for having me. It's a pleasure being here.

Thank you.

ASSEMBLYMAN DiGAETANO: Thank you for coming from the easternmost part of the State.

We have one of our new colleagues from the 7th Legislative District, Assemblyman Williams, who has asked to testify in favor of the package today.

Assemblyman, please join us.

A S S E M B L Y M A N G E O R G E E . W I L L I A M S:
Thank you, Mr. Chairman. Committee members, thank you for allowing me to speak before you today.

I would first like to say I'm not here as a newly elected member of the General Assembly, but rather a local elected official in the Township of Maple Shade, which is located in lower Burlington County. I believe when I speak, I represent many municipalities with regard to the proposed 5 percent cut in income tax.

First, let me make very clear that I do support the cut. Of course, a cut is a cut to the public, and I support the concept. My concern is, as a local representative official -- representative of municipal government -- is that the impact on the gross franchise and receipts tax, not so much for the 5 percent cut, but as it graduates up to 30 percent-- As you know, and I'm sure most people are aware that the public in New Jersey, I think, feels that income tax is not the issue as much as property tax. That being the case, I think there is genuine concern that the impact of the ultimate cut of 30 percent from the income tax budget will adversely affect property taxes.

I am in receipt of a number of letters from constituents who claim that cutting the income tax might save \$5, \$10, or \$15 because of the low income level; however, their property tax continues to rise. So while I do support the cut, I do have some concerns.

One of the reasons why I'm here today is because in December, and again in January, Governor Whitman had more or less extended an invitation to local government to meet with her to discuss the ability of local government to be not only frugal, but perhaps teach us ways to show fiscal responsibility. I'm here to say to you that as a local representative government, we are very fiscally responsible; however, we are also open-minded and feel that perhaps the Governor and members of her staff can teach us things we don't know.

For that reason I wrote a letter to the Governor, and I invited her to come to speak with the local government officials in the Township of Maple Shade, as well as inviting

the municipal officials from the townships surrounding Maple Shade. It's my hope that she will perhaps accept our invitation and come down, and we can possibly compare apples and oranges.

I would like to say that I have done a little bit of homework with regard to municipal cost of government, and I consider that the frontline government. I found that we are, in fact, frugal. As a matter of fact, I'm very proud to say the Township of Maple Shade does not expect an increase of any kind this year, speaking for municipal government. We get to the point where we're actually discussing what subscriptions of important magazines we may or may not keep, just to give you an idea of just how municipal government does operate.

It's my fervent hope that the Governor will understand that we are frugal. However, again, as I stated, we are open to ideas and suggestions. We would certainly welcome her to come.

To close my comments, I just want you to keep in mind the concerns of municipal government are very, very strong with regard to property tax increases, and we don't want to see a tax shift of the burden of this tax cut to impact municipal government.

Thank you very much for allowing me to speak.

ASSEMBLYMAN DiGAETANO: Thank you, Assemblyman. It may or may not ease your mind to know that many of our colleagues in the people's House, and most especially members of this Committee are current or former local officials. I, as the Chairman-- I think you know I am the Council President of Passaic. My good friend, Bill Pascrell, is the Mayor of Paterson. We have Rich Bagger, who was most recently Westfield Mayor, and a Councilman as well. Alex, Lee, all of us--

Maureen?

ASSEMBLYWOMAN OGDEN: Yes.

ASSEMBLYMAN DiGAETANO: Wayne, I know. I think we all were, so we share those concerns. But we are learning everyday.

I'm sorry, Mayor Rose Heck. Sorry, Rose.

ASSEMBLYWOMAN HECK: That's all right.

ASSEMBLYMAN DiGAETANO: We are learning every day about our new Governor. One thing I'm sure of is that she is certainly willing to listen. I don't know when she'll take up your invitation, but I'm pretty confident she will.

The other thing that we're learning about her, and this is proof today, is that she is very determined. She believes in what she has said, and her determination on this package is showing, and was showing in her Inaugural Address. I have no reason to doubt her determination, or question her determination in saying that she does not intend to cut taxes on the backs of the local property taxpayers. I, as a local official, will be extremely diligent in watching her keep her promise. I'm sure my other colleagues -- Mayor Heck, Mayor Pascrell, my colleagues on this side -- will do the same.

I don't know if that's any consolation to you, but we are certainly cognizant, and we agree with your concerns.

Yes, Mayor, Assemblyman?

ASSEMBLYMAN PASCRELL: Mr. Chairman, I've heard you say that a number of times long before the election last November, so you've been pretty consistent and persistent. The problem, Mr. Chairman, is not what you say. That's not what we're debating here -- or discussing. I happen to believe what you've said, and we've been in the trenches about that.

The problem is that there are people in the administration -- speaking for the administration -- that are not saying what you're saying. They are saying this, very specifically: They are saying that the municipalities of this State must "wean" themselves off of municipal aid. They're saying that; those are their words. They're saying that for every dollar cut by the State to the municipalities, that that should not mean a parallel increase of a dollar in property tax.

They don't quite get it. They don't understand the relationship between what we're doing on a municipal level. We're not all ineffective; we're not all inefficient. We are very frugal, for the most part, members of both sides -- independent mayors and council people throughout the State. We need to be. We send out the bills.

The question is coming together and understanding this. I hear you and I accept that, but all of these cuts in taxes -- the cuts today that are on the table -- are going to have to be resolved and have to be accounted for, as you know, on the expense side of the ledger. I mean, there is no other way to do this, unless you're going to raise other revenues, which I think is off the table.

ASSEMBLYMAN DiGAETANO: That's true, Assemblyman. But let me very respectfully observe that in the Fiscal '93 budget, this majority in both Houses proposed the reduction of \$1.1 billion in then Governor Florio's budget. Much of the same comments were made, and there was great concern over what would happen to jobs and programs and services in this State. In those budgets -- both Fiscal '93 and Fiscal '94 -- we didn't see any cuts in municipal aid. We didn't see any cuts in school aid.

Now, it's incumbent upon us as a Legislature-- It's incumbent in the Legislature to be diligent here, and I won't say that there are people who-- I won't say that you are wrong in that there are people who are speaking those words. There may be some of my colleagues, some of your colleagues, who have those same sentiments. I don't know. There may be some people in this administration, and I won't begin to defend all the people in the administration, some of them I don't even know.

However, I'm going to take the Governor at her word, and the Governor is not out there saying that she will decrease State aid. She is out there saying she does not expect and has no intention of giving a reduction in income tax at the expense

of local property taxes. She's the one whose word I'm going to take, because at this point in time, she's the only one who has earned that kind of relationship with this Chair.

ASSEMBLYMAN PASCRELL: Mr. Chairman, she deserves all the support, because we want her to succeed, up to a point, of course.

ASSEMBLYMAN DiGAETANO: At least for four.

ASSEMBLYMAN PASCRELL: Well, we want her to do what is necessary to help the State. Now, I'm willing to-- You know, it's a two-way street, obviously.

But, Mr. Chairman, you know when you deal-- There is some comparison between a municipal budget and a State budget. When you get through with a municipal budget, in terms of mandates and binding arbitration, when you talk about increases in utilities and insurance and pensions, you are left with very little in that budget that you can actually deal with in terms of cuts, and you're faking out the taxpayers in telling them otherwise.

On the State level, when one looks at what we've done in terms of building jails, and therefore, you have to fund those jails unless you want them to be shells of buildings-- There are streets out there that have to be plowed regardless of whether we're here or not. When you come down to really what is the minimum that you need to run the State of New Jersey, and when you start with all of these antics about doing away with second level management and realize that most of the people who make over \$50,000 a year in the State budget are there longer than you and I will be here, Mr. DiGaetano -- Chairman DiGaetano.

ASSEMBLYMAN DiGAETANO: Especially in the people's House, right?

ASSEMBLYMAN PASCRELL: That's correct; that's correct. The point is that you focus on very little of that State budget. I can understand the anxiety of local council

people, mayors, and local property taxpayers as to what's coming when they zero in on what we focus on. We all want to lower taxes. People will never remember the philosophy behind it. They won't remember the debate. They'll simply know what their taxes are. That we've seen in the last four years.

A word of caution here, I think, is in order.

ASSEMBLYMAN DiGAETANO: We should always proceed cautiously.

ASSEMBLYMAN WILLIAMS: Mr. Chairman, if I could just give a closing comment. I appreciate your concerns, especially to some of you who are and have been local elected officials. You certainly appreciate my concern.

What I would like to say is that, in addressing why I feel the way I do, Governor Whitman has stated in the past that she wants to spur the economic growth and, of course, help industry through cutting the income tax, when in fact, industry doesn't pay an income tax, people do. My biggest concern is that property tax is paid to such a larger degree than income tax.

I'd like to just give you an idea of what I mean by local government and how it operates. We employ approximately 34 people, and from the high to the low in average salaries, it's \$23,000 a year. We have in excess of 150 people who work on our fire, first aid, and rescue squad, and they don't get paid anything but our admiration and respect. We are frugal, and we do absolutely everything we can, as most of you know who have served in local government, to just try to toe that line.

Unfortunately, because of mandates; because of the increasing school budgets; because we are on the front line, we seem to get a lot of responsibility for what others are, in fact, guilty of, whether it be county government, the schools, or the State in this case.

Again, I just wanted to reiterate that I am genuinely concerned, and plea that you consider if not the 5 percent and

beyond that point, is there going to be accountability with regard to those cuts in the future?

Thank you for allowing me to speak.

ASSEMBLYMAN DiGAETANO: Thank you.

Let me just say one more word of comfort to my colleagues. I'm very proud of this Committee and the issues that we deal with. I would also like to make my colleagues aware that this Committee will be dealing, once we get past issues like this-- We're taking up the State mandate/State pay issue, and during that discussion we will also be looking at the opportunity for local municipalities to opt out of certain State mandates if the State has not, and continues not to fund them.

We have a witness list here. I might also make you aware that-- Anybody who might have seen the witness list, Vince Serubi, from the Camden County Board of Freeholders, who was scheduled to attend, has submitted written testimony. He is unable to be with us today.

Let's begin with Jack Rothstein, from Coopers & Lybrand.

Jack?

J A C K R O T H S T E I N: Good afternoon.

ASSEMBLYMAN DiGAETANO: Good to see you again.

MR. ROTHSTEIN: Yes. I survived the potholes on Route 29.

ASSEMBLYMAN DiGAETANO: At least it wasn't the ice on 195.

MR. ROTHSTEIN: I've been asked to kind of reiterate the presentation I put on over the summer. I polished it up a little bit in putting together a chart that I thought might be helpful. I wanted to pass that around.

By way of background, I am a consultant, practicing only state and local income taxes. I do not get involved in property taxes, but I am heavily involved in corporate income,

sales and use, and individual income taxes. When I testified over the summer, I discussed New Jersey's competitive structure compared to the surrounding states, that being: New York, Connecticut, and Pennsylvania. I've since formalized that in a chart. It is not complete; however, it does discuss some of the major aspects of each of the three taxes.

Within each tax what I've done is broken that down between the rate, the tax base as to what's being taxed, and the credits or exemptions that are available for each of those three taxes, since those are typically the three most important aspects of a tax. I've also limited it to these three taxes since they are the biggest revenue producers within these jurisdictions.

In starting off with the corporate tax base, from a rate point of view, you can see that New Jersey has the lowest tax rate, even with the surcharge incorporated in there, compared to the three other states. New Jersey is also favorable in that it does not have any longer a net worth tax component, whereas the other three states still have a net worth tax element.

On the tax base, all four states start with Federal taxable income and then make certain modifications to that. My own view of that is that New Jersey-- This does not include all the adjustments to Federal taxable income, but I've listed some of the more significant ones. I don't view New Jersey as being at a competitive disadvantage in comparison to the other three states there.

The available credits: I think Connecticut is probably the most lucrative state, or generous state in terms of offering credits. New Jersey probably falls right behind that, especially in light of the new credits that were enacted recently over the summer. Pennsylvania, I think, is the least desirable when it comes to that.

In summing up the corporate tax picture, my view is that if we're looking to cut taxes from a competitive point of view, New Jersey is already very favorable. In terms of the surtax position that is being proposed right now, my view is that it is more of a token type of thing, especially since it's due to expire anyway in 1994.

From the sales and use tax point of view, when you look at the rates there, you see New Jersey is also in either the most competitive situation or equal to the other states. From a tax base point of view, what's becoming more of a trend these days is that all states tax tangible, personal property, but many states now are starting to tax services as we're becoming a more technological environment these days and relying less and less on goods. So when you see the number of services that New Jersey taxes on this chart compared to the other states, New Jersey also fares very favorably. Connecticut and Pennsylvania tax the most services on this chart.

As far as exemptions, they are too numerous to get into and compare here, so I limited it to a manufacturing exemption from a business perspective. All four states do allow for a manufacturing exemption. Just as a general concept, I don't see New Jersey being at a disadvantage in terms of the exemptions that are offered.

So in summarizing the sales and use tax, again, here I see that New Jersey is fairly competitive -- very competitive, I think. The only thing maybe I would point out, since it's being discussed not in these three bills being proposed, but the telecommunications aspect, where there has been talk about repealing the sales tax on telecommunications, I've listed that on all four states. You can see that New Jersey is at a disadvantage there somewhat, in that it taxes both inter and intrastate telecommunications, whereas New York only taxes intra. Connecticut and Pennsylvania do tax both and I might

add-- So I can see a benefit to either eliminating the sales tax on telecommunications, or compromising and proposing something on just intrastate.

So that brings us down to the individual income tax side of things. Looking at the rates here, you can see that New Jersey is close to the highest, and these rates listed are the highest graduated rates for both married and single taxpayers. The only advantage that New Jersey has over these other states is that the 7 percent doesn't kick in until a very high amount compared to New York. But nevertheless, once you're over that threshold amount you're close to the New York rate, and you can see that you're much over the Connecticut and Pennsylvania rates. In terms of this -- what I labeled -- threshold exemption, which goes to the bill of increasing the minimum threshold from \$3000 to \$7500, I believe it is--

ASSEMBLYMAN DiGAETANO: Yes.

MR. ROTHSTEIN: What I've done there is compare what the other states offer in similar aspects. Now, no other state has something like New Jersey in terms of having to make a certain amount to start filing a return. But New York does give a standard deduction of \$10,800 for married couples, and anything from \$0 to \$10,800 would not be taxed. So I think that's a comparable comparison to New Jersey's \$3000 and proposed \$7000 threshold. Connecticut has a \$24,000 standard exemption. Pennsylvania doesn't have any. So I think as far as the lower-class individuals, the proposal to increase \$3000 to \$7000 is somewhat justified in this comparison chart, in that New York and Connecticut are very favorable in that light.

The tax base: Maybe to sum that up -- that aspect -- New Jersey and Pennsylvania are the only two states that tax categories of income, as opposed to New York and Connecticut that tax Federal adjusted gross income, meaning that New Jersey is limited in its deductions compared to New York and

Connecticut. New Jersey also does not offer itemized deductions, or standard deductions, as opposed to New York, which offers both standard and itemized. Connecticut, which doesn't offer itemized, does offer a standard deduction. Pennsylvania does not offer either, but you have the very low rate in Pennsylvania.

On the credits: New York is very favorable when it comes to credits allowed to individuals. Connecticut and Pennsylvania really don't offer that much, and New Jersey doesn't offer that much either. So summarizing the individual tax aspect, I see New Jersey really at a competitive disadvantage. As I mentioned during the summer, the place to cut taxes out of all these three is in the individual tax area. I think all three aspects within the individual tax are lacking from a competitive point of view -- both the rate, the tax base, and the potential credits. I think this is the appropriate tax to concentrate on for tax cuts.

ASSEMBLYMAN DiGAETANO: Thanks, Jack.

ASSEMBLYMAN SMITH: One question?

ASSEMBLYMAN DiGAETANO: Yes, Assemblyman Smith.

ASSEMBLYMAN SMITH: In terms of making New Jersey attractive for industry, which would have the greater impact in attracting industry to the State: reducing personal income tax rates or reducing property taxes for corporate facilities -- property tax rates?

MR. ROTHSTEIN: It's difficult for me to give expert testimony on that. As I've said, I'm not a property tax specialist. My own sense of things is that both are attractive, but I'm not sure which one would be of greater weight when it comes to that.

ASSEMBLYMAN SMITH: Thank you.

ASSEMBLYMAN DiGAETANO: Assemblyman Pascrell.

ASSEMBLYMAN PASCRELL: I know you didn't have a chart last summer, but these are basically the numbers that you went over last summer?

MR. ROTHSTEIN: Yes, as I said, there are certain aspects lacking here, but I tried to concentrate on the broader-based picture and the things that are going to affect the general populous.

ASSEMBLYMAN PASCARELL: Through the Chair, would it be helpful to us, do you think, if we had the chart extended to include property taxes compared to the other three states?

MR. ROTHSTEIN: Yes, I think it would.

ASSEMBLYMAN PASCARELL: How long would that take to do?

MR. ROTHSTEIN: Well, someone who is familiar with it I don't think would take a long time.

ASSEMBLYMAN PASCARELL: In Connecticut and Pennsylvania -- dealing with the individual taxes -- I assume, therefore, that those are basically flat taxes?

MR. ROTHSTEIN: Correct.

ASSEMBLYMAN PASCARELL: They're not graduated as is the case in the State of New Jersey. Correct?

MR. ROTHSTEIN: New Jersey is graduated, yes. Connecticut and Pennsylvania are flat taxes.

ASSEMBLYMAN PASCARELL: Since you've done studies on this, what is your feeling about that aspect of this review that you've done -- and I want to commend you for -- of the flat tax compared to a graduated tax that we have in this State?

MR. ROTHSTEIN: Well, I think obviously this affects the wealthy more than anything. I think that the fact that the 5 percent reduction would be considered on a broad-based scale versus just low-class or middle-class, is appropriate. The reason why I think that is because:

- 1) from its competitive analysis, but
- 2) when the increase first went into effect, it affected people primarily making -- if you're a single person, more than \$35,000; if you're a married person, making more than \$70,000.

So the lower-class people were not affected by the tax increase. Since the people making beyond those thresholds were the ones hit and costing tax dollars, I think those are the people that should get the reduction back again, therefore, sliding back down closer to less brackets.

ASSEMBLYMAN PASCRELL: Through the Chair?

ASSEMBLYMAN DiGAETANO: Sure.

ASSEMBLYMAN PASCRELL: Excuse me, why should they get more back? Jack, I missed your opening.

MR. ROTHSTEIN: I'm saying that they should get-- They should be--

ASSEMBLYMAN PASCRELL: Who's they?

MR. ROTHSTEIN: Okay, okay. What I'm suggesting is that when the tax increase that went from 3.5 to 7 percent was first enacted, the people that were hit hardest by this were the people making more than \$35,000 as a single person, or people making more than \$70,000 as married, filing joint.

ASSEMBLYMAN PASCRELL: Right.

MR. ROTHSTEIN: The people making less than those numbers I don't think were affected at all. Because of that, I think if we're going to talk about a tax reduction, we should give back to those people -- at least to those people. I'm not saying that the people making below those shouldn't be affected also by the proposed bills, but I'm suggesting that the people making more than those amounts should not be excluded.

ASSEMBLYMAN PASCRELL: Well, to follow that logic -- through the Chair -- when we talk about a sales tax, for instance, which is basically a flat tax, a sales tax is based upon a certain percentage of your disposable income.

MR. ROTHSTEIN: Right.

ASSEMBLYMAN PASCRELL: A greater percentage of your disposable income, in terms of lower and middle-class people, is going to be exhausted in sales taxes than if you are making more than \$70,000 -- or \$80,000, whatever your number is -- a

year. So you're not suggesting when we lower a sales tax that it should be done proportionately as to how much of your disposable income is affected, are you?

MR. ROTHSTEIN: No. I guess, being consistent with my whole presentation from a comparative point of view, I'm suggesting that the sales tax rate in New Jersey is very much in line with the other states. At the personal income tax level, it's way out of line.

ASSEMBLYMAN PASCRELL: Let me ask you this question. In states where there are flat taxes in terms of income taxes, I think it's unfair -- if you agree or disagree with me, through the Chair -- that you make a comparison of these taxes without comparing those taxes in terms of the total tax package in that state.

MR. ROTHSTEIN: Agreed. But that's why I tried to concentrate on the taxes that are creating the most revenue. There are obviously a lot of things missing from this, but I tried to focus on the things that are going to be the bigger picture aspect of this. There are utility taxes; there are unemployment taxes, etc., etc., etc.

ASSEMBLYMAN PASCRELL: You're dealing with revenues, and you're dealing with a fair tax system. Would you suggest that we-- According to these numbers, do you have enough data to suggest that we take a look at the results of a statewide property tax and how it affects disposable income?

MR. ROTHSTEIN: Again, I've got to pass on that.

ASSEMBLYMAN PASCRELL: I asked a very unfair question for this reason. I apologize. It's difficult to talk about individual taxes without relating it to the total tax picture in the State of New Jersey, as would be the case in any state. So we're good -- we politicians -- at cutting everything but motherhood. But we very seldom see the results or understand the ripple effect, because there's a whole picture that's not being affected, except that one tax we're zeroing in on. I don't think that's good policy, do you?

MR. ROTHSTEIN: Well, I'm opposed to the fact that a potential decrease in the individual tax rate could potentially increase our property taxes.

ASSEMBLYMAN PASCRELL: You are?

MR. ROTHSTEIN: Yes, because I don't think that is, in essence, a tax decrease at that point.

ASSEMBLYMAN PASCRELL: Thank you, Mr. Chairman.

ASSEMBLYMAN DiGAETANO: Thanks, Jack.

Any other questions of Mr. Rothstein?

Assemblywoman Ogden, yes.

ASSEMBLYWOMAN OGDEN: Thank you, Mr. Chairman.

As we look at our competitors here, for instance, in the individual taxes, probably the one that closely resembles the Federal tax is New York, with a graduated tax rate and a lot of deductions. It seems to me that New Jersey has actually, in recent years, put itself in the worst position, in that we increased the percentage of taxes. But we basically are like a flat tax State, in which we don't have itemized deductions.

MR. ROTHSTEIN: Well, let's define our terms. Flat tax, I think, should be defined as where there is not a graduation in rates, and New Jersey is not that way.

ASSEMBLYWOMAN OGDEN: Well, I guess we had rates that were closer to the flat tax states, but they were still graduated.

MR. ROTHSTEIN: When there were only one or two brackets.

ASSEMBLYWOMAN OGDEN: I think that it looks like we've gotten ourselves in the worst position here of having a top tax that's close to New York State, and still basically without deductions.

MR. ROTHSTEIN: Right. Right. I guess that started because when the rates were low -- 2.0, 2.5, 3.5 percent -- it was a lot more palatable to accept a gross income tax concept

of taxing categories of income without that much deductions. As the need for revenue arose, the rates increased on the individual side without corresponding deductions being added. That's the situation we find ourselves in now.

You also have, I think, a situation that on the credit side-- You know, New Jersey now has this "S" corporation bill that's been passed that's supposed to be a benefit for "S" corporations. But these new credits that are out there, in terms of research and development to corporations, investment tax credits are available to "S" corporations, but they don't flow through to the individual shareholders, unlike New York. In New York State, if you're a shareholder in an "S" corporation and the "S" corporation is entitled to the investment tax credits and the research and development credits, they flow through to the individual. In New Jersey there's no credit for that, and that's just another disadvantage on the bottom-tiered box here of available credits.

ASSEMBLYWOMAN OGDEN: One other question, through the Chair.

ASSEMBLYMAN DiGAETANO: Sure, Assemblywoman Ogden.

ASSEMBLYWOMAN OGDEN: In thinking at some point in the future of tackling the telecommunications tax, basically, as I look at the four states here, our competition is with New York, isn't it? New York has the most favorable. It has only intrastate instead of inter and intra.

MR. ROTHSTEIN: We're no worse off, if that's what you're getting at, than the other three states.

ASSEMBLYWOMAN OGDEN: But if jobs are going to move from New York because of this, when we have this State both inter and intra, then they are not probably going to choose New Jersey unless it's for other reasons.

MR. ROTHSTEIN: There is a possibility of that.

ASSEMBLYMAN DiGAETANO: Thank you.

Thank you, Assemblywoman.

ASSEMBLYWOMAN HECK: May I mention something?

ASSEMBLYMAN DiGAETANO: Yes, Assemblywoman Heck.

ASSEMBLYWOMAN HECK: This is why I like these building blocks of tax cuts. Looking at it, I remember this gentleman who was a small manufacturer from Woodbridge, New Jersey. He had an employee list of 100 people. When the tax structure began and the taxes -- the sales tax went up and so on -- property taxes and then the income tax -- he said, "I am just giving up. I'm going to Pennsylvania and I'm staying there, because New Jersey doesn't want me." He said, "You know, it's very easy for somebody like me, after 35 years, to say, 'I have the money. I can pick up and leave this State,' but the 100 people I'm leaving behind are going to come after you to make sure that you start facing tax reduction." I think that's what we're doing today.

ASSEMBLYMAN DiGAETANO: Jack, if I might add one request? If this chart is going to be revised -- I don't know if you have the data -- I would be very interested in seeing New Jersey compared to a couple of the states where we seem to be losing the most businesses -- to whom we seem to be losing the most businesses. If there is any data available, I would be very interested in seeing it.

MR. ROTHSTEIN: What states are you thinking of?

ASSEMBLYMAN DiGAETANO: North and South Carolina are two that come to mind most readily. We hear them talked about most often. Thank you very much, Jack. Again, we appreciate your testimony.

Assemblyman Pascrell, sorry.

ASSEMBLYMAN PASCRELL: I just wanted to get one further point in about what we were talking about just a few moments ago, Jack, if I may, through the Chair.

The total property taxes in the State of New Jersey -- a big number -- the total property taxes in New Jersey--

ASSEMBLYMAN DiGAETANO: On an average per dollar value?

ASSEMBLYMAN PASCRELL: Not yet, not yet. Total amount of dollars is in the neighborhood of the combined -- if these numbers are correct -- the combination of sales, corporate, and income tax revenue, which I find to be extremely fascinating that we-- Do you agree with me?

MR. ROTHSTEIN: I don't agree or disagree. I don't know.

ASSEMBLYMAN PASCRELL: Because if that's the case, then we've left out of this, obviously, a major, major--

MR. ROTHSTEIN: These are taxes that are governed and administered by the State.

ASSEMBLYMAN PASCRELL: Right.

MR. ROTHSTEIN: Then property taxes are administered by the municipalities. So, again, since I do not get involved in that aspect and can't quantify or make comparisons to that, I went with the major taxes that the states do administer.

ASSEMBLYMAN PASCRELL: Okay, I just wanted to make that point.

ASSEMBLYMAN DiGAETANO: Assemblyman DeCroce.

ASSEMBLYMAN DeCROCE: Yes, through you, Mr. Chairman, I believe this is just a beginning, and obviously there are a lot of areas we should be looking at -- hopefully, we will be looking at. But we have to start, and I think this is an excellent start. This sends a message. That's what we're here for, to send a message. I think this does exactly that.

ASSEMBLYMAN DiGAETANO: Thank you.

Thanks again, Jack.

Dave Kehler, Public Affairs Research Institute.

D A V I D K E H L E R: Mr. Chairman, members of the Committee, I'm Dave Kehler. I'm President of the Public Affairs Research Institute of New Jersey. We're a nonprofit,

nonpartisan organization based in Princeton. We're concerned with really three policy areas:

- 1) New Jersey's fiscal issues,
- 2) Public administrative issues, and
- 3) New Jersey's economic issues.

It's an honor to be asked to be with you today to talk about these proposals to reduce New Jersey's tax burden.

There are three bills before you. I'll speak briefly about two of them, and then talk more about Assembly Bill No. 1. The proposal to increase the threshold for taxation of personal income is a good proposal. It provides a benefit for low-income people, college students, and particularly for women who work part-time to help support their families. I think it's good social policy, and I commend that bill to you.

Another proposal would accelerate the termination of a surtax on corporate income, to return to a 9 percent tax rate. I think that has a couple of advantages in terms of improving our competitive position, and I would strongly encourage the Committee to follow the Chair's interest in looking at the competitive position of New Jersey versus all other states. The Chair is totally correct in identifying states such as the Carolinas. I would add to that Texas, Florida, Tennessee, Alabama, and Louisiana are states in which New Jersey companies have been expanding.

When one looks at the tax policies of a number of these states, one sees that they have made changes in corporate taxation in order to make their state a more hospitable place for investment. It is very clear that our concept of competition must change. New Jersey is now in a globally competitive environment, where 15 or 20 years ago our competition was really these neighboring states. That's no longer the case. Some of the other states around the country have taken dramatic steps in terms of taxation of businesses to encourage investments. I'll mention one of those. South

Carolina has a program under which companies are forgiven taxes for a 20-year period and allowed to make an in-lieu-of payment, which is substantially less than what the company would pay under the normal tax policy. Economic competition between the states in some regards has become cutthroat.

In my view, the proposal before you is a modest attempt to make New Jersey a bit more competitive, and I commend it to you on that basis. But that's not to say that this particular tax policy change is the answer for New Jersey's economic competition.

I would also commend to you at some later date -- and I assume that this will be proposed by Governor Whitman, because it was part of her campaign platform -- an elimination of these telecommunication taxes. Once again, I would stress that our competition for businesses that are dependent upon telecommunications are not just Connecticut, Pennsylvania, and New York, but include states all across the country, some of which aren't taxing this at all. I know that that was part of her platform, but not part of these immediate proposals. Nonetheless, that's something that ought to be contemplated in the future.

Now, in terms of the personal income tax reduction, I know that there have been some controversial elements in some sense of trying to sort out what the relationship is between cutting this tax versus cutting other taxes. There has been some economic research on this, and I would like to summarize it for you.

The leading economist who has worked on this is Richard K. Vedder. He is a distinguished Professor of Economics at Ohio University, and he was formerly the Chief Economist for the Joint Committee of Taxation of the United States Congress at the point when Lloyd Bentsen was the Chair of that Committee. Vedder has attempted to identify the relationship between economic growth, or the absence of

economic growth, on a state by state basis; state tax structure; and changes in tax structure. His work, which has been published over the past 12 years in a variety of forums -- some of it published by the Joint Economic Committee and some published in economic journals -- has been sufficiently circulated. It has been reviewed by other economists, and has stood the test of time and critical thinking.

His general theories, based on empirical research he's done, support the thrust of this legislation. In essence, what he's found is that the singlemost important tax related to changes in economic growth, which he measures as changes in the growth of personal income, is the individual income tax. He's found that the flatter the tax, the greater the growth. The lower the tax take, the greater the growth.

The secondmost important tax is the property tax. Corporate taxes and other taxes trail quite a bit in his analysis. But he tried to identify the relative significance of these two important taxes that you've been discussing today, and he found that those were the two most important, but that the personal income tax was the singlemost important. He found that reducing the graduated burden was beneficial. Like I said, his analysis has been conducted over about 12 years. He's refined his technique during that time, and there is substantial reason to believe that the theory behind this tax cut is appropriate.

You've had some questions about where we stand in terms of our tax burden, and I'd like to try to answer them. On a per capita basis, New Jersey is among the five leading states in our tax burden. When measured in terms of the relationship between our tax burden and the amount of income earned in our State, we're at about the national average. Our tax system is a very unusual one, though, and Assemblyman Pascrell had brought this up earlier. In terms of the share of that tax burden claimed by property taxes, we're second --

second to New Hampshire, and New Hampshire is a state with no income and no sales taxes. So clearly our tax structure is very, very skewed toward the property tax.

Now, there are a variety of reasons why we depend so much on the property, tax and they are problems on the spending side in my view. One of them is a policy involving arbitration of salary disputes between uniformed personnel and employers. Another reason is the fact that we have a large number of school districts. We have more school districts in New Jersey than Pennsylvania, Delaware, Maryland, and West Virginia combined. So we're missing opportunities for economies of scale. Another reason is we have a large number of municipal governments. We have the smallest average land area per municipality of any state in the country. That's not why we're here today, but I wanted to try to answer the question that you put to Jack Rothstein, Assemblyman Pascrell, about the property tax burden.

Now, how do our taxpayers compare on this income tax burden -- the individual income tax burden versus the rest of the country. The accounting firm Ernst & Young's metropark office did a report which was published in last month's issue of "Money" magazine. What they did was, they compared the burden for people at -- hypothetical families or individuals at various income levels and taxed them in those states in which there is a personal income tax. They looked at individuals at \$35,000 income level, and families where there were two earners and two other dependents, at \$50,000, \$75,000, and \$100,000. Forty-one states have an individual income tax. In every instance for these four -- either hypothetical individuals or families, New Jersey ranked in the bottom four -- in the bottom four states.

The consequence of this, in my view, is that the income tax increases that were adopted in 1990 did not disproportionately burden middle-income New Jerseyans. Now,

these tax increases were extremely controversial at the time. Some of you may recall that the Public Affairs Research Institute, which I head, did very extensive multistate comparisons of the tax burden before and after those increases, and compared them with all the states. At that time, New Jersey had the lowest individual income tax burden for most middle-income families or individuals, and we jumped up a couple of ranks.

In terms of high-income individuals, though, the situation was different. Prior to the 1990 tax changes, New Jersey's burden for high-income individuals was again at the very bottom of the 41 states levying this type of tax. But with the new rates we moved to the middle. A question was asked of Jack Rothstein of how our top rate of 7 percent compares with other states. There are three states basing their state income tax obligation as a percentage of the Federal obligation. Five states have a top rate of 7 percent. Of the rest of the states, half are above our 7 percent rate, and half are below our top rate.

The point I'm making here is that the attention to the top rate in this proposal is appropriate because that's the point at which our individual income tax regime is disproportionately higher -- actually, it's moderately higher. For the lower-income people and for middle-income people, it's low. A caveat to that, though, is that some of our competitor states don't have an individual income tax, including three specific, direct competitors: Florida, Texas, and Tennessee. So despite the fact that we're lowering our tax with this bill -- a bill which I think is good -- there are still states with which we're competing where there is no individual income tax.

I know that testimony will be brought to this Committee, and suggestions will be made by members of the Committee, that other tax policy changes apart from Assembly Bills Nos. 1, 2, and 3 are appropriate. I would simply like to

say with regard to that, while I believe these three bills are good tax policy, they don't exhaust the changes that I would recommend for New Jersey's tax system. I absolutely do believe we have to attack the property tax burden, and we certainly have to reduce those telecommunication taxes eventually.

I'd be happy to answer any questions about our comparative tax position, or things I might have said or omitted in this presentation.

ASSEMBLYMAN DeCROCE: Thank you, Mr. Kehler.

I've been asked to assume, temporarily, the Chair. The Chairman has left the room.

Any question?

ASSEMBLYMAN PASCRELL: Yes.

Dave, through the Chair, do you think it's possible to have comprehensive tax reform in the State of New Jersey given the present climate?

MR. KEHLER: I think that would be very difficult to achieve immediately. I think that should be an objective for the balance of the decade. I don't believe the public has a good sense of why our property taxes are so high, and that education is necessary before we go further.

Assemblyman Pascrell, I was a member of the SLERP Commission, which attempted to do that. The SLERP Commission met for about three years, and its report was not well-received at the point at which it was issued, specifically, I think, because the public had no sense of how these tax burdens have come to be and what the alternatives might be.

ASSEMBLYMAN PASCRELL: But it was a bipartisan Commission.

MR. KEHLER: Sure was.

ASSEMBLYMAN PASCRELL: It was a Commission that worked very hard and provided a tremendous amount of data to support its conclusions. We'll have none of that in New Jersey. But you did your job and you saw the result. Perhaps if you had

been a lot more dallying with a little of this and a little of that, you would have gotten some people dancing with you in the street. But that wasn't the purpose of your Commission, and I think it was a great Commission.

MR. KEHLER: Well, it was analytical work. In saying that I think more needs to be done, I certainly would like to contribute to comprehensive tax reform in New Jersey. You and I have spoken about this in the past, and you know that we have a variety of proposals that we'd like to discuss at the appropriate time.

ASSEMBLYMAN PASCARELL: Let me ask you this question, through the Chair, we compare New Jersey with other states in many regards. I've also contended, and I think that the numbers point out, that we compare fairly favorably with the states around us once one looks at the data. I believe that these proposals today -- while they're nothing to write home about, or something that I think aren't going to hurt the State, but indeed might help. Having said that, I look at the comparison of the State somewhat like the comparison of municipalities in the State of New Jersey.

One of the major problems I have with binding arbitration is, arbitrators like to compare apples and oranges when they're comparing ability to pay, financial stability, etc., etc. Wouldn't you say that the same danger occurs when you're comparing states with each other? Because of the different services that need to be provided in certain states-- The states that you mentioned have very, very different socioeconomic factors than the States of New Jersey, New York, or Pennsylvania.

MR. KEHLER: Absolutely do.

ASSEMBLYMAN PASCARELL: You need a different level of service, and you need a different quantity of service in order to provide those kinds of things. It may not be that the

company decides to go from New Jersey to -- I think you used South Carolina as an example, or Tennessee -- where there's no personal income tax, but does it for other reasons as well.

MR. KEHLER: Sure.

ASSEMBLYMAN PASCRELL: The cost of business includes labor; the cost of business includes environmental dollars as well. Those two states that you mentioned have a world of difference in terms of how we deal with environmental health matters, which I think, in my opinion -- I have concluded in doing the other work that we did in terms of ECRA -- make a heck of a big difference in deciding where you go. What confuses me is that while a state may be more attractive, we're just robbing jobs from one another with a zero increase. Jobs in this State didn't decline in the last four years, they continued to decline in the last four years. The source of that decline goes back 20 to 25 years, to a whole myriad of things.

MR. KEHLER: Well, I think that you've asked the crucial policy question in terms of the direction of New Jersey's economy for the balance of this century; that is, what's the real competition, on what basis does the real competition occur, and what public policies impact that competition?

The basis of the competition is worldwide. With the communications revolution, capital can move any place, and we're seeing it move fast. The reality is, we've had a number of major New Jersey companies make huge investments in some of these southern states. They've done it not on the basis of sentiment, they've done it on the basis of productivity. Now, maybe labor charges to companies are lower in Alabama. We have to make sure if we're paying higher wages in New Jersey that we have the best trained workforce in the United States. We're not going to compete with these states, or we're not going to

compete with Taiwan or Singapore, on the basis of labor rates. We have to attack that problem on another basis, and that's labor productivity.

I'm not suggesting for a minute that tax issues are the only interstate competition issues, but that's what we're talking about today. I've written a lot, and I've sent you some of this material about other ways in which New Jersey can compete.

We do have different social needs than Texas or Tennessee, and we have to meet those social needs. What it means is not to walk away from those needs, but to be smarter about the way we deal with them. We have a responsibility for the health care of poor people. We have a Medicaid system. Our Medicaid system ought to be modernized to use more costcontrol-oriented techniques like managed care. Make it mandatory. That's not harmful to poor people. It cuts costs and helps them. We just have to be smarter about these things.

But we can't walk away from the circumstance where these other states are playing a zero-sum game, taking our jobs. We can't abandon our workers, and I know you don't want to do that. It's just that we have to marshal our resources in a smarter way, smarter tax policy, smarter spending policy, and, I think, a better economic development plan as well.

ASSEMBLYMAN PASCRELL: Mr. Chairman, just one final point. Is this an anomaly? Most of the business people that I talk to in this State tell me, regardless of where they live, that the primary factor -- the primary situation that they deal with that discourages them from investing and staying is property taxes. That's what they tell me. Particularly in the larger cities in the State, that is a reality. Now, is that an anomaly, or is it just the people I'm bumping into? Or might it make sense, if that is the case, that we provide for direct

property tax relief if we think that the investment is going to create capital and jobs? Is that an anomaly, or could that be the reality and we've been chasing our tail for the last ten years?

MR. KEHLER: I don't know that our attack on the property tax problem has been effective. We've been attacking the symptom and not the cause, in my view. I think that we must attack the property tax problem. I think that we ought to get at it by attacking the spending side of this problem, rather than simply throwing more money at the present structures and present policies that we have in place.

This arbitration situation, which you and I have discussed, is crazy. It must be reformed. This number of school districts-- No rational person starting from scratch would set up 611 school districts in New Jersey. We need fewer of them. If we attack the problem, we'll make some real progress.

ASSEMBLYMAN PASCRELL: You say that the man's education-- How do we as policymakers-- Because what we're doing is, we've created a system where we're chasing our tails and chasing the symptoms, rather than saying, as SLERP attempted to do, "These are the sources of your problem. You Democrats and Republicans out there can blame each other and point your fingers all you want, but until you get to these sources, you're only whistling in the wind." How do you want us to do that? What do we have to do that we're not doing?

MR. KEHLER: All of us have to talk about this with real honesty. The last Legislature took up the arbitration issue and, unfortunately, it wasn't enacted. Well, we have to stay with it. People who are concerned about these costs have to explain to the public that we have too many school districts; that the price of home rule for school districts is too high. I think there is an educational crisis as well.

Now, some of these things are not popular in all quarters, but so what. If we're going to improve things, we have to tackle them. We need not just political courage, we need civic leadership too. I'm certainly interested in working with you, other members of the Committee, and anybody else who would like to fix these problems. But we're not going to solve this by having higher, and higher, and higher aid programs to municipalities and school districts. Eventually, that will bleed the State Treasury dry. We can't afford it.

ASSEMBLYMAN PASCRELL: Thank you.

ASSEMBLYMAN DiGAETANO: Thanks, David.

Assemblyman DeCroce.

ASSEMBLYMAN DeCROCE: I agree with a lot of what you've said, and I don't want to go over it all over again. But one of the other contributions, frankly, that doesn't seem to help the property taxes in most suburban municipalities is the fact that the larger cities are abated in many areas, with regard to construction that goes on in their cities, in an effort to encourage more business to come into their localities, to bring jobs, and to bring more people. What happens is, the costs of those people coming into those cities are thrown on the local municipalities. This happens in Essex, Passaic, Camden, probably in Atlantic City, and in many of the larger areas. This is another area I think we have to stop. We have to discontinue this abatement program we have in the State of New Jersey, because the smaller cities -- the suburban taxpayers, frankly -- are paying those costs, and that ends up in their property taxes.

MR. KEHLER: I'd like to say something about that. Christine Whitman has announced an Economic Development Commission to analyze what New Jersey is doing, and what we ought to do about our State's economy. Tax preference issues of all sorts ought to be before that Commission. This specific tendency that you've described ought to be studied too. Does

that work? Should it be changed? Should there be some equalizing policy so neighboring jurisdictions aren't affected? That has to be taken up.

Property tax preference schemes are typically used by the states that are the fastest growing states in the country. There are some places where they're saying no property taxes for a decade to new industry. These issues are not coming up in those states. We need to find out why, and what policies they have to make sure that adjacent municipalities aren't hurting, then we'll see if they're applicable to New Jersey. I think you're on to something, though, and it definitely needs to be addressed.

ASSEMBLYMAN DeCROCE: See, the problem -- through you, Mr. Chairman -- the problem, Mr. Kehler, is that people are not informed.

MR. KEHLER: Right.

ASSEMBLYMAN DeCROCE: They don't realize that by abating Essex County -- let's say Newark, in Essex County -- only throws the burden of taxation onto those local municipalities in the suburban areas or other areas of their county. It happens all over the State of New Jersey. It's beginning to hurt. I think we should eliminate that program, frankly, but I don't know how you would do it overnight. You don't do it overnight. But I think over a period of years it should be looked at and possibly done.

ASSEMBLYMAN DiGAETANO: We could debate this issue for probably three more sessions. We're really getting away from the bills. If you just want to make a quick observation on that, go ahead.

ASSEMBLYMAN PASCRELL: Yes. Through the Chair, in response to what David said, and the good Assemblyman from the west, you're wrong. Every study that's been done, in terms of abated properties, has indicated a couple of things: First, the people would not have invested there in the first place unless they had a tax--

ASSEMBLYMAN DiGAETANO: But, Assemblyman, we're talking about another issue. We got off the track of the bills.

ASSEMBLYMAN PASCRELL: But I couldn't let-- So was the good Assemblyman.

ASSEMBLYMAN DiGAETANO: You're right, and I said he was off the record -- I mean, off the bill -- on the record, but off the bill. That's another issue all together.

ASSEMBLYMAN PASCRELL: Let me conclude by saying that the good Assemblyman is wrong, and I will take it up with him privately. (laughter)

ASSEMBLYMAN DeCROCE: He's willing to take you up on a later date on that. (laughter)

ASSEMBLYMAN DiGAETANO: All right. I like that. (laughter)

Thank you, David.

Any questions of David? (no response)

We thank you very much for being with us again, Dave.

Bob Woodford, from New Jersey Business and Industry Association.

R O B E R T A. W O O D F O R D: Thank you, Mr. Chairman.

ASSEMBLYMAN DiGAETANO: I was going to hold you to last, Bob, but I understand you have some pressing commitments so we'll bring you up now.

MR. WOODFORD: Thank you very much, and thank you for the invitation to testify on behalf of the New Jersey Business and Industries Association. The Association supports Assembly Bill Nos. 1, 2, and 3. We're pleased to do so. We think each bill has merit independently, but primarily, we support them because they are part of a larger effort to recognize and address the range of business problems that have affected investment decisions and job creations in New Jersey for a considerable period of years.

These measures build on the efforts of the last two years: the initial reforms to ECRA, the Taxpayer Bill of Rights, the business incentive package that passed last year,

the Business Retention Act that passed in '92. They are part of an array of actions that will be necessary to really restore a vitality to New Jersey's economy. That will include, as the Governor has indicated an intention to; as the legislators have indicated an intention to address this whole question of overregulation, question of regulatory fees and penalties, and to address the overall question of the efficiency in the organization of government, as it pertains to businesses -- the time taken by businesses in the process of making decisions in New Jersey -- construction decisions, approvals.

We are beginning to get the message -- and these bills help to convey it -- that New Jersey now will be a partner actively seeking to assist businesses; creating a climate in which businesses can understand that they will be able to operate free of unnecessary encumbrances, with government as partner helping to move through the regulatory process; helping to provide training and services, site location, and all of the other packages of things that are needed to produce the investments that provide good jobs and incomes to New Jersey residents. It's because these tax bills are an important part of that overall effort that the message is now going out to the business community here and, I think, will go out throughout the country that New Jersey is serious about attracting and holding businesses.

On the individual bills: A-1, with its reductions in income tax will, we believe, reverse what we consider to be a problem of an excessive top rate on what is basically a flat gross income base in New Jersey. We're one of relatively few states that have, basically, a gross income tax without individual itemized deductions. Therefore, it has always been important to design a rate structure which considers the fact that there is not this array of deductions that exist in states that couple themselves to the Federal base, or tend to parallel the net income tax approach of the Federal government.

We felt, and indicated at the time, in 1990, that a 7 percent gross income tax rate was excessive. There are businesses and individuals in business at all levels affected by these decisions: managers, scientists in research and development, professionals looking for a location in business, who are sensitive to those personal income tax rates; partners, sole proprietors, entrepreneurs, who are looking for locations that will provide them with reasonable levels of taxation, personally, and reasonable profit expectations.

We would ask two things: first, that in the timing and implementation of this relief that consideration be given to all elements of this package; that is, the redesigning of State services and, we hope, the consolidation of local functions, particularly school districts, so that there is a minimal negative impact on local government. We believe that the combination of these proposed cuts do not necessarily mean an excessive burden on property taxpayers, municipalities, and school districts. That will be a very difficult task of design, implementation, and timing, and all elements have to work together and be designed together.

We'd also suggest that when we reach the final stages of reduction in personal income tax rates, that consideration be given to indexing the tax brackets. There are anomalies in the system adopted in 1990. For example, for a single individual at the \$35,000 earning level, under this legislation the tax rate up to \$35,000, including \$35,000 of income, will be 2.375 percent; within \$5000 of increase, an income at the \$40,000 level, the tax rate becomes 6.175 percent -- almost three times the marginal tax rate. If there is no indexing based on inflation, then an individual could move from the \$35,000/2.375 rate, to a rate in excess of 6 percent in relatively few years without increased earning power. So we would, at some stage, build into this program as it advances the indexing of future tax rates.

On the Corporation Business Tax Surcharge: I know a number of you heard me over last year, as we presented a business tax incentive program -- which included much of what was accomplished last year -- say, "Please don't extend the surcharge." So we're tremendously pleased to support legislation which advances the date for expiration of that corporate surcharge. As you know, that surcharge was designed to fund hazardous waste site cleanup. It had business support. Of the \$225 million that was intended to generate, as of January 31 of this year, \$28 million has been used for hazardous waste site cleanup and the balance collected has been used in the General Fund. So it is time to remove that surcharge, and we're pleased to support that.

We would ask that you also not forget that it is more than just the tax rate of the corporate tax that has an impact on decision-making. In 1989, we had the opportunity to review with the two researchers who put it together a study that had been done for the Connecticut Business and Industry Association comparing taxes on industry. We were surprised to find that Connecticut, with surcharges on corporate tax at that time bringing them up over a 13 percent tax rate when compared with New Jersey's 9.375 percent compound rate, was comparable in burden. Surprised?

We found that the reason for that anomaly was that Connecticut calculates the percentage of corporations' incomes subject to Connecticut's tax differently than New Jersey. New Jersey still follows what had been the predominant policy nationally in taking the percentage of your sales, the percentage of your payroll, and the percentage of your property in New Jersey as a percentage of national; merging those into a single percentage; and saying this percent of your corporate income is taxable in our State. Connecticut, New York -- in fact, now there are 24 states that weigh sales more heavily.

Connecticut, because they weighed sales more heavily, and because manufactures are concentrated in payroll and property in one state but serve a national or international market, favored their manufactures in this matter; whereas, a state that does what Connecticut and New York have done -- double weigh their sales, which is what we recommend -- shifts tax out of state to those who use you as a market state, but have little payroll or property. So we urge that this be built into this package at some point.

ASSEMBLYMAN DiGAETANO: Double weighing the sales tax?

MR. WOODFORD: Double weighing the sales in the apportionment formula.

We understand that the Governor had to make some hard choices in terms of what came first in this overall package. Telecommunications, which is a very important part, we understand from the Governor is still a part of the program, although it is not on the table this year, as the State Treasurer has indicated. With the understanding that this is a piece of the program still, we would urge that that also be supported in future years when it is presented as part of that relief program.

I would open myself to questions at this point if there are any from the Committee.

ASSEMBLYMAN DiGAETANO: Any questions of Mr. Woodford by the Committee? (no response) No.

Thank you, Bob.

MR. WOODFORD: Thank you.

ASSEMBLYMAN DiGAETANO: We appreciate your testimony once again.

MR. WOODFORD: Thank you.

ASSEMBLYMAN DiGAETANO: Jane Kershner, President of Haddonfield Board of Education.

JANE KERSHNER: Good afternoon, Chairman, Committee members. Am I your last speaker?

ASSEMBLYMAN DiGAETANO: No.

MS. KERSHNER: All right. Well, then, I will still be brief. Some eyes are beginning to glaze over. It's been a long afternoon.

I come to speak this morning representing a school board -- actually, in the Garden State Coalition of Schools, I'm an officer in that group -- and for school board members -- actually, I'll even drag municipalities into this. I've been heartened and pleased by the number of you who actually hold council positions in your own respective towns.

I'm here really to speak about the 5 percent tax reduction. What I've heard today from a number of you makes me feel a lot better. There's a tremendous feeling out there that the property -- that the income tax reduction is going to result very specifically in higher property taxes; that that is inevitable; that with fewer State revenues, there are going to be fewer State disbursements. Education is an easy one to hit, especially with all of the talk that's being done about it currently.

I am here to ask for your assurance, which you have just about given this afternoon to a number of the other speakers, that this 5 percent income tax reduction will not negatively impact the property taxpayer. Specifically, we've spoken to the Garden State Coalition of Schools, and the school boards in the State of New Jersey have actually talked to the Education Committee. One of the ways that you could get around this -- and I would ask for your help, we would be testifying in front of many committees if it would help -- it's the number of State mandates that are leveled from the State right on down to school boards.

The gentleman before me said that more money is not going to solve the problem. He's correct. What we really need is a less encumbered environment. If your schools are measuring up, and if specific districts are moving ahead and

improving, I don't know why some of the mandates can't be dropped from them. I don't know why the money is spent for State monitoring teams to go into districts that are well above the average in their schools.

Another thing: We are one of the last two states that mandates that we belong to a State School Board Association. Now, either we are terribly progressive, or the other 95 percent have figured it out. When you're talking in the scope that you all deal with -- you talk in millions of dollars, hundred of thousands of dollars, in fact -- there are lots of little mandates that cost \$17,000, \$20,000 that impact very heavily on local school boards and municipalities.

If while you are dealing with this 5 percent income tax reduction, you can be mindful of some of the things that would allow you to achieve that, and still not place the burden on property taxpayers, we would be most grateful. To me education is a nonpartisan issue. It is something that we all need to roll up our sleeves and get to work on. The question of whether or not there should be so many school districts is another issue. But the people that are most grievously affected in a negative way by not thinking through an income tax reduction very carefully are the individual property tax owners -- I mean, the property owners throughout the State.

So I am really here to ask for your assurance that you are going to diligently work to see that it doesn't negatively impact us.

ASSEMBLYMAN DiGAETANO: As I said earlier, we are going to take this new Governor on her word. We've learned that she's very determined, and we're seeing that again today. I have every reason to expect that she will deliver on that promise, as well.

MS. KERSHNER: So I'm sure that you all have read the story across the State, when she did pronounce her 5 percent income tax reduction retroactively, that the Senate and the Assembly sat bolt upright. It's not going to be easy.

ASSEMBLYMAN DiGAETANO: Well, nobody ever said it was.
Assemblyman DeCroce.

ASSEMBLYMAN DeCROCE: Thank you. Let me just say that each of us has a responsibility -- those of us who serve in municipal government, and those who serve in education governments. Though the municipalities have been asked to do as much as they can to reduce -- and, frankly, I think many of the municipalities have -- I think it's going to be incumbent upon the school boards to take good, hard looks at their budgets, and see where they can pare. Because I can tell you right now, there are those of us who want to, frankly, have a better understanding of what happens within these school budgets.

MS. KERSHNER: I invite you to my school board meeting. I understand it is easy to say, and, in fact, it is true that we have one of the highest per student costs in the United States. At the same time, we also have a very encumbered environment as far as mandates coming down that in no way ever see a teacher, a classroom, a student, or sometimes a school. A school district such as mine is mandated to do things that seem to be uncoordinated at the State level. They seem to come out of different factions.

ASSEMBLYMAN DeCROCE: But there are ways, if you will, in which you can share costs. You don't have to have-- You can share costs with other districts; you can get together with others. There are bills in the hopper called regionalization. There are things like that, that have taken place in certain communities that have worked. Some are happy; some are not happy. But the fact of the matter is, these things have to be looked at.

It was mentioned by Mr. Kehler, I believe, we have to look at different ways. If your talking about any area wherein the property -- the home owner gets hurt in property taxes, it certainly is in the area of taxes that are paid to their local

municipalities for local government, county government, and school taxes. School taxes are the biggest bite in any tax bill, so they have to really be looked at very hard.

ASSEMBLYMAN DiGAETANO: Ms. Kershner, let me -- we have a couple of other Committee members who want to comment here -- but let me invite you, as President of the Haddonfield Board, to present any suggestions with respect to those State mandates, because this Committee -- you may not have heard earlier; you may not have been in the room -- this Committee will be dealing with the State mandate/State pay issue.

MS. KERSHNER: Oh, all right. All right.

ASSEMBLYMAN DiGAETANO: I would be very interested, for one, to see what some of these mandates are that the school boards would like to opt out, that would not negatively affect education.

Assemblyman Geist.

ASSEMBLYMAN GEIST: Thank you, Chairman.

First of all, welcome to Trenton.

MS. KERSHNER: Thank you.

ASSEMBLYMAN GEIST: We share in common Camden County residency.

MS. KERSHNER: Yes.

ASSEMBLYMAN GEIST: We share in common high property taxes in Camden County, and I am very interested in your testimony at a future proceeding on the companion Haytaian/Geist bill -- State mandate/State pay.

But let me emphasis to you, I am hearing remarkable inconsistencies from the New Jersey School Boards Association. Today you say, "I'm in favor of less mandates." Yet loud and clear the School Boards Association is saying throughout New Jersey that, "We want a mandate of teacher recertification of every teacher in New Jersey." Who's going to pay for that mandate, property taxpayers?

I truly believe that we should have better consistency, and I truly believe that if the School Boards Association is going to say, "No more mandates," they should mean no more mandates. I look forward to having the dialogue with you on these particular issues. Are we going to have more mandates? Are we going to have less mandates? Are we going to eliminate mandates? Let's eliminate mandates. But I don't think we should have it both ways.

MS. KERSHNER: Well, yes.

ASSEMBLYMAN GEIST: I won't emphasize any consistencies so that when you appear in the future, we can deliberate further as to what the priorities should be.

MS. KERSHNER: Well, there is a third category, and that is mandated and paid for by the State. But I don't speak for the New Jersey School Boards Association. I'm actually very pleased. If you do get into the mandates, I would ask to be notified. Normally, being in the educational realm, we have generally dealt with the Education Committee. This was an opportunity to come up and express the fear my constituents feel that it's just going to be passed right on to the property taxpayer.

ASSEMBLYMAN DiGAETANO: Assemblyman Solomon.

ASSEMBLYMAN SOLOMON: Yes, I just had a couple of comments. First of all, I'm happy to say that Jane is one of my constituents and a friend, and she happens to be involved in a very fine school district, which my children attend.

ASSEMBLYMAN DiGAETANO: Great.

ASSEMBLYMAN SOLOMON: Having said all that, we all do share your concern about State mandate/State pay, and most of the members, if not all of the members of this Committee, have advocated State mandate/State pay. I'll take it a step further and say, specifically, with regard to schools and school systems, that should be applied equally.

We talked about it in a case in municipalities. Frankly, if the State is going to -- if funding systems are going to be changed in any way, to the extent a mandate requires an appropriation, either the State should pay for it or it should not be a mandate. It should be permissive only. Perhaps the issue of-- All of the issues that we talk about-- There's a lot of dispute about what ought to be encouraged by the State, but if the State wants them done, there ought to be a subsidy, not a mandate. I think that's the direction that this Legislature will go in in the future. I certainly hope it will. If it doesn't, there's going to be an awful lot of concern on my part about the impact on property taxes.

But let me take it one step further. I've heard an awful lot in the past several months about income taxes forcing property taxes up. I, as a member of local government -- as, you know, a local councilman in my town-- We are going to be faced with some very, very, hard choices, in any event, even if this Legislature does what it must do -- or when it does what it must do -- and lift State mandates and give municipalities, school boards, and counties the room within which to make decisions as to how they will best serve their constituents.

Property taxes have been -- even when the Governor raised income taxes -- going up. Property taxes will continue to go up unless local governments, local school boards, and local districts of every kind come to the realization that there is going to have to be some united effort on a voluntary basis to consolidate services; to become more efficient; to economize where possible; and yes, even to make the decisions in the best interests of the residents as to what services they have a responsibility to perform, and what services must, for the sake of the economic development of the town, be cut. Those are very hard decisions that we have to make on the local level.

While there can be a lot of-- It's easy to say. Frankly, in politics we say what's easy to say because you can put it in a sound bite; you can feed it through the air; and it sounds really nice to say, "If income taxes go down, property taxes go up." The explanations to why that's not true take several minutes to respond to. Therefore, the simplistic and incorrect statement that income taxes going down drives property taxes up can almost not be debated coherently before the public, because you can't fit the opposition in a sound bite.

But let me say this: If we are going to succeed, and if we really care about government, everybody is going to have to take responsibility. The simple fact is that if municipalities, counties, and school boards are serious about lifting the property tax burden off our taxpayers in the absence or the presence of increased income taxes, they are going to have to begin to economize, become more efficient, and consolidate services.

I will never advocate forced regionalization, but I will advocate and believe that we should encourage voluntary regionalization of services, and regional consolidation of districts. I have to tell you, that is a responsibility that is going to fall on local municipalities and school boards. I was interested to see, because we're going to take up the challenge. We're taking it up here; we're going to take it up in the General Assembly. I'm as interested to see, when we take up the challenge, if our local governments and our local boards will do the same.

I'm also going to be very interested to see, in the interests of truth and ethics in government -- not an oxymoron, I hope, "truth and ethics in government" -- whether people begin to understand the degree to which the Federal cuts being talked about by the administration -- without any corresponding cut in Federal mandates, in fact, with a substantial increase

in Federal mandates -- cause our cost for our commuter system in the State, which is an excellent one in some areas and not nearly good enough in others, to go through the roof; our welfare costs to go through the roof; our Medicaid costs to go through the roof. I wonder if the Federal government will accept responsibility and take responsibility to correct that problem, just as I think local governments must, and just as this State government not only must, but is.

That comment I'm not directing at you. I know what your feelings are, and I think we agree on the subject. But in response to all of the rhetoric I hear about income taxes going down drives property taxes up, it just is not -- does not work that way.

MS. KERSHNER: Well, just as you said before, I cannot answer you in a sound bite. While it may not compute to you right now, that is how it's going to compute.

ASSEMBLYMAN SOLOMON: Perception is reality in this day and age, through the Chair.

MS. KERSHNER: Before we continue a discussion, for instance, on every single school district reevaluating all of their costs, it might be appropriate to find out exactly how much of their program they locally raise, and or how much they have to raise in order to meet the State mandates.

ASSEMBLYMAN SOLOMON: Absolutely.

MS. KERSHNER: So you're right. Some of it seems to be rhetoric. You need a fuller discussion of it. But with education on the line, and some of the talk that has been made, it is assumed that education is going to take a major hit. If education has to take somewhat of a hit, my point to you is, can we then look at some of the useless mandates that drive our costs up so that it could end up being a win/win?

ASSEMBLYMAN SOLOMON: I realize that I was long-winded about it, but my response is, not only should we, but that's exactly what we intend to do.

MS. KERSHNER: Then our goal is the same, and I have your assurances about the property tax.

ASSEMBLYMAN DiGAETANO: Excuse me?

MS. KERSHNER: Do I have the assurances? Can I take assurances back from you?

ASSEMBLYMAN DiGAETANO: What assurances are you talking about?

MS. KERSHNER: That being forced into giving everybody a 5 percent income tax reduction is not going to mean an automatic increase in property taxes?

ASSEMBLYMAN DiGAETANO: Well, I think I indicated earlier that the Governor stated that pretty emphatically, and we take her at her word. I think I stated that a few times today. However, there are some interesting points being raised. I think along with Assemblyman Solomon's comments, some earlier comments from Assemblywoman Rose Heck, and other members of the Committee, there are certainly areas that need to be looked at. Some have been highlighted just moments ago -- and you even brought some of them up -- whereby money may be saved at the local level simply by eliminating the burden of a State mandate.

MS. KERSHNER: Yes.

ASSEMBLYMAN DiGAETANO: So my idea of State mandate/State pay is the State mandates a new cost, the State pays for it; the State removes an old cost, the State doesn't have to pay for it. Follow? So there can be efficiencies realized at the local level whereby the actual dollars to your school may not -- may not -- be increased, but the benefit to you is increased by virtue of this Legislature eliminating some mandate that you have to pay for.

MS. KERSHNER: And the money can go elsewhere.

ASSEMBLYMAN DiGAETANO: Exactly.

MS. KERSHNER: It can be for teachers and kids.

ASSEMBLYMAN DiGAETANO: Exactly.

ASSEMBLYWOMAN HECK: Or it could be saved.

ASSEMBLYMAN DiGAETANO: Or it could be saved, correct.

MS. KERSHNER: I think really we'd rather spend it on teachers or kids. Now, who do I speak to, to ask that I be invited back when you speak about mandates?

ASSEMBLYMAN SOLOMON: Well, you can just call my office, Jane. We'll give you the whole meeting schedule, and we'll let you know.

ASSEMBLYMAN DiGAETANO: Why don't you just leave your information with one of the Committee Aides, and they'll let you know when we deal with State mandate/State pay.

Last witness, Bill Dressel, League of Municipalities. Promise me you'll be very brief.

W I L L I A M G. D R E S S E L, Jr.: Thank you, Mr. Chairman, members of the Committee. Mr. Chairman, under your leadership this Committee has raced to the vanguard of two important and mutually interdependent issues; they are: fiscal prudence and property tax relief. The bills before you today will test your resolve to continue to work toward those two interrelated objectives. It's important for you to keep the questions of tax cuts in context. Please don't surrender the ground we've struggled so hard to gain in the recent past. Please continue to consider the effect that these initiatives will have on our State's historic overreliance on regressive property taxes.

In the spirit of keeping short and brief, Mr. Chairman, I'm not going to reiterate the pledges that this Legislature has made regarding important programs noted in my testimony. However, I would especially remember your pledge to distribute fully, in accord with permanent statutes, the public utility revenues that you control. Last spring, when the then Treasurer revealed the availability of an additional \$77 million during Fiscal Year '93, the Legislature honored permanent statutes that swiftly helped pass the legislation, which ensured the return of that \$77 million to municipalities.

Rather than appropriating the additional \$67 million which was to be collected during our current fiscal year, however, the Annual Appropriations Act withheld distribution until, "A review of the State's fiscal circumstances in May 1994 determines that such distribution is fiscally prudent." I would urge you to keep that pledge, Mr. Chairman. I'm sure you that you will agree that if the State can't afford not to implement these income tax and corporate tax cuts, then it likewise can't afford not to honor its statutory commitments to property taxpaying citizen in over 567 municipalities.

Mr. Chairman, I agree with the previous speakers that were before you that increased State aid alone is not the total solution. We've indicated time and time again that we need the tools; we need reform and the binding arbitration statutes for fire and police personnel. We need State pay for State mandates.

Mr. Geist is here, a member of the Committee. All the work for State pay for State mandates-- You have worked and labored long and hard on that statute. I hope that we can, in concert, put together a funding mechanism -- a funding proposal -- that is going to continue the property tax relief, but concurrent with that -- along with that, running parallel -- give us the tools; help us. Today, I was very pleased to hear Mr. Kehler, Mr. Woodford, and others acknowledge the private sector coming forward and saying that we have to put an end -- that we have to do something about binding arbitration. So maybe we've got some partners that we can work toward that.

So thank you, Mr. Chairman. I appreciate that.

ASSEMBLYMAN DiGAETANO: We fully intend to, Bill. Again, I'm not sure if it's any consolation to you or not, but again legislation has already been introduced for the gross receipts moneys. I think you know the sponsor's commitment, and I'll reiterate my commitment. I have every reason to believe it will pass the Legislature. I know my colleagues

share that commitment. Assemblyman Pascrell brought this matter to my attention about a week and a half ago, and we're already moving on it. We have every reason to feel optimistic about that, keeping our commitment, Bill.

On State mandate/State pay: I've said it time and again. This Committee will deal with it. I, as the Chairman, will see that the Committee deals with it. Plus, if it reaches arbitration, we will. I invited the school board presidents to bring up any mandates that we could take a look at giving the local districts relief. So this Committee, if none other, but I'm sure there are others as committed to those principles and reform pieces of legislation that you and others have been fighting for, for quite some time.

Assemblyman Geist.

ASSEMBLYMAN GEIST: Thank you, Mr. Chairman. I'll be brief.

Mr. Dressel, you have provided me, as a sponsor of State mandate/State pay, something you should provide to all the members of this Committee; that is, a list of the mandates you believe currently exist.

Mr. Chairman, I believe that perhaps through his guidance, he could provide a price tag for each of those mandates.

Perhaps in a sense, you could give us an incentive program as to which mandates and which price tags, therefore a priority of mandates for elimination, and thus reduce the burden upon the State to finance those mandates. If we eliminate those mandates, we can eliminate that contribution. Perhaps working together we can relieve your burden, relieve our burden, and thus relieve the taxpayers' burden. I look forward to working with you on that cause.

Thank you, Chairman.

ASSEMBLYMAN DiGAETANO: Thank you.

Assemblyman Pascrell.

ASSEMBLYMAN PASCRELL: Through the Chair, with all due respect, Assemblyman, when one begins to add up the mandates which we started to do about three years ago, and with the hope that the State would assume the cost since they mandated it-- Do you have any idea how many millions of dollars we're talking about?

ASSEMBLYMAN GEIST: Mr. Chairman, through you, my goal is to have those mandates eliminated so we can eliminate the responsibility for financing such. Whether they are at the municipal level or at the State level, the less mandates the sooner the better.

ASSEMBLYMAN PASCRELL: So your response -- through the Chair -- to the cliché of State mandate/State pay is to just eliminate the mandates; don't have them anymore; and don't deal?

ASSEMBLYMAN GEIST: Correct.

ASSEMBLYMAN PASCRELL: Well, have you studied what some of those mandates are?

ASSEMBLYMAN DiGAETANO: Gentlemen, we're definitely getting afield of the bills again, and the hour is getting late. This issue will come up again in this Committee. I assure you of that. I, as the Chairman, will see that it does. So we'll have plenty of time to debate it. I do not wish to debate it today. I don't think we really -- either side wants to debate this issue today, because we have a very important package to act on here.

Is there any further comment on A-1, A-2, or A-3?

Assemblyman Bryant, welcome back.

ASSEMBLYMAN BRYANT: Thank you.

ASSEMBLYMAN DiGAETANO: Sorry we missed your press conference, but I'm sure it was worth your while.

ASSEMBLYMAN BRYANT: It was probably worth some time. Hopefully we can learn from some of the things that others think about these bills. I think A-2 deals with the \$7500 that's eliminated. We're going to get a very good proposition

to make sure folks don't have to file income taxes who are hardworking people. I think the one on corporate taxes is good, also, in terms of it was going to go away anyway, so it's not really that significant.

But as for A-1, I think we have to reconsider what it is we're really talking about. It's ironic to me that the total package is about \$300 million. We eliminated about \$300 million in rebates to middle-class taxpayers, and yet if we do across the board-- What I try to get folks to understand is, rates are not what are inequitable, because rates on income tax are based on ability to pay. It seems to me to be ironic that a \$35,000 household raising two kids would get maybe \$35, somebody making \$300,000 would get \$800 back. It just doesn't make any sense to do that. We could better target this by making sure that those who spend money make it.

The other two issues are, we need the economy to grow, because you need folks to spend money. If you spend money, you create jobs. Well, the best people to spend money are folks who are raising families. So if you give it back and you cap what it is that you give folks to spend, middle-class folks who are raising kids will spend money.

Then the other argument on the other side -- I don't know how, there seem to be incongruencies -- is that, I guess, more wealthy people will save money. That's only because our tax policies discourage savings among middle-class people. But if you end up making sure that part of your savings do not have to be taxed, then you can encourage savings among middle-class folks. Therefore our tax policy will then match our rhetoric, and families who own mercedes (indiscernible) middle-class folks. Then other folks will say, "Well, you know what it is? It is the rich that probably-- The CEOs choose places to work or bring their companies based on the taxes." It doesn't make a lot of sense, because if that was the case, New York, or Pennsylvania, or New Jersey wouldn't have anybody, because Delaware has none.

Secondly, it is not the big CEO who creates the jobs in New Jersey, so we should not have that as a fault. It is the small taxpayer who does not move from one place to another, who creates the jobs. It is the small businessman. It is not the guy who is locating for North Carolina or California who creates jobs in New Jersey. So in essence, I'm not worried about the big CEO when he comes in. I'm worried about the small taxpayer.

So I think that at least what they want-- We ought to be very clear about what we should be doing. I would think that we'd want to at least look at (indiscernible) to do things along the lines of making sure that middle-class taxpayers really get the dollars that come out of the bill, or that we want to send back. To do otherwise, I think, is a disservice to those taxpayers. It is really a tax shift from giving them property tax relief some years ago, and taking the same dollars and now giving it to folks who are much more (indiscernible) who've got nothing.

I want to be clear because, you know, many times I think we fail to understand. Somebody making \$300,000, \$800-- Let's not act like there is a -- that that's a good weekend for them; that is an absolutely good weekend at some expensive place for them to do so. But \$200 or \$125 to a family earning \$35,000 means something in terms of spending it on their kids clothing; spending it on their school. It might pay for their books at county college. That's really where I think we ought to be at. It affects more folks.

Encourage savings. We keep talking about this nation doesn't save money versus Japan or Europe. Why? We're one of the few that tax it -- savings. The other folks don't, and we ought to be thinking about that if we really want to do something. Now, what we really ought to talk about-- I think we ought to be in those lines. I just think-- I hope the

Governor's right, that she's not going to raise property taxes. I'll believe it when I see it, but if it doesn't come out--

But let me say this and end with the income tax, because we were talking about this in the back. People talk about the income tax. We've got to wean the municipal government off of State government. Well, if you're going to do that, you're going to have to eliminate the income tax completely -- the whole purpose of the constitutional amendments. For those on this Committee who have not read it, you ought to read the Constitution about it.

So it even has two purposes: Education, if you give back an education, it reduces property tax and property tax relief. Those are the only reasons that you can do the income tax in the State of New Jersey, for those two reasons: Education and property tax relief. Therefore, local governments ought not to be weaning themselves off. That is the purpose of it; that is the purpose of why they voted constitutionally to improve the income tax.

ASSEMBLYMAN DeCROCE: Who said they were right?
(laughter)

ASSEMBLYMAN DiGAETANO: Okay. There's an amendment prepared.

ASSEMBLYMAN BRYANT: You mean the people who vote for it? You mean the people of New Jersey are wrong if they want income versus property taxes?

ASSEMBLYMAN DeCROCE: Right here. The people right here -- the Legislature is wrong.

ASSEMBLYMAN DiGAETANO: Well, I don't know when it was done, so I don't know whether they were right or wrong.

ASSEMBLYMAN BRYANT: Property taxes, income tax -- income taxes in '76 were instituted, but it was a constitutional amendment which was voted on by the people of New Jersey. Now, if you think they're too stupid, that's--

ASSEMBLYMAN DeCROCE: I didn't say that.

ASSEMBLYMAN BRYANT: Fine. You said, "Who said they were right?"

ASSEMBLYMAN DeCROCE: I said the Legislature. Don't twist my words.

ASSEMBLYMAN BRYANT: I just said-- I told you who voted on the constitutional amendment.

ASSEMBLYMAN DeCROCE: I didn't vote on it.

ASSEMBLYMAN BRYANT: The people of New Jersey, they thought that the income tax was something that was appropriate, and it ought to go back to them. That's what they said. It should be for education or property tax relief.

ASSEMBLYMAN DiGAETANO: Gentleman, for the record, we have Assemblyman Bagger and Assemblyman Smith, both of whom had to excuse themselves. Both have asked that their votes be recorded in the affirmative.

There are amendments prepared. There's no sponsorship, but I assume they're minority amendments.

Assemblyman Pascrell.

ASSEMBLYMAN PASCRELL: Mr. Chairman, as the -- has A-1 been moved?

ASSEMBLYMAN DiGAETANO: No, A-1 has not been moved. If you wish to move for amendment--

ASSEMBLYMAN PASCRELL: Do I have to wait until it's moved before I try to amend it?

ASSEMBLYMAN DiGAETANO: No. If you want to move an amendment to A-1, which has been prepared, motion is in order now.

ASSEMBLYMAN PASCRELL: I would like to move an amendment.

ASSEMBLYMAN DiGAETANO: Is there a second?

ASSEMBLYMAN BRYANT: Second.

ASSEMBLYMAN PASCRELL: Oh, wait. Can I tell you what the amendment is?

ASSEMBLYMAN DiGAETANO: Be my guest. We have it in front of us. I assume this is the amendment you are talking about?

ASSEMBLYMAN PASCRELL: Whatever we gave you is what I'm going to be moving, Mr. Chairman. I don't intend to move another amendment that I haven't given to you.

Mr. Chairman, I want to move an amendment which would reflect the wishes of everyone on this Committee -- specifically over the past two years, and particularly under the new session -- to continue to stabilize property taxes in the State of New Jersey by having the State Treasurer certify that whatever we're doing here does not in any way lower State aid to the municipalities. I think it is a reasonable amendment. It is not meant to interfere; it is not meant, in any way, to take any of the weight away from A-1. It does not change the dollar numbers of A-1. It is in the spirit of A-1, and in the spirit of what I've heard around this table not only today, but at other times -- and in that sense, in the spirit of A-1.

I am introducing this amendment. I ask both sides of the aisle, hopefully if it's seconded--

ASSEMBLYMAN DiGAETANO: Well, it was already seconded.

ASSEMBLYMAN PASCRELL: It was seconded?

ASSEMBLYMAN DiGAETANO: Yes.

ASSEMBLYMAN PASCRELL: To support this amendment, which I believe everyone has in front of them right now. I'm prepared to ask -- answer any questions.

ASSEMBLYMAN DeCROCE: Mr. Chairman, I move to table this motion. I only wish that this motion would have been in effect when the \$2.8 million was raised three or four years ago, and maybe we wouldn't have had to go through this whole measure.

ASSEMBLYMAN DiGAETANO: There is no discussion on motion to table. Is there a second?

ASSEMBLYWOMAN HECK: Second.

ASSEMBLYMAN DiGAETANO: Second. Call the role on the motion to table.

MR. SALLACH: On the motion to table the motion to amend, Assemblyman Pascrell?

ASSEMBLYMAN PASCRELL: Absolutely, no.

MR. SALLACH: Assemblyman Bryant?

ASSEMBLYMAN BRYANT: No.

MR. SALLACH: Assemblyman Solomon?

ASSEMBLYMAN SOLOMON: Yes.

MR. SALLACH: Assemblywoman Ogden?

ASSEMBLYWOMAN OGDEN: Yes.

MR. SALLACH: Assemblywoman Heck?

ASSEMBLYWOMAN HECK: Aye.

MR. SALLACH: Assemblyman Geist?

ASSEMBLYMAN GEIST: Yes.

MR. SALLACH: Assemblyman DeCroce?

ASSEMBLYMAN DeCROCE: Yes.

MR. SALLACH: Chairman DiGaetano?

ASSEMBLYMAN DiGAETANO: Yes.

MR. SALLACH: Motion is tabled.

ASSEMBLYMAN DiGAETANO: Assemblyman Solomon.

ASSEMBLYMAN SOLOMON: Since we didn't have a chance to discuss the potential amendment, let me suggest this from my individual perspective. I absolutely would consider this kind of an amendment to this legislation. However, what this amendment does, or would do with the changing of the bill in this way, would prevent the State or the State Treasurer, where they found pursuant to investigation, audit, or information that money was in fact being wasted, ill-used, or not reaching the taxpayers it was intended to reach; that they would effectively not be able to reduce that municipal aid program. That I have a problem with, because where State funds are appropriated for a particular purpose and are not reaching the people intended to be benefited, I think we need to take a hard look at those kinds of programs and those kinds of benefits.

Having said that, if we first take that long, hard look, I would then support this kind of an amendment to the legislation. If it was subject to some other finding that, in fact, the dollars were fulfilling the purpose for which they were intended, then I would support this kind of an amendment. But we don't have that preliminary finding, and having said that--

ASSEMBLYMAN PASCRELL: Mr. Chairman?

ASSEMBLYMAN DiGAETANO: Assemblyman Solomon, this amendment has already been on the table, so it's not a subject of discussion. But since you did, I'll allow the sponsor a moment to respond.

ASSEMBLYMAN PASCRELL: In your typical charitable fashion, Mr. Chairman, I appreciate that.

ASSEMBLYMAN DiGAETANO: Courtesy, not charity.

ASSEMBLYMAN PASCRELL: Charity. I think Assemblyman Solomon has raised and fortified basically what we're saying here. But I want to bring -- if I may, through the Chair -- the Assemblyman's attention to the sixth line, because we're talking here about State aid program classifications. I believe that speaks to the issue, which is a relevant issue that you just brought up, in terms of if State aid is being misspent. I would question whether any State aid should go to a municipality -- I'm going to be very frank with you -- except in catagorical aid, which has nothing to do with the municipality anyway.

ASSEMBLYMAN DiGAETANO: Frankly, Assemblyman Pascrell, I think that this bill is going to go to Appropriations, and I know that you're going to have an opportunity to bring that discussion up again. You do still sit on -- isn't that correct?

ASSEMBLYMAN PASCRELL: No, I don't sit on Appropriations.

ASSEMBLYMAN DiGAETANO: Oh, you don't? Oh, I'm sorry. I take it back, then.

ASSEMBLYMAN PASCRELL: I wanted to follow you to Policy and Rules.

ASSEMBLYMAN DiGAETANO: You're in the right place, then.

Is there a motion on A-1?

ASSEMBLYMAN GEIST: Mr. Chairman, may I have the privilege of moving my legislation with Speaker Haytaian?

ASSEMBLYMAN DiGAETANO: Mr. Sponsor, consider it moved.

ASSEMBLYMAN GEIST: Thank you, Mr. Chairman.

ASSEMBLYMAN DiGAETANO: Seconded by Assemblywoman Ogden.

ASSEMBLYMAN GEIST: Thank you, Maureen.

MR. SALLACH: On the motion to report, Assemblyman Pascrell?

ASSEMBLYMAN PASCRELL: Yes.

MR. SALLACH: Assemblyman Bryant?

ASSEMBLYMAN BRYANT: I'm not voting. Hoping that you'll improve it for middle-class taxpayers.

MR. SALLACH: Assemblyman Solomon?

ASSEMBLYMAN SOLOMON: Yes.

MR. SALLACH: Assemblywoman Odgen?

ASSEMBLYWOMAN OGDEN: Yes.

MR. SALLACH: Assemblywoman Heck?

ASSEMBLYWOMAN HECK: Aye.

MR. SALLACH: Assemblyman Geist?

ASSEMBLYMAN GEIST: Yes.

MR. SALLACH: Assemblyman DeCroce?

ASSEMBLYMAN DeCROCE: Yes.

MR. SALLACH: Chairman DiGaetano?

ASSEMBLYMAN DiGAETANO: Aye.

I might reiterate that Assemblyman Bagger and Assemblyman Smith's votes have been recorded in the affirmative. That bill has been reported with recommendations.

On A-2, is there a motion?

ASSEMBLYMAN DeCROCE: Move A-2.

ASSEMBLYMAN DiGAETANO: Moved by Assemblyman DeCroce;
seconded by Assebmlywoman Odgen.

On the bill?

MR. SALLACH: On the motion to report, Assemblyman
Pascrell?

ASSEMBLYMAN PASCRELL: Yes.

MR. SALLACH: Assemblyman Bryant?

ASSEMBLYMAN BRYANT: Yes.

MR. SALLACH: Assemblyman Solomon?

ASSEMBLYMAN SOLOMON: Yes.

MR. SALLACH: Assemblywoman Ogden?

ASSEMBLYWOMAN OGDEN: Yes.

MR. SALLACH: Assemblywoman Heck?

ASSEMBLYWOMAN HECK: Aye.

MR. SALLACH: Assemblyman Geist?

ASSEMBLYMAN GEIST: Yes.

MR. SALLACH: Assemblyman DeCroce?

ASSEMBLYMAN DeCROCE: Yes.

MR. SALLACH: Chairman DiGaetano?

ASSEMBLYMAN DiGAETANO: Aye.

I will repeat the same advisement on Assemblyman
Bagger and Assemblyman Smith's votes on this. That bill has
been reported with recomendations.

On A-3, is there a motion?

ASSEMBLYMAN SOLOMON: Will do.

ASSEMBLYMAN DiGAETANO: Moved by Assemblyman Solomon;
seconded by Assemblyman Geist.

MR. SALLACH: On the motion, Assemblyman Pascrell?

ASSEMBLYMAN PASCRELL: Yes.

MR. SALLACH: Assemblyman Bryant?

ASSEMBLYMAN BRYANT: Yes.

MR. SALLACH: Assemblyman Solomon?

ASSEMBLYMAN SOLOMON: Yes.

MR. SALLACH: Asemblywoman Odgen?

ASSEMBLYWOMAN OGDEN: Yes.

MR. SALLACH: Assemblywoman Heck?

ASSEMBLYWOMAN HECK: Aye.

MR. SALLACH: Assemblyman Geist?

ASSEMBLYMAN GEIST: Yes.

MR. SALLACH: Assemblyman DeCroce?

ASSEMBLYMAN DeCROCE: Yes.

MR. SALLACH: Chairman DiGaetano?

ASSEMBLYMAN DiGAETANO: Aye.

Again, I advise you Assemblyman Bagger, Assemblyman Smith's votes have been recorded in the affirmative. That bill has been reported with recommendation, as well.

Thank you very much. These bills will be heard, as I said earlier -- Assembly Appropriations Committee. I believe that is next Thursday.

Meeting stands adjourned.

(MEETING CONCLUDED)

APPENDIX

COMPARISON OF CORPORATE INCOME, INDIVIDUAL INCOME AND SALES TAXES

Coopers & Lybrand

CORPORATE TAXES

	NEW JERSEY	NEW YORK	CONNECTICUT	PENNSYLVANIA
Tax Rate:	9.375% ¹	9.9%	11.50%	12.25%
Net Worth Tax:	None	.178%	.31%	1.275%
Tax Base:	FEDERAL TAXABLE INCOME PLUS ADDITIONS WHICH INCLUDE: State Income Taxes 90% of Interest Expense Owed to Shareholders	FEDERAL TAXABLE INCOME PLUS ADDITIONS WHICH INCLUDE: State Income Taxes Deductions Attributable to Subsidiary Capital	FEDERAL TAXABLE INCOME PLUS ADDITIONS WHICH INCLUDE: State Income Taxes	FEDERAL TAXABLE INCOME PLUS ADDITIONS WHICH INCLUDE: State Income Taxes
Available Credits Against Tax Include:	Urban Enterprise Zone Tax Credits Manufacturing Equipment and Employment Investment Tax Credit Research and Development Credits	Economic Development Zone Credits Investment Tax Credit	Enterprise Zone Manufacturing Facility Credit New Manufacturing Facility Credit Research and Development Credits Air Pollution and Industrial Waste Treatment Facilities Credits	
Tax Rate:	6.0%	6.0% - 8.5% ²	6.0%	6.0% ³
Tax Base:	Retail Sales of Tangible Personal Property and 7 Categories of Services Including: Installation, Maintenance and Repair Services Advertising Services Processing and Printing Services Interstate and Intrastate Telecommunications	Retail Sales of Tangible Personal Property and 9 Categories of Services Including: Most Installation and Repair Services Most Processing and Printing Services Most Information Services Intrastate Telecommunications	Retail Sales of Tangible Personal Property and 33 Categories of Services Including: Repair and Maintenance Services Certain Transportation Services Credit Information, Computer, Advertising and Certain Professional Services Intrastate and Interstate Telecommunications	Retail Sales of Tangible Personal Property and 13 Categories of Services Including: Repair and Cleaning Services Other Services Including Lobbying, Collection, Secretarial and Computer Services Intrastate and Interstate Telecommunications
Exemption for Manufacturing?	YES	YES	YES	YES
Tax Rates:				
Married Filing Jointly:	7.0% @ \$150,000 ⁴	7.59% @ \$25,000	4.5%	2.8%
Single Taxpayers:	7.0% @ \$75,000	7.59% @ \$12,500	4.5%	2.8%
Threshold Exemption:	\$3,000	\$10,800	\$24,000	None
Tax Base:	Enumerated Categories of Income Less Medical Expenses and Alimony No Itemized Deductions	Federal Adjusted Gross Income Plus or Minus Various Adjustments Less Standard or Itemized Deductions	Federal Adjusted Gross Income Plus or Minus Various Adjustments No Itemized Deductions	Enumerated Categories of Income No Itemized Deductions
Available Credits Against Tax Include:	Homestead Credit for Tenants	Investment Tax Credit Household Credits Child and Dependent Care Expense Credits Economic Development Zone Credits Credit for Shareholders of S Corporations		

THE PURPOSE OF THIS CHART IS TO PROVIDE COMPARISONS OF ONLY CERTAIN ASPECTS OF CORPORATE, INDIVIDUAL AND SALES TAXES. THIS CHART IS NOT COMPREHENSIVE IN ITS COVERAGE OF THE RESPECTIVE ASPECTS DISCUSSED ABOVE, AND SHOULD NOT BE RELIED UPON FOR COMPLETENESS.

¹ The surtax of .375% is scheduled to expire for periods ending after June 30, 1994.

² The state tax rate is 4%. Combined local rates generally range from 2 - 4.5%.

³ An additional 1% sales and use tax is imposed in the city of Philadelphia.

⁴ The highest marginal rates are shown for income exceeding the specified amounts.

⁵ Listed are the amounts above which married taxpayers filing jointly are subject to personal income tax based on minimum thresholds or standard exemptions.

XI

Legislative Viewpoint



JOHN E. TRAFFORD, Executive Director
WILLIAM G. DRESSEL, JR., Asst. Executive Director
JON R. MORAN, Senior Legislative Analyst
CHRISTOPHER CAREW, Legislative Analyst
HELEN YELDELL, Legislative Analyst

February 10, 1994

Re: Administration Income and Corporate Tax
Initiatives

Dear Member of the Assembly Policy & Rules Committee:

Under the leadership of your Chairman, Assemblyman Paul DiGaetano, this Committee has raced to the vanguard on two important, and mutually interdependent, issues. They are fiscal prudence and property tax relief. The bills before you today will test your resolve to continue to work toward those two interrelated objectives.

It is incumbent upon you to keep the question of tax cuts in context. Please, don't surrender the ground we've struggled so hard to gain in the recent past. Please, continue to consider the effect that these initiatives will have on our State's historic over-reliance on regressive property taxes.

Remember your commitment to provide a life-line to our most deserving municipalities through the Municipal Revitalization Program. Remember your efforts to meet the needs of our diverse municipalities through Urban Aid and Rural Aid Funding. Remember your efforts to stem the blight of crime with Safe and Clean programs. Remember the fact that the Supplemental Municipal Property Tax Relief Act has consistently delivered on its promise of a dollar's worth of property tax relief for every dollar distributed. Remember the promises that were made when the State made itself the collection agent for traditional municipal revenues like the Business Personal Property Tax, Railroad Taxes, the Bank Stock Tax and, most significantly, the Public Utility Gross Receipts and Franchise Taxes.

Especially remember your pledge to distribute, fully, in accord with permanent statute, the Public Utility Revenues that you control.

Last Spring, when the then-Treasurer revealed the availability of an additional \$77 million during FY'93, the Legislature honored permanent statute. It swiftly passed legislation which ensured the return of that \$77 million to municipalities.

Rather than appropriating the additional \$67 million which was to be collected during our current fiscal year, however, the Annual Appropriations Act withheld distribution until "... a review of the State's fiscal circumstances in May, 1994... determines that such a distribution is fiscally prudent."

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(over)

I am sure you will agree that if the State can't afford not to implement these Income Tax and Corporate Tax cuts, then it likewise can't afford not to honor its statutory commitments to the property taxpaying citizens of our 567 municipalities.

The League, as always, stands ready to work with you. Thanks, as always, for your hard work on behalf of us all.

Very truly yours,



William G. Dressel, Jr.
Assistant Executive Director

WGD:es

**TESTIMONY OF
CAMDEN COUNTY FREEHOLDER DIRECTOR VINCENT P. SARUBBI
FOR THE NJ GENERAL ASSEMBLY POLICY & RULES COMMITTEE
FEBRUARY 10, 1994**

First I would like to thank the members of the committee for accepting my statement. Unfortunately my plans to testify before you today were disrupted due scheduling conflicts the weather has created for many of us. However, I felt it imperative that on behalf of the Camden County Board of Chosen Freeholders that I tell you of our efforts to hold the line on property taxes, cut waste and bloat from government and utilize innovative and creative methods for reinventing the norms of government that we once knew and no longer can afford as taxpayers nor as a community.

My statement is simply this: in Camden County we applaud the idea of stabilizing taxes, and that includes income tax as well as property tax. We have worked and will continue to be diligent in our efforts to reduce the burden on our taxpayers while not compromising the high-quality services they receive.

This year, 1994, we face a situation where county government cannot afford any reduction in current state funding levels we receive for services in order to maintain property tax relief to Camden County residents, while at the same time continue to provide over \$100 million of state and federally mandated services we are responsible for providing with no funding attached to those mandates. If there is any assumption that governments at the local level have not done their fair share of carrying the burden with regards to holding the line on taxes, that assumption is false.

BOARD OF
CHOSEN FREEHOLDERS



Camden County

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VINCENT P. SARUBBI
Freeholder Director Sarubbi
Freeholder Director
Statement to Assembly Policy & Rules Committee

In 1992, my first year as a Freeholder, the board reduced the county's budget from the 1991 from \$227.7 million to \$225.4 million, a decrease of over \$5 million in the amount to be raised by taxation from homeowners. Again, in 1993 we reduced the county's budget to \$223.6 million, continuing to lower the amount of funds to be raised by taxation from county property taxpayers. These budget reducing measures took creativity, and while we learned to downsize government, privatize, look toward regionalization of services and take advantage of a sluggish market with regards to refinancing, we did not cut the level of services this county provides but worked harder to increase the level of services, which approximately 80% are mainly mandated by state and federal government.

The 37 municipalities that comprise Camden County face a budget battle everyday. And, of those municipalities that have had to increase their property tax rate have had to do so because they are burdened, as is county government, with unfunded, mandated services by both the state and federal government. Municipalities, as well as county government cannot afford a reduction in state aid, nor continue funding the mandated services without a detrimental result to the property taxpayer. In Camden County, if there were a reduction in state aid, the results could be staggering, not only to the property taxpayer, but to the resident who receives invaluable services and programs that make a community whole and self-sufficient, ie. substance abuse treatment, day care vouchers for working parents and job training and retraining programs.

Therefore, I respectfully ask you to take notice of what Camden County has accomplished in two short years and realize without current levels of state funding to this county and its municipalities, it would be near impossible for us to continue to ensure



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VINCENT P. SARUBBI
Freeholder Director Sarubbi
Freeholder Director

Statement to Assembly Policy & Rules Committee

property tax relief to our residents. I urge you, when the budget is submitted to the Governor as well as the people of New Jersey that you not forget the property taxpayer, the homeowner who has worked their entire life for the dream of keeping a roof over the heads of their family, and who fears a property tax increase that would turn their dream into a nightmare. And, finally I urge you to end the practice of continually mandating county and municipal government to provide programs and services without funding those services.

Camden County has not relinquished its responsibility to taxpayers and will continue to do its fair share to hold the line on taxes and government spending, as we have for the past two consecutive years.

Thank you.

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