FIFTH REPORT

OF

The Commission on State Tax Policy

TAXATION

AND

PUBLIC POLICY

IN

NEW JERSEY

State of New Jersey
Trenton
1950

REPORTS OF THE COMMISSION ON STATE TAX POLICY

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REPORT OF THE COMMISSION ON TAXATION OF INTANGIBLE PERSONAL PROPERTY (Trenton, 1945) and PUBLIC HEARINGS (November, 1944).

FIRST REPORT OF THE COMMISSION ON STATE TAX POLICY (Trenton, 1946)—*the taxation of financial businesses.*

SECOND REPORT OF THE COMMISSION ON STATE TAX POLICY (Trenton, 1947)—*the taxation of tangible personal property and the Corporation Business Tax Act (1945).*

THIRD REPORT OF THE COMMISSION ON STATE TAX POLICY (Trenton, 1948)—*the taxation of New Jersey Railroads.*

FOURTH REPORT OF THE COMMISSION ON STATE TAX POLICY (Trenton, 1948)—*financing a State bonus for veterans of World War II.*

FIFTH REPORT OF THE COMMISSION ON STATE TAX POLICY (Trenton, 1950) and PUBLIC HEARINGS (December, 1949)—*taxation and public policy in New Jersey.*

STATE OF NEW JERSEY

FIFTH REPORT

OF

The Commission on State Tax Policy

TAXATION AND PUBLIC POLICY IN NEW JERSEY

Submitted to the Governor and to the Legislature
April 14, 1950

TRENTON, NEW JERSEY

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STATE OF NEW JERSEY

COMMISSION ON STATE TAX POLICY

[*Laws of 1945,* Ch. 157, as amended]

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ENABLING RESOLUTION

STATE OF NEW JERSEY

Laws of 1949, J. R. No. 3

A Joint Resolution directing the Commission on State Tax Policy to undertake a comprehensive study of the entire State and local tax structure and to report thereon to the Governor and to the Legislature.

Whereas, The growing demands upon government, as well as the rising costs of the goods and services purchased by government, have caused the burden of Federal, State and local taxes to mount steadily from year to year; and

Whereas, These major tax requirements have made it more important than ever that there be a fair and equitable distribution of the tax burden within each State, and a proper allocation of tax resources among the Federal, State and local governments, if we are to eliminate unnecessary duplication, overlapping and waste in the administration of governmental taxing powers; and

Whereas, A systematic review of the entire tax structure is essential to provide the basis for the most efficient administration and use of the existing property tax and the general and special excise taxes, and for a simplification and co-ordination of the State and local tax systems and fiscal relations; and

Whereas, The Commission on State Tax Policy established by chapter one hundred fifty-seven of the laws of one thousand nine hundred and forty-five, including its predecessor of the same membership, the Commission on Taxation of Intangible Personal Property (Laws of 1944, Joint Resolution No. 4), has rendered invaluable service to the Governor, the Legislature and the people of this State in a wide range of general and special tax problems which have been referred to it, and in the course of such work has developed a rich background of materials, a broad understanding of the workings of our present tax system, and a special competence to undertake an over-all tax study; now, therefore

Be it resolved *by the Senate and General Assembly of the State of New Jersey:*

1. The Commission on State Tax Policy is hereby directed to undertake a comprehensive study of the entire State and local tax structure, of its relationship to the tax systems of the Federal Government and of other States, and of its impact upon the residents, business, and economy of this State. The com-

mission shall report the results of its study and recommendations to the Governor and Legislature not later than the regular session of the one hundred seventy-fourth Legislature.

2. The commission shall issue such report or reports to this and to succeeding Legislatures as the progress of its work may permit and as it may deem necessary or desirable. In the course of such report or reports, the commission, among such other matters as it may deem appropriate, shall recommend: the manner in which the burden of State and local tax requirements may be more fairly and equitably distributed; methods and procedures for simplifying and co-ordinating State and local taxes and to provide for their most efficient administration; and an appropriate allocation of taxing power as among State, county and local governments.

3. In addition to such other powers as may be conferred upon the commission by law, it shall have power to require any and all State, county, school and municipal officials concerned with the levy, assessment or collection of any State or local tax to provide such information, in such form and manner and at such time or times, under oath or otherwise, as the commission may deem necessary to accomplish the purposes of this resolution. It shall be the duty of all such officers to assist and co-operate with the commission and, within the limits of available facilities, to provide the commission and its authorized agents and employees with necessary books, papers, documents, records, clerical and technical assistance, and any other services or information relating to taxation, as it may require, and without the payment of any costs, fees or charges whatsoever.

4. The county clerks, registers of deeds, and all other recording officers of the respective counties shall, within the limits of their appropriations and facilities, upon request, provide the commission with such information, data and reports as it may require for the study and analysis of any tax or taxes or of any matter reasonably related thereto, without any cost, fee, or charge whatsoever.

5. The commission may incur commitments and authorize expenditures for the purposes of this resolution within the limits of such appropriation for the uses of the commission as may be included in the general appropriation act.

6. This resolution shall take effect immediately.

Approved March 29, 1949.

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LETTER OF TRANSMITTAL

To His Excellency, Governor Alfred E. Driscoll, and Members of the One hundred and Seventy-fourth Legislature:

The 1949 session of the Legislature (Joint Resolution No. 3) directed the *Commission* on State Tax Policy to undertake a comprehensive study of the entire State and local tax structure and to report thereon to the Governor and the Legislature not later than the regular session in 1951. The preamble recited the growing service demands and increasing taxes at Federal, State and local levels and emphasized the importance of an equitable distribution of the burden and a proper allocation of tax resources as among the various taxing authorities.

The *Commission* was thereupon directed to undertake a comprehensive study and to recommend:

> "The manner in which the burden of State and local tax requirements may be more fairly and equitably distributed;
>
> Methods and procedures for simplifying and co-ordinating the State and local taxes and to provide for their most efficient administration; and
>
> An appropriate allocation of taxing power as among State, county and local governments."

The responsibilities of the *Commission* under this directive can only be understood within the fiscal and political environment of the 1949 Legislature and the ensuing gubernatorial campaign. It was with the greatest difficulty that the 1949-50 State budget was balanced. This required an anticipated transfer of highway funds to the extent of some $19 million (of which some $10 million was actually used) and it was thought that the budget for the fiscal year 1950-51 would require additional revenues. Ostensibly the Legislature wanted a complete survey of the present fiscal situation before considering "new taxes"; expressed an awareness of the flagrant inequities in the present fiscal "system"; and implied a studied revision of the tax structure with a view to the more adequate finance of public services and a more equitable treatment of the taxpayers. But in May the two major party platforms showed a definite reluctance to encourage the promise of Joint Resolution No. 3.

Governor Driscoll's budget message to the Legislature on February 13, 1950, again recommended a balanced budget on the basis of severe economies, no new taxes and a second transfer of highway funds as a balancing item to the general fund—this time some $22 million. The Governor told the Legislature:

> "In my inaugural address to the Legislature in 1947, I stressed the need for modernization of our inadequate tax and assessment systems. In subsequent messages to the Legislature I have emphasized the dangers inherent in the present method of assessing and taxing property in this State.
>
> Our new Constitution has presented new opportunities for the classification of property and the development of a fair and equitable tax and assessment system. It is my hope that the forthcoming report of the State Tax Policy Commission will constitute a basis for a successful solution of these pressing problems."

* * *

It is against this background that the *Commission* files the accompanying report. During its five years of existence it has relied upon certain established policies to guide its recommendations, and it has never felt justified in departing from them:

> (1) The *Commission* is not a revenue raising body—its function is to seek equality of tax treatment as among taxpayers and taxing jurisdictions;
>
> (2) It can make no recommendations the validity of which cannot be determined by accepted techniques of study and research; and
>
> (3) It cannot express opinions on purely political questions nor will it submit positive recommendations on subjects which have no hope of serious legislative consideration.

There is considerable evidence indicating that the present temper of public thinking is entirely unsuited to any large scale tax adjustments involving the creation of new tax bases. The extensive study undertaken by the *Commission* during the past year has therefore been reduced to an over-all analysis of the present tax situation within the State and the implications of suggested changes that may guide future thinking on the subject. It is the *Commission's* hope that after a period of consideration and discussion of this material, a basis may be laid for some of the adjustments so essential to the equitable treatment of taxpayers in a great industrial State.

* * *

The State of New Jersey is completely lacking in a long range fiscal policy. Over the past fifteen years its financing has been on the basis of sheer expediency. Neither taxpayer, State administrator, municipal or county official nor school supervisor has known from year to year what his financial responsibilities would be and each session of the Legislature has created the greatest apprehension among tax paying and tax spending units alike.

Not only is there no clearly defined fiscal policy, there is likewise no basic fiscal philosophy. "Ability to pay" that has guided the tax policy of both the Federal Government and some of the leading industrial States has almost no place in the tax thinking or tax practice of New Jersey. In place of this, ownership of property—among the most regressive of all tax bases—has been the unformulated standard of tax equity throughout the State. Its application accounts for 66 per cent of all State and local taxes and for 92 per cent of all local taxes. Aside from a few heavily taxed special groups—banks, insurance companies, utilities and railroads—and a small medley of taxes based upon "benefits" or excises, there is no tax base of significance to the taxpayer except the property tax. This has led to a mass of inequities that are almost unbelievable as the basis for the support of public services in a modern industrial State:

> The individual citizen pays nothing toward the support of the general services of his State Government unless he buys a package of cigarettes, gambles at the pari-mutuels, buys a little liquor, or dies.
>
> A citizen can own a million dollars' worth of high-yield securities and pay not a nickel to either State or local government; but if he owns a million dollars' worth of real estate and improvements he pays an average of 6 per cent to a variety of local taxing districts.
>
> A corporation that owns little or no property pays only a most modest tax of eight-tenths of a mill on its allocated net worth. Indeed, 42,000 corporations in New Jersey, among them the greatest in the country, pay a total of

between $7 million and $8 million each year to the State—40 per cent of this from 85 corporations. This is an anomaly among the tax structures of industrial States.

On the one hand, highway users are now supporting general State Government to the extent of 25 cents out of every dollar and are facing a possible Federal penalty of $3 million a year for this doubtful privilege; on the other, some $50 million from the general property tax is "diverted" each year by municipalities in the form of expenditures on municipal streets and roads, their maintenance and policing.

The administration of the general property tax (real estate and improvements) is a chaos. On the business side it is a matter of a more or less gentle bargaining process that over the years has created a host of insecure but "favorable" conditions; and on the home owners' side, a steadily mounting tax rate to take up the slack.

Personal property taxation has long ago lost even a semblance to a "system":

> Tangible business personalty—inventories, machinery and equipment—is assessed from zero to whatever the traffic will bear; and is used, in many places as a "balancing item" to protect the real estate levy. This abuse is widely known as "tax lightning."
>
> Household personalty—furniture, equipment and personal effects—is almost everywhere assessed at a nominal sum that has no reference whatever to the base.
>
> Intangibles—stocks, bonds, notes, mortgages, etc.—in the hands of individuals are entirely exempt; and the small corporate net worth tax (referred to above) is in lieu of a tax on intangibles, corporately held.

It seems needless to recapitulate these conditions—and there are many more. They have been emphasized on innumerable occasions over a long period of years. Governors have labored with them time and again. Governor Driscoll fought hard for a modification of the conventional platform pledge against all new taxes but could gain little support for the plank during his campaign. The temper of the State seems to be this—we recognize all of these things, we are ashamed of them, they should be remedied—but *without new taxes (except additional property taxes)*. And even those groups who are constantly advocating "broader tax bases" do so on the grounds of more money for their special spending interests, but with little regard to the correction of inequities which have so long marred the tax policies of the State.

This attitude has been intensified during the past few years. It is not only a stubborn reluctance to face the facts that has stopped all efforts to modernize the State's tax structure. There is also a basic but inarticulate fear of what the implications of widespread tax adjustments may mean. The citizens of New Jersey seem to be torn between two dilemmas:

> *First,* a desire to remedy the gross inequities of their tax structure and to place the financing of their public services on a known and defensible basis;
>
> *Second,* a fear of opening the State to a flood of broad base taxes with their implications of large central financing, high pressure expenditure programs, and little over-all relief from present burdens.

This the *Commission* would emphasize is no idle fear. Other States have undertaken these steps and are no happier than New Jersey. Still others have temporized, as New Jersey has, and while few have held the line as rigidly, many have operated with comparatively narrow bases at the State level. There is a growing fear of bigness in government and bigness is measured in large part by fiscal resources. But it cannot be shown that New Jersey has exercised any more restraint in expenditure policies than States with broad base taxes. New Jersey spends almost as much per capita for government as do other highly developed industrial States. It is true that its per capita State tax collections are the lowest of any State in the Union. But this is no evidence of over-all economy. It is merely a reflection of fiscal policy—namely, the great bulk of its public money is locally raised and locally spent, and the "new taxes" appear year after year in increased local property levies instead of in the more conventional State administered taxes. These are important considerations and set certain questions which are fundamental to basic tax policy:

Does the State of New Jersey wish to remain predominantly a property tax State? or does it wish to shift in part at least to an activity tax base?

Does it wish to maintain its major fiscal support at local levels? or does it wish to enlarge the responsibility of the State through increased central financing?

Does it wish a broad base of individual support for both State and local services? or does it wish to draw its major fiscal support from special tax groups—corporations, selective sales and special buisnesses?

* * *

Let us assume that general property will be the principal base for the support of local government for a long time to come. It does not have to be the only base nor does it have to be an erratic base; but it will continue to be the dominant base because it is the only permanent, immovable, assessable asset common to all communities. The first requirement, therefore, to a sound tax structure is obvious—put the property tax in order. This suggests—

A new approach to the present vaguely defined "true value" measure—a step permitted for the first time by the new constitution.

Centralized supervision of assessments by the State, county or both—as now required by law but a dead letter in practice.

The correction of inequities in the personal property tax—that is, the tax on business personalty (inventories, machinery and equipment); household personalty (furniture, equipment and personal effects); and farm personalty (livestock, machinery and equipment).[1]

If local assessment is to continue, the machinery for the establishment of equalized assessments as among taxing districts, both for the fair apportionment of the county tax and for the fair distribution of State aid based upon ratables, is of first importance. This, also, is a matter of much law and little practice.

These are serious suggestions and would require that equally serious steps be taken to answer problems inherent in the reconstruction of the property tax. The effect of a new approach to true value in the readjustment of the personal property tax would doubtless promote equality of treatment. It would also have an uneven effect on local tax revenues. Careful planning could minimize this, but it is never possible to raise the same amount of money from different tax bases, and have the results fall evenly on a multiplicity of taxpayers or tax jurisdictions. *From the viewpoint of State finance, moreover, the fully effective use of the general property tax might well reduce the need for further grants-in-aid.*

[1] Alternative ways of treating this problem are discussed in Chapters III and V of this report.

The removal of personal property from the general property base would cost the municipalities (1949) as a whole about $46.6 million—household goods, $7.5 million; farm stock and farm machinery, $0.7 million; business inventories, $22.4 million; and other business personalty, including machinery and equipment, $16 million. As a practical matter any loss of revenue to the municipalities would have to be absorbed or replaced, and many devices have been used to reduce the impact of large changes in the property tax base:

The use of State-collected locally shared taxes to "replace" losses in local revenues;

The increased use of grants-in-aid for special services—particularly for highways, schools and welfare;

The reallocation of services from municipal to county levels and from county to State levels;

The creation of new tax bases for the use of municipalities in lieu of taxes on general property; and

The imposition of "tax limits" or "expenditure limits" to protect the property tax from undue pressures.

These are the conventional ways in which large scale adjustments in the property tax have been achieved with varying success in States which have faced the problem. It will be recalled that the *Commission* recommended a modest beginning in its 1947 report. It proposed that machinery and equipment used in business be assessed at book value by the State at rates keyed to the local levy; and that inventories be exempt from taxation, and their yield replaced by a 2 mill gross receipts tax—the proceeds of both taxes to be turned back to the municipalities. In spite of a favorable recommendation from the Governor, no substantial support for this proposal was developed from any other source, with the result that even this modest beginning in property tax reform collapsed in the discussion stage. The tax clause of the new constitution subsequently opened the way to a more flexible method of treatment.

This brings us, therefore, to the first question:

Does the State of New Jersey wish to remain predominantly a property tax State? or does it wish to shift in part at least, to an activity base?

If it wishes to remain predominantly a property tax State (with "no new taxes" other than the annual increases in the property tax rate), it need do no more than improve the administration of the general property tax in the interest of equitable treatment, increased yields, and stability of revenue. If, however, it wishes to both redefine and to "relieve" the property tax, a new tax structure will be necessary, and there are only four taxes which either singly or in combination would provide the sums necessary for major adjustments—a corporation net income tax, an individual net income tax, a gross receipts tax, or a consumers sales tax.

* * *

There is no comparable industrial State that has so many undeveloped tax bases as New Jersey. This is true, as has been emphasized, because New Jersey has used, substantially, only one base—property. Thirty-four States now have corporate net income taxes. Thirty-two States now have personal net income taxes; gross income or gross receipts taxes upon selected taxpayers are present in some form in a large number of States; and 4 States have general gross receipts taxes as a major State tax—one in combination with a personal income tax and 2 in addition to a retail sales tax. Twenty-eight States have consumers sales taxes and 18 States have both corporate and individual net income taxes and consumers sales taxes as well. If a replacement program were undertaken, or if new and important revenues were necessary for other purposes, these are the sources which would, of necessity, be considered:

1. A corporation net income tax would raise about $12 million for each 1 per cent in the rate.
2. A personal net income tax with the following exemptions and rates would raise a maximum of $42 million:

Exemptions	*Rates*	*Yield*
Single, $1,000	First $5.000—1%	$30 million
Married, $2,500	Next 5,000—2%	
Dependents, $400	Over 10,000—3%	
	First $1,000—1%	$42 million
	Next 4,000—2%	
	Next 5,000—3%	
	Over 10,000—4%	

3. A gross receipts tax—for manufacturing, 1/4%; for wholesaling, 1/4%; for retailing, 1/2%—$3,000 exemption: for individuals and other business, 1%—$1,000 exemption, would raise a minimum of $75 million.
4. A consumers sales tax for each 1 per cent (no exemptions) would raise $44 million; for each 1 per cent (food exempted) would raise $31 million.

In appraising these taxes on a comparative basis with 7 other industrial States—4 in the East (Massachusetts, Connecticut, New York and Pennsylvania) and 3 in the Middle West (Ohio, Indiana and Illinois)—the position of New Jersey becomes clearer. New York and Massachusetts apply net income taxes to both individuals and corporations. Cities and counties in New York are permitted to apply retail sales taxes and gross receipts taxes, and 6 or 7 jurisdictions (including New York City) have made use of this opportunity. Connecticut and Pennsylvania use net income taxes for corporations but none for individuals. Connecticut, however, has a retail sales tax. Pennsylvania permits local governments to adopt a variety of taxes under rate regulations and hundreds of local jurisdictions have done so. Ohio, Indiana and Illinois have no net income taxes, but Ohio and Illinois have retail sales taxes and Illinois recently authorized its cities to use this tax. Indiana depends upon a comprehensive gross income tax applicable to all business, and (with a $1,000 exemption) to all individuals. The over-all result is this: New Jersey receives 66.1 per cent of its total State and local revenue (exclusive of unemployment compensation payroll taxes) from property taxes—as compared with 60.3 per cent in Massachusetts, 49 per cent in Connecticut and 44 per cent in Pennsylvania and New York.

Any major readjustment of the New Jersey tax system as compared with these seven States would, moreover, imply consideration of the various selective tax bases that have revenue possibilities. The *Commission* has constantly opposed the increased use of this type of financing—"a miscellaneous assortment of special or selective taxes chosen as a matter of convenience and expediency"—as major supports for general governmental purposes, but they are an important part of the present tax structure.

New Jersey's gasoline tax of 3 cents a gallon is equal to those of Massachusetts and Illinois and is exceeded by those of Connecticut, Pennsylvania, Ohio, Indiana and New

York. A 1 cent additional tax (an increase from 3 cents to 4 cents) would yield an additional $9 million.

Cigarettes are taxed in each of the seven States. None has a lower rate than New Jersey's 3 cents a package; but Massachusetts and Pennsylvania have a 4 cent rate. A 1 cent additional tax (an increase from 3 cents to 4 cents) would yield an additional $5 million.

Pari-mutuel racing pools are taxed in New Jersey at 6 per cent upon the first $40 million for each track and 7 per cent on amounts in excess of $40 million plus the "breakage." Because of variations in the tax bases, interstate comparisons are difficult, but New Jersey is among the high States. A 1 per cent tax rate increase in New Jersey would probably yield $1.5 million in additional revenue.

Alcoholic beverages and beer: The New Jersey tax is 3 1/3 cents a gallon on beer—the same as New York and Connecticut, but lower than Illinois (4 cents, Massachusetts (6 1/3 cents) and Indiana and Pennsylvania (8 cents). The New Jersey tax on liquor is $1.50 a gallon—higher than Connecticut and Illinois ($1.00), but lower than Indiana ($2.00) and Massachusetts ($2.25). It has been estimated that an increase in the beer tax (from 3 1/3 to 5 cents) would produce an additional $2 million; and that an increase in the alcoholic beverage tax (from $1.50 to $2.50) would produce an additional $6.8 million.

Taxes on invested capital in New Jersey take the form of an 8/10 of a mill (8/100 of 1 per cent) levy upon the allocated net worth of general business corporations, and 3/4 of 1 per cent upon banks and other financial businesses. Massachusetts taxes "corporate excess" at 6/10 of 1 per cent; Pennsylvania taxes the "value" of corporate stock at 1/2 of 1 per cent, and New York and Connecticut apply a capital measure as a minimum tax under corporation income tax measures—New York 1/10 of 1 per cent, Connecticut 15/100 of 1 per cent. Ohio taxes the value of capital stock at 1/10 of 1 per cent; Illinois at 1/20 of 1 per cent; and Indiana 1/4 of 1 per cent on financial institutions only. An increase from 8/10 of a mill to 1 mill in New Jersey would yield about $1.8 million additional revenue.

Inheritance and estate taxes range from 1 per cent to 16 per cent with exemptions from none to $5,000 depending upon the beneficiary. Ohio rates are from 1 per cent to 10 per cent with exemptions comparable to New Jersey; Indiana, from 1 per cent to 20 per cent with exemptions of $100 to $15,000; New York, from 1 per cent to 20 per cent with exemptions of $7,000 to $22,000; Massachusetts, from 1.23 per cent to 18.45 per cent with exemptions of $1,000 or $10,000; Pennsylvania, 2 per cent to 10 per cent with a $500 exemption for the wife; Illinois, from 2 per cent to 30 per cent with exemptions ranging from $100 to $20,000. During the past 18 years, New Jersey has derived a fluctuating revenue from this tax—from less than $6 million to almost $22 million.

New Jersey taxes the gross receipts of public utilities (street railway, gas and electric, light, heat, water, telephone, telegraph and sewer) at 5 per cent. In addition, street railways and gas and electric, light, heat and power companies are taxed at the average general property tax rate in lieu of a personal property tax on the value of their property in, on or above the public streets—6.14 per cent in 1949. This makes a total gross receipts tax on utilities including that in lieu of property tax of 11.14 per cent—an extremely high tax. Utility taxes in none of the seven States come even near it.

Following an extensive examination of the railroad tax problem in 1948, the *Commission* reported a "tax that takes all or nearly all of an industry's net operating income allocable to the taxing jurisdiction is excessive. It certainly should not be increased and probably should be reduced . . . . There can be no doubt that New Jersey State and local taxes upon railroads operating in this State are heavier than the same taxes imposed in other States."

It is true that considerable revenue could be raised by increasing the yield from selective tax bases. Most increases of this kind would be ill-advised, and none would contribute in the slightest degree toward remedying the fundamental inequities in the tax structure. Indeed, in some cases, they would only magnify them. Any substantial adjustments looking toward equality of treatment must be sought in broad base taxes. It is not, however, technical guidance that is needed—this has been developed time after time, and the choices, implications and results of fiscal changes can be predicted with accuracy. The real block is this: For years all exploration has ceased when confronted with the slogan "no new taxes." Until there is a disposition to look behind this shibboleth, attempts to improve the tax structure of New Jersey from the standpoint of the distribution of burdens will have no meaning.

* * *

Does the State of New Jersey wish to maintain its major fiscal support at local levels? or does it wish to enlarge the responsibility of the State through increased central financing?

If the answer is Yes—that is, the State *does* wish to maintain its major fiscal support at local levels—there are certain alternative policies to be considered and applied either singly or in combination:

The property tax as indicated above should be placed in order.

Additional tax bases should be provided for county and municipal use—possibly sales, gross receipts and payroll—following the principal examples of New York, Pennsylvania and California.

Central financing (grants-in-aid) would be used to stimulate minimum service standards and fulfill "foundation program" requirements in functions of a State-wide interest. They would not be used to finance the general budget needs of local government.

If the answer is No—that is, the State wishes to depart from major fiscal support at local levels and to enlarge the responsibility of the State, suggested methods are as follows:

The use of State collected, locally shared taxes (probably income, sales, or both) and the increased use of grants-in-aid for schools, highways, health and welfare.

The use of local supplements to State-wide taxes to be levied within limits at the discretion of county or municipality, to be administered by the State, the proceeds to be returned to the taxing district.

The property tax as indicated above to be placed in order and a special equalization table developed to place local valuations on a comparable basis for grant-in-aid purposes—this is the New York practice.

Restraints on the use of property as a tax base through the application of "tax limits" or "expenditure limits"—*property cannot be "relieved" until the use of the base is limited.*

* * *

Does the State of New Jersey wish a broad base of individual support for both State and local services? Or does it wish to draw its major fiscal support from a few special tax groups—corporations, selective sales and special businesses?

New Jersey at the State level is at present a "special tax State," as it is at the local level a "property tax State." This means that it depends heavily upon selected groups, commodities or activities for general State revenue purposes. Taxes upon railroads, public utilities, motor fuels, motor vehicles and alcoholic beverages account for about three-fourths of all State and local taxes excluding property taxes and payroll (unemployment compensation) taxes. The remaining one-fourth is also on selected tax bases—inheritances, corporate franchises, banks, insurance companies and pari-mutuel betting.

Although the corporation franchise tax (a small tax of 8/10 mills upon allocated net worth) is a general tax upon corporate business, it does not apply uniformly to all corporations and there is no comparable tax on unincorporated business. Even as late as 1948 when new revenues were necessary, special taxation was again resorted to in the form of a cigarette tax, but nothing in the way of general taxation either upon business or upon individuals was seriously considered. When the veterans bonus was recently before the Legislature the financing most hopefully discussed was increases on the beer tax, gasoline tax and a new tax on consumers of electric power. The $25 million bond issue for capital expenditures for institutions and agencies cut still further into general fund revenues by pledging such part of the alcoholic beverages tax as may be required for debt services; and the present bill providing a $10 million bond issue for State teachers colleges followed the same blind practice of pledging so much of the transfer inheritance tax as may be required to meet the bond requirements. Indeed, the only broad base tax adopted by the Legislature since the depression emergency—the gross receipts (1949)—died when the voters rejected the veterans bonus proposal at the November, 1949, referendum election.

There is probably no State that receives so little from its franchise privileges as New Jersey. A heavy tax (as high as 11 per cent on gross receipts) on certain public utilities is all returned to the municipalities; a 3/4 of 1 per cent tax on the invested capital of banks and financial businesses is shared by the county and municipality; from a total of some $16 million collected from the railroads each year the State receives only $4 million; and a tax on the surplus of life insurance companies goes entirely to the municipalities and in addition acts as a set off against the premium tax which would otherwise go to the State. Aside from this unbalanced distribution, the variations in tax burdens among these corporations and as between these corporations and other corporate businesses of the State is amazing. Two insurance companies pay 14 per cent of the tax levy of the City of Newark—in addition to real property taxes; 49 corporations pay 1/3 of the net worth tax of about $8 million; banks and financial institutions pay the equivalent of 3/4 of 1 per cent on their invested capital, but other corporate business pays about 1/12 of 1 per cent; the railroads, by any measure, are more heavily taxed than in any other State in the Union.

New Jersey has taken great pride in boasting that it is "a good State for business to come to and a good State for business to stay in." Among its major arguments has been "no income taxes, no sales taxes, no gross receipts taxes." But the question is being raised—"a good State for *what* business?" As Governor Driscoll has recently pointed out, one of the largest industrial operations to come to the Atlantic seaboard in many years, chose a nearby Pennsylvania site with a 4 per cent net corporate income tax in preference to the no-income tax State of New Jersey. The truth is the New Jersey tax structure is not favorable to business that must own large holdings of real estate and improvements; that requires large inventories; that faces heavy replacements in machinery or equipment; that wishes to encourage home ownership for its employees; or that is seeking a stable tax base bearing some reference to its capacity to pay.

* * *

Neither this *Commission,* nor in its judgment, any other commission, can resolve these problems for the State of New Jersey. It is a waste of time and money to prepare large and detailed adjustments in the tax structure only to have them tested by such yardsticks as "Does this involve a *new* tax? Does it contain an income measure? Is it in fact a sales tax?" It is equally impossible to improve the situation with attitudes expressed at the recent public hearing held by the *Commission*—the "soak the rich" attitude of labor; the lack of a common program among business interests; the "pass-it-on" theory of small business; "more money for the schools" from any source whatsoever; and "more taxes for my competitors"—a growing concern in tax policy. Nor is it helpful to read so frequently the admonitions of the press—"demanding attention" to the tax problem, dismissing every proposal with the old slogans, and urging better schools, better highways, better institutions—and even better libraries and museums.

The *Commission* would respectfully reiterate that Joint Resolution No. 3 provided for a most comprehensive study of the tax structure of New Jersey. Such a study must necessarily have the broadest implications. The Legislature could not be expected to consider at one session the full impact of a complete revision of the tax laws—a program that would alter in many ways the economic life of the State. The *Commission* is, therefore, suggesting various projects from among which the Legislature may select one or more for consideration at such special or regular session as might be determined. Should the Legislature by resolution or otherwise indicate an interest in a suggested project, the *Commission* is prepared to submit detailed recommendations with accompanying bills. For example:

PROJECT 1

Purpose:

To improve the administration of the general property tax in the interest of equity, stability and increased yields.

This will require no new taxes.

Methods:

1) A new approach to the present vaguely defined "true value" measure—a step permitted for the first time by the new Constitution.

2) Abolition of the property tax on household goods—a tax impossible to administer fairly—with a provision for an optional occupancy tax to be assessed by the municipality in lieu thereof.

3) Centralized supervision of assessments by the State, county or both—as now required by law but a dead letter in practice.

4) The establishment of equalization ratios of local assessments as among taxing districts as a basis for apportioning the county tax and measuring needs for State aid.

5) Reconsideration of the subject of property tax exemptions to redefine, limit and reduce them.

* * *

PROJECT 2

Purpose:

To balance the State budget for 1951-52 and thereafter without the use of highway funds.

This would require both new taxes and additional revenues to the extent of some $30 million.

Method:

The selection from among both existing and undeveloped tax bases of such taxes or combination of taxes as would yield the required revenue and promise equitable treatment as among taxpayers.

* * *

PROJECT 3

Purpose:

To remove the inequalities from specially taxed groups.

This will require new tax bases, as well as adjustments in present taxes.

Methods:

1) A revision of the corporate franchise (net worth) tax by the addition of an income measure; placing banks and other financial businesses under the revised tax and repealing the special taxes now applicable to these businesses.

2) The taxation of unincorporated business in such manner as to end the present discrimination against incorporated business.

3) To refrain from additional dependence upon already heavily taxed special businesses—such as insurance companies, railroads and public utilities.

4) The adoption of a gross-ton-mile truck tax (in addition to license increases in pending legislation) requiring interstate and other carriers to pay their fair share of the cost of highways, police and general governmental services.

5) The replacement of the present sales taxes on certain selected commodities by a broad based tax having a more general incidence among individuals.

* * *

PROJECT 4

Purpose:

To remove the hazards of "tax lightning" from the field of business personalty.

This may or may not require new taxes.

Alternative methods:

1) The exemption of all tangible personal property from the general property tax—this would require replacement of about $47 million, either by State or local taxation;

OR

2) The State assessment of business personalty at a low, flat rate—this would require no new taxes, but it would require a willingness to accept extreme variations in effect as among municipalities and a possible shift in the tax burden as between real property and business personalty;

OR

3) Local assessment according to a classification of all business personal property at fixed fractions of book value—this would now be possible under the new Constitution and would require no new taxes. This would not recognize the business characteristics of inventories which make them unsuited to taxation as property;

OR

4) Local assessment according to a classification, of machinery and equipment, plus the exemption of business inventories. This would give tax recognition to the business characteristics of inventories. It would require—

a) New taxes at the State level to replace the $22.4 million now being realized from assessments on inventories, and the return of the proceeds to the municipalities;

or

b) The grant of optional local taxing power to the municipalities to replace the loss in revenue;

or

c) A combination of a) and b) by which part of the revenue loss would be made up locally and part through the State—State replacement could be provided without new taxes if it were undertaken together with revision of the corporate franchise tax under Project 3.

* * *

PROJECT 5

Purpose:

To provide increased central financing for local governments.

This will require both new tax bases and additional revenues to whatever extent the Legislature may determine.

Methods:

1) To strengthen and develop State grants-in-aid programs—particularly for schools, highways, welfare and health;

2) The selection from among both existing and undeveloped tax bases of such taxes or combination of taxes as would yield the required revenue and promise equitable treatment as among taxpayers;

3) Restraints on the use of property as a tax base through the application of "tax limits" or "expenditure limits."

* * *

PROJECT 6

Purpose:

To place local governments (counties and municipalities) in a position to finance themselves from bases other than property.

This will require new tax bases (other than property) for the optional use of counties and municipalities.

Methods:

To authorize counties and municipalities to levy, assess and collect such taxes as are suitable for local administration—for example, a consumers sales tax, luxury taxes, gross business tax or income (payroll) taxes;

OR

To authorize counties and municipalities to levy supplemental rates upon such State tax as may otherwise be selected for State purposes. This would mean State administration with a return to the municipality of the yield from the supplemental rate.

[Either alternative would imply a reduction of central financing of local services through the State grants-in-aid.]

* * *

PROJECT 7

Purpose:

To "relieve" the property tax upon real estate to the extent of some $100 million—about 1/3 of its present burden.

This will require new tax bases to the extent of the property tax relief.

Methods:

Apply and extend the methods of Project 5;

OR

Apply and extend the methods of Project 6;

OR

Provide State revenues adequate to offer local governments a block grant (distributed, for example, upon a per capita basis, as in New York) conditioned on all possible reductions in the real estate tax.

[This will require effective property tax limitation and possibly expenditure restrictions before its purpose can be assured.]

In the accompanying pages, the *Commission* has prepared materials which will permit almost any adjustment in tax policy to be undertaken quickly and effectively. It stands ready to assist the Legislature in formulating any program or parts of a program that it may care to undertake. But until there is a disposition to face these questions on the merits and to remove the blocks that forbid the examination of proposals which are inherent in the problems, there is little use in going further.

COMMISSION ON STATE TAX POLICY

JOHN F. SLY, *Chairman*

W. PAUL STILLMAN, *Vice-Chairman*

DAVID VAN ALSTYNE, JR.

AMOS DIXON [1]

NORMAN F. S. RUSSELL

CHARLES R. ENGLISH

* * *

Mr. Jacob S. Glickenhaus, a member of the *Commission,* did not sign the above letter of transmittal. Mr. Glickenhaus' position is explained in the following letter to the chairman:

March 29, 1950.

HONORABLE JOHN F. SLY,
4 Pyne Administration Building,
Princeton, New Jersey.

DEAR DR. SLY:

I must respectfully decline to sign the letter of transmittal of the State Tax Policy Commission to Governor Driscoll and the members of the Legislature.

The commission was directed to undertake a comprehensive study and to recommend:

> "The manner in which the burden of State and local tax requirements may be more fairly and equitably distributed;
> Methods and procedures for simplifying and co-ordinating State and local taxes and to provide for their most efficient administration; and
> An appropriate allocation of taxing power as among State, county and local governments."

---

[1] Mr. Amos Dixon's term on the *Commission* expired as of January, 1950. His faithful attention during the past year to the preparation of this report, permits him to be recorded in favor of the majority opinion.

While the commission has reviewed apparent inequities under the present tax laws and suggests some alternative methods with respect thereto, it has not made, for reasons contained in the letter of transmittal, any specific recommendations in line with the legislative requests.

As stated in the aforesaid letter, the commission concludes that it cannot comply with the legislative requests without considering the imposition of new or replacement taxes. The commission then states unequivocally that the public does not want any new taxes. Personally, I believe there should be no new taxes.

Our State budget has been balanced each year with our presently available revenues, and this practice can continue in the foreseeable future. These things being so, there is no need to discuss now new or replacement tax methods.

Another reason for declining to sign this report is my consistent opposition to some of the tax methods suggested by the commission.

Very truly yours,

JACOB S. GLICKENHAUS.

Chapter I

THE TAX SYSTEM

The *Commission* has received little, if any, support to convert the present tax structure of New Jersey into a "model system." If it were possible to begin from the beginning, a system of taxation might be established which would meet such economic, philosophical and ethical standards as the tax architect might select. We begin, however, with a mature system in which the errors of the past—if they were errors—have become the condition and the environment—and even the values—of the present.

Much thinking on taxation has been conditioned by the theory of capacity to pay. When tax burdens were relatively light, and the results of different theories were not reflected by great diversities in tax payments, the problem of capacity to pay assumed much less importance than it does today. When the total tax requirements of the Nation, State and community begin to take some 24 per cent of the National income, the classical measure of capacity to pay assumes new meaning.

In the early history of our tax system, when property was the sole important source of tax revenues, taxes were generally levied at rates which were proportional. Property taxes are still levied at proportional rates, that is, at rates of so much per hundred dollars of value, regardless of the total value of the property assessed. Progressive rates, on the other hand, are familiar in the income tax field. They are levied upon the assumption that capacity to pay is greater as an individual or business acquires greater total units of wealth, or of income, or of activity. The rates of income taxes are accordingly said to be "progressive" when they increase as the amount of income of the taxpayer increases. In application this has produced the familiar "tax bracket."

Taxation in a Federal System

The canons of a fair tax system cannot be applied under our form of government to any one of the levels of government. We neither seek to supply all of the services of government nor to raise all of the revenues needed to support those services through any single agency of government. From the tax viewpoint alone, it would undoubtedly be preferable to the taxpayer to have a simple and uniform system of taxation throughout the Nation. The freedom of the States to develop their own tax systems, the relative independence of municipalities in administering the local property tax, and the pervading influence of the Federal tax system, all combine to make the cost of compliance onerous to any taxpayer. It is the problem of over-centralization of government, and the ultimate dominance that comes with power over the revenue system that should assure the permanence of forty-nine separate taxing systems under our present form of government.

There is nothing in the Federal system of government, however, which requires each level of government to have the power to levy, assess and collect the same taxes. In fact, there are real advantages in the apportionment of taxing power among the levels of government so that those taxes most suitable for local administration will be left to the municipality, and those most suitable to the State will be left for State use. This is a need which has been pointed up by the Hoover Commission and others and the *Commission* can only add its most emphatic support.

A failure to recognize this need to allocate tax sources among the various levels of government in a Federal system has permitted some able students of taxation to fall into the pitfall of arguing that each level of government should within itself show the application of the so-called canons of taxation. This view is obviously untenable to anyone who accepts the allocation of taxing authority among the various levels of government. That is, the government which has the tax that can be fitted to the notion of progressive rates is able to emphasize capacity to pay, whereas the municipality, for example, would hardly use the real estate tax to that end. Your *Commission* concludes that in a Federal system of government the test of a fair and equitable tax system should be made in terms of the over-all effect of Federal, State and local taxation upon the individual taxpayer.

Table 1 shows the combined effect of taxation upon the people of New Jersey. The results are striking in their implication. From Table 1 we may conclude:

1) 40 per cent of taxes raised in New Jersey today are from individual incomes—but the Federal Government takes it all.

2) In the decade since 1939, individual income tax payments have multiplied more than ten times (1,344 per cent increase)—although the national income has increased but three times.

TABLE 1

DISTRIBUTION OF ALL FEDERAL, STATE AND LOCAL TAXES IN NEW JERSEY (EXCLUSIVE OF PAYROLL TAXES)

1939 AND 1948

(*Amounts in Thousands of Dollars*)

	1939				1948				
Measure of Tax	*State & Local*	*Federal*	*State, Local & Federal*	*% of Total Taxes*	*State & Local*	*Federal*	*State, Local & Federal*	*% of Total Taxes*	*% Increase 1939-1948*
Corporation income	....	$36,942	$36,942	7.0%	....	$312,575	$312,575	18.6%	746.1%
Individual income	....	47,161	47,161	9.0	....	681,014	681,014	40.5	1,344.0
Corporation franchise	$1,937	....	1,937	0.4	$7,092	....	7,092	0.4	266.1
Corporation insurance	4,417	....	4,417	0.8	6,951	....	6,951	0.4	57.4
Inheritance and estate	6,915	18,080	24,995	4.7	9,590	39,573	49,163	2.9	96.7
Excises*	31,892	75,314	107,206	20.4	54,529	173,758	228,287	13.6	112.9
Property—real and personal	249,871	....	249,871	47.5	322,160	....	322,160	19.2	28.9
Property—railroad	18,600	....	18,600	3.5	16,027	....	16,027	0.9	—13.8
Public utilities	12,984	....	12,984	2.5	24,448	....	24,448	1.5	88.3
Motor vehicles and drivers	20,355	....	20,355	3.9	30,480	....	30,480	1.8	49.7
All others	936	592	1,528	0.3	2,033	1,528	3,561	0.2	133.0
Total Taxes	$347,907	$178,089	$525,996	100.0%	$473,310	$1,208,448	$1,681,758	100.0%	219.7%

Source: New Jersey State Department of Taxation and Finance.
U. S. Treasury Department, Annual Report of Commissioner of Internal Revenue.

* Gasoline, oleo, amusements, sales, etc.

3) Corporation taxes provide 19.4 per cent of the total, but more than 95 per cent of them go to the Federal Government.

4) Property taxes, the mainstay of local government, amounted to 47.5 per cent of the total in 1939, but have dropped to 19.2 per cent in 1948—because of the large increase in Federal tax totals.

5) The hidden taxes—so-called special excises—have jumped 113 per cent since 1939—an increase due almost entirely to Federal invasion of this tax field.

Competitive Situation Among the States in Taxation

Taxation by State and local governments raises difficult problems of jurisdiction to tax which are relatively unimportant in the National taxing system. It is almost self-evident that States and local governments can be permitted to tax only persons, property and activities located within their respective borders. This is the constitutional requirement, but its application to a complicated economy which knows no boundaries of States has produced a large body of technical case law enunciated by the United States Supreme Court. Any State taxing authority must be constantly aware of the implication of the constitutional law on taxation, and of its administrative requirements. These are particularly important in the taxation of interstate activities, where the law requires a State to tax only a fairly allocated proportion of the tax base in accordance with the activities which may be fairly attributable to the taxing States.

Those who design the revenue system of a State, moreover, must always be aware of the relative mobility of persons and property among the States. It is this mobility which places the States in a position of actual competition among themselves to provide relatively favorable tax structures. State and local taxes are still relatively far down the line of factors which induce the average industry to locate in a given area, although they can be major factors in some forms. Where two or more locations are fairly even as to other factors, taxes may play a balancing part in the decision of management. For this reason it is perfectly possible for a State to have the reputation of being both favorable and unfavorable in a tax sense. To the company that operates on a relatively substantial profit margin, the absence of an income tax may present real advantages. To the company that requires a substantial capital investment, or heavy payrolls, the character of a State's taxation of property or of payroll may be more significant than its treatment of income. Since the location of new industry and the expansion of existing industry determines employment opportunities and even the general standard of living in a State, the competitive element in State tax policy should not be underestimated.

COMPARATIVE TAX BURDEN IN NEW JERSEY AND SELECTED STATES

Over-all Tax Burden

In terms of over-all State and local taxes per capita, New Jersey appears lower than such comparable industrial States as New York and Massachusetts, but higher than Connecticut and Pennsylvania. As shown in Table 2, non-payroll State and local taxes in 1948-1949 amounted to about $106 per capita in contrast to $132 per capita for New York, $116 per capita for Massachusetts, $102 per capita for Connecticut and $80 for Pennsylvania.

Also as shown in Table 2, however, all State and local taxes in New Jersey represent a comparable proportion of individual income to those in New York. New Jersey and New York taxes amount to about 7 per cent of income payments to individuals as

TABLE 2

COMPARATIVE STATE AND LOCAL TAXES

(EXCLUSIVE OF UNEMPLOYMENT COMPENSATION TAXES)

IN NEW JERSEY AND FOUR OTHER STATES—1948-1949[1]

Item	New Jersey	New York	Pennsylvania	Connecticut	Massachusetts
Amount of Taxes ($ millions):					
General property taxes	$322	$919	$372	$115	$309
All other taxes	178	982	478	92	240
Total State and Local Taxes	$500	$1,901	$850	$206	$549
Common Denominators:					
Population—1948 (thou.)	4,729	14,386	10,689	2,011	4,718
Income payments to individuals 1948 ($ millions)	$7,181	$27,378	$15,126	$3,381	$6,997
Retail sales—1948 ($ millions)	$4,396	$13,695	$8,807	$1,965	$4,229
State and Local Taxes Per Capita	$105.86	$132.14	$79.51	$102.48	$116.45
State and Local Taxes as Per Cent of:					
Income payments to individuals	7.0%	6.9%	5.6%	6.1%	7.9%
Retail sales	11.4%	13.9%	9.6%	10.5%	13.0%

[1] State tax collections for fiscal years ended in 1949, local taxes for calendar year 1948.

Sources: State and local taxes, see Table 3.

Population, U. S. Department of Commerce, Bureau of the Census, "Current Population Reports," Population Estimates, October 3, 1948.

Income payments to individuals, U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, "Survey of Current Business" (August, 1949).

Retail sales, Sales Management, Inc., "Sales Management," May, 1949.

compared with 8 per cent in Massachusetts and 6 per cent in Connecticut and Pennsylvania. Based upon the latest information available, these comparisons indicate that the aggregate tax burden in New Jersey is not noticeably different from that in other industrial States.

Distribution of Tax Burden

But it must be recognized that the over-all amount of taxes is only one criterion of the State's relative tax position. Of at least equal importance is the way the tax burden is apportioned among the State's taxpayers. It is entirely possible for a frugal State to raise a relatively modest total tax revenue in such a way as to impose a harsh burden upon a few taxpayers while leaving others virtually untouched by the tax collector. Under such circumstances the taxpayers who find themselves liable for the major support of State and local services may derive little consolation from the fact that those services are relatively inexpensive. They may look with favor upon less frugal States where a heavier tax is distributed with greater evenness over a larger group of taxpayers.

These are the kinds of comparisons which are implied in tax equity appraisals. At best difficult to define, tax equity means in an abstract way that no taxpayer or group of taxpayers shall be required to bear a disproportionate share of the total tax burden. Just what constitutes a disproportionate share depends upon the value judgments by which the apportionment is made and justified and complete agreement is probably impossible of attainment, as is evidenced by the large differences in tax structures—and supposedly tax incidence—found in the several States.

Table 3 shows a rough distribution of State and local taxes by source in New Jersey and in four other industrial States. New Jersey stands out in the comparison in five principal ways:

> *First,* as a "property tax State," New Jersey derives two-thirds of all non-payroll State and local taxes from this source—compared with 56 per cent in Massachusetts and Connecticut, 49 per cent in New York and 44 per cent in Pennsylvania.
>
> *Second,* as an "easy tax State" for individuals, New Jersey derives less than 2 per cent of its taxes as direct taxes upon individuals and less than 9 per cent from indirect taxes upon individuals. In contrast, direct and indirect taxes upon individuals provide 26 per cent of the total in

New York, 21 per cent in Pennsylvania, 20 per cent in Massachusetts and 18 per cent in Connecticut.

Third, as a "highway user" tax State, New Jersey depends upon gasoline and motor vehicle taxes for 12 per cent of its State and local tax revenues—less than the 15 per cent in Pennsylvania and the 13 per cent in Connecticut, but more than the 9 per cent in Massachusetts and 8 per cent in New York.

Fourth, as a "selective business tax" State, New Jersey derives less than 2 per cent of its State and local tax revenue from general corporate business—as compared with 16 per cent in Pennsylvania, 12 per cent in Massachusetts, 10 per cent in New York and 8 per cent in Connecticut.

Fifth, as a "utility tax State," New Jersey collects more than 6 per cent of its State and local taxes from non-general property taxes upon railroads and public utilities—as compared with 3 per cent in Connecticut, 2 per cent in New York and 1 per cent in Massachusetts and Pennsylvania.

The distribution of taxes as shown in Table 3 is admittedly rough because the line between taxes upon individuals and taxes upon business is not always as sharp as it may at first appear and each State imposes certain taxes which apply to both. For example, a large family of taxes upon sales and activity are commonly assumed to rest upon individuals as consumers, but they are paid in part by business and they are regarded by business as obstacles in their trade channels. Other taxes such as those upon the gross receipts of utilities are assumed to rest upon business, but they are paid in part by individuals as increased charges. To the extent that all of these taxes affect trade patterns, they are in fact taxes upon business activity which must be reckoned at either end of the trade transaction. Property taxes as they are applied rest upon all taxable property without distinction as between business property and property owned by individuals for their personal use.

In the final analysis all taxes are paid from the economy of the State and the major policy decision is one of determining just where the economic stream can be tapped with the least harmful effect.

TABLE 3

Comparative Sources of State and Local Taxes (Exclusive of Unemployment Compensation Taxes) In New Jersey and Four Other States—1948-1949[5]

	(Amount of Tax—Millions of Dollars)					(Per Cent Distribution of Total Tax)				
	New Jersey	New York	Pennsylvania	Connecticut	Massachusetts	New Jersey	New York	Pennsylvania	Connecticut	Massachusetts
Direct Taxes Upon Individuals:										
Personal income	.....	$161	$36	.....	$43	.....	8.5%	4.2%	.....	7.7%
Polls	$0.1	.....	1	.....	3	.....	.....	.2	.....	0.5
Inheritance and estate	10	27	24	$6	11	1.9%	1.4	2.8	2.9%	2.0
Sub-total	$10	$188	$61	$6	$56	1.9%	9.9%	7.2%	2.9%	10.3%
Indirect Taxes Upon Individuals:										
General sales and use	.....	$137[3]	.....	$15	.....	.....	7.2%	.....	7.4%	.....
Alcoholic beverages (incl. licenses)	$15	69	$52	8	$19	3.1%	3.6	6.1%	4.0	3.5%
Cigarettes and tobacco	18	52	41	7	21	3.5	2.7	4.8	3.5	3.9
Meals	.....	.....	.....	.....	5	.....	.....	.....	.....	0.9
Hotel rooms	.....	5	.....	.....	.....	.....	0.2	.....	.....	.....
Soft drinks	.....	.....	14	.....	.....	.....	.....	1.6	.....	.....
Amusement	.....	.....	8	.....	.....	.....	.....	1.0	.....	.....
Pari-mutuel racing	10	45	.....	.....	8	2.0	2.4	.....	.....	1.5
Sub-total	$43	$308	$115	$31	$53	8.6%	16.2%	13.5%	14.9%	9.7%
Taxes Upon Motor Vehicles and Motor Fuel:										
Gasoline tax	$30	$84	$78	$18	$24	6.0%	4.4%	9.2%	8.5%	4.4%
Motor vehicle and drivers' licenses	32	68	50	9	11	6.4	3.6	5.9	4.6	2.0
Motor vehicle excise	.....	.....	.....	.....	14	.....	.....	.....	.....	2.5
Sub-total	$62	$152	$128	$27	$49	12.4%	8.0%	15.1%	13.1%	8.9%
Taxes Upon Business:										
Corporation taxes and fees	$9	$184	$132[2]	$16	$66	1.7%	9.7%	15.5%	7.5%	12.0%
Stock transfer	.....	18	0.1	.....	.3	.....	1.0	.....	.....	0.1
Unincorporated business	.....	16	5	1	.....	.....	0.9	0.6	0.3	.....
Miscellaneous licenses	.....	.....	5	.....	.....	.....	.....	0.6	.....	.....
Business gross receipts	.....	64[3]	.....	.....	.....	.....	3.4	0.1	.....	.....
Severance	.....	.....	1	.....	.....	.....	.....	.....	.....	.....
Railroads, buses, and public utilities	33[4]	35	10	5	4	6.5	1.9	1.2	2.5	0.7
Insurance taxes (incl. agents and brokers)	8	7	15	6	9	1.6	0.3	1.8	2.8	1.7
Banks and financial businesses	2	.....[1]	4	.....[1]	2	0.4	.....	.5	.....	0.3
Sub-total	$51	$324	$172	$27	$82	10.3%	17.1%	20.4%	13.1%	14.9%
General Property	$334	$919	$371	$115	$309	66.8%	48.3%	43.8%	55.9%	56.2%
Mortgage	.....	9	.....	.....	.....	.....	0.5	.....	.....	.....
Occupancy	.....	1	.....	.....	.....	.....	.....	.....	.....	.....
Sub-total	$334	$929	$371	$115	$309	66.8%	48.8%	43.8%	55.9%	56.2%
Total	$500	$1,901	$847	$206	$549	100.0%	100.0%	100.0%	100.0%	100.0%

1 Included in corporation tax.
2 Exclusive of $15 million of 1948 taxes collected in 1949.
3 New York City only.
4 Exclusive of $12.1 million of general property taxes assessed upon Class II Railroad property.
5 Property taxes for 1948, all other taxes for fiscal years ended in 1949.
Source: Commerce Clearing House, "Tax Systems" (1949 Edition) and State Reports.

Taxes Upon Individuals

New Jersey taxes which clearly rest upon individuals as such include a negligible amount of poll taxes (in municipalities) and inheritance and estate taxes. As shown in Table 3, these taxes totaled $10.1 million to account for 1.9 per cent of all State and local taxes in 1948-1949. Connecticut which has a similar tax structure in this respect derived 3 per cent of its total State and local taxes from the inheritance and estate taxes in 1948-1949. Massachusetts and New York supplement the inheritance tax with personal income taxes and Massachusetts assesses a substantial poll tax, with the result that direct taxes upon individuals provide about 10 per cent of all State and local taxes in those States. Pennsylvania assesses a substantial tax upon intangible personal property held by individuals and Philadelphia levies a personal income tax.

But these are by no means all the taxes paid by individuals in New Jersey and in the other States for which the comparison is made. Within the category of indirect taxes, New Jersey individuals pay taxes when they buy such commodities as alcoholic beverages and cigarettes, or when they bet on the horses at pari-mutuel tracks. New York and Massachusetts apply these same indirect taxes upon individuals and derive approximately the same proportion of their State and local taxes from them as does New Jersey.[1] Connecticut and Pennsylvania tax cigarettes and alcoholic beverages but derive no revenue from pari-mutuel racing.

Within the category of indirect taxes upon individuals, however, New York City supplements the drinking, smoking and betting group with a general sales tax and a tax upon hotel rooms. Massachusetts applies a tax at 5 per cent upon meals selling for more than $1 and Connecticut applies a general sales and use tax. Pennsylvania applies amusement and soft drinks taxes. The result is that whereas New Jersey obtains 8.6 per cent of its State and local revenues in this way, the other States obtain amounts ranging from 10 per cent of the total in Massachusetts to 16 per cent in New York.

The largest taxes paid by many individuals who do not own real estate are those associated with their ownership and use of an automobile. For property owners, however, the major tax in New Jersey is their locally assessed general property taxes and their relative tax position as compared with other States depends

[1] New Jersey 8.6 per cent, New York 8.7 per cent, Massachusetts 8.9 per cent.

upon the incidence of local assessment practices about which no realistic generalization can be valid.

Taxes Upon Business

To an even greater extent than is true for individuals, the major tax upon business in New Jersey is the locally assessed general property tax. While business shares in some measure the "highway user" taxes, the only general business tax worthy of the name is the corporation franchise tax which yields about $8 million annually. Together with corporation organization fees, this tax causes corporate business as such to pay 1.7 per cent of all non-payroll State and local taxes. Unincorporated business in New Jersey is not taxed as such.

Table 3 shows that in contrast to the New Jersey picture, Pennsylvania derives 15.5 per cent of its total State and local taxes from a 4 per cent corporation income tax and a franchise or capital stock tax of 5 mills per dollar of net worth. Massachusetts derives 12 per cent of its total taxes from general corporations and applies a corporate income tax at 6.765 per cent and supplements it with a corporation excess (net worth) tax at .615 per cent. New York applies a 5.5 per cent corporation income tax which provides about 10 per cent of all State and local tax revenue. Connecticut taxes corporation income at 3 per cent to obtain 8 per cent of its total tax yield.

Unincorporated business is specially taxed in New York and Connecticut, but the yield from these taxes is modest, accounting for 1 per cent of all taxes in New York and 3/10 of 1 per cent in Connecticut. Massachusetts reaches unincorporated business under its personal income tax at an effective rate of 1.845 per cent upon income.

While New Jersey is a favorable tax State for general business, it derives substantial revenues from special taxation of selected businesses. Railroads, public utilities, insurance companies and banks and financial businesses paid non-general-property State taxes amounting to $43 million or 8.6 per cent of all State and local taxes in 1948-1949. Although the figures are not entirely comparable, Table 3 indicates special taxation of such companies amounting to 2.2 per cent of all taxes in New York, 5.6 per cent in Connecticut, and 2.7 per cent in Massachusetts.

Internal Tax Equity

Granted this setting of any State tax system in its Federal environment and subject to the competitive influence of other States, there remains a most important area of internal tax equity to be considered. Thus far we have been discussing the tax problem in total, rather than in terms of the effect on specific taxpayers, insofar as taxes are concerned. Even as to individuals, the data presented show the relative tax burden of the statistical man rather than the real man. Whether or not the State is ready to make all the adjustments required, it is certainly desirable to review our internal tax equity, that is, the treatment of various taxpayers under any given tax law, and the treatment of various taxpayers under the combined effect of all of our tax laws within the State.

The New Jersey tax system, as this *Commission* has remarked on previous occasion, requires nothing for the support of State Government from the individual beyond the taxes included in selected commodities he may consume. Business on the other hand is required to pay a considerable variety of taxes, depending upon the character of the business in the form of special franchises and property taxes of one kind or another. This includes the corporation franchise tax of general business corporations, special taxes on public utilities, insurance companies, railroads and buses, on banks and financial businesses, and miscellaneous lesser levies. These are all special or selective taxes. The only broad based general tax levied in the State of New Jersey is the general property tax.

A key feature of the New Jersey tax system is that we rely more completely upon the general property tax than any other industrial State.

Chapter II

THE NEW JERSEY TAX STRUCTURE

Source of State and Local Tax Revenue

All State and local taxes in New Jersey amounted to about $592 million in 1949. This total included about $72 million of payroll taxes dedicated for the payment of unemployment compensation and cash sickness benefits and $520 million of taxes for all other State and local purposes.

A comparison of pre-war and post-war experience indicates that the total amount of State and local taxes increased 51.1 per cent from $392 million in 1939 to $592 million in 1949. Within this over-all increase of $200 million, unemployment compensation taxes in 1949 were $28 million above the 1939 level and taxes for other purposes increased by $172 million.

General Property Tax

The keystone of the New Jersey tax structure is the general property tax. As shown in Table 4, taxes assessed to general property other than railroad property totaled $344 million in 1949 to account for 58 per cent of all State and local taxes and 66.1 per cent of all non-payroll taxes. These are the taxes which rest upon real estate, tangible personal property and intangibles of insurance companies in the following proportions:

	Amount of Tax (millions)	*Per Cent Distribution*
Real Property (Land and Buildings)	$292.5	85.0%
Tangible Personal Property:		
Household goods	7.5	2.2
Farm stock and machinery	0.7	.2
Business inventories	22.4	6.6
Other Business tangibles	16.0	4.6
Total Tangible Personalty	$46.6	13.6%
Intangibles of Insurance Companies	4.9	1.4
Total General Property Tax Exclusive of Railroad Property	**$344.0**	**100.0%**

TABLE 4

New Jersey Major Sources of State and Local Tax Revenue

1939-1949

Tax Source	*Millions of Dollars* 1939	1942	1946	1949	*Per Cent Distribution* 1939	1942	1946	1949
General Property (exclusive of Railroad)	$250.0	$250.5	$266.6	$344.0	63.8%	58.7%	59.2%	58.1%
Railroad Taxes	18.6	18.5	16.7	16.4	4.7	4.3	3.7	2.8
Pubilc Utility Gross Receipts and Franchises..	13.0	16.3	19.8	28.3	3.3	3.8	4.4	4.8
Corporation Taxes:								
Corporation franchise	2.0	1.7	7.0	8.0	.5	.4	1.6	1.4
Insurance	4.4	5.0	5.7	7.4	1.1	1.2	1.3	1.3
Financial business	...	...	...	.4	...	...	...	.1
Bank stock	.6	.8	1.4	1.8	.2	.2	.3	.3
Total Corporation	$7.0	$7.5	$14.1	$17.6	1.8%	1.8%	3.1%	3.0%
Inheritance and Estate	$6.9	$6.4	$7.6	$9.5	1.8	1.5	1.7	1.6
Selective Consumption Taxes:								
Alcoholic beverages	8.6	11.0	13.2	14.8	2.2	2.6	2.9	2.5
Cigarettes	...	...	...	17.7	...	...	...	3.0
Motor fuel (gasoline)	23.3	20.2	21.4	30.0	5.9	4.7	4.7	5.1
Total Selective Consumption Taxes ...	$31.8	$31.2	$34.6	$62.3	8.1%	7.3%	7.7%	10.5%
Pari-Mutuel Racing	...	...	$3.6	$9.9	...	...	.8	1.7
Motor Vehicle and Drivers' Licenses	$20.4	$23.9	23.7	32.2	5.2	5.6	5.3	5.4
Payroll (U. C.) Taxes	44.0	71.9	63.6	71.7	11.2	16.9	14.1	12.1
All Other	.3	.3	.2	.2	.1	.1	...	...
Total—All Taxes	$391.8	$426.7	$450.6	$592.2	100.0%	100.0%	100.0%	100.0%

Although the relative position of non-railroad general property taxes decreased from 64 per cent of all State and local taxes in 1939 to 58 per cent of the total in 1949, they accounted for $94 million of the $172 million increase in all non-payroll taxes. However, the 1939 total included property taxes assessed upon intangibles which were exempted by legislation adopted in 1945. The total amount of property taxes upon intangibles in 1939 was not reported separately from the property taxes assessed upon other classes of property, but estimates by the Commission on Taxation of Intangible Personal Property indicated that the total did not exceed $3 million in 1944.[1] Upon this basis it would appear that

The increase in non-railroad general property taxes as presently defined was only slightly less than $100 million between 1939 and 1949.

Taxes on Railroads and Other Public Utilities

Public utilities are important taxpayers within the New Jersey tax structure. Railroads and other public utilities were the source of almost 8 per cent of all State and local taxes for 1949. Within this category, railroad taxes amounted to $16.4 million and taxes measured by gross receipts of other utilities totaled $28.3 million.

Railroad taxes in 1949 were about $2 million less than the total assessed in 1939. This reduction was largely the result of railroad tax legislation enacted in 1941 as a solution to the problems of large-scale railroad tax delinquencies which developed during the preceding decade of depression as well as in recognition of the apparent rail road tax inequities which had been a continuing subject of litigation for more than a half century. Adoption at that time of an income factor, together with a fixed property tax rate at $3 per $100 as a measure of railroad tax caused the total tax to reach a maximum of $24 million in 1943 when railroad earnings were at their war-time peak, but also permitted it to drop to $15 million in post-war 1947. Adoption of the new State constitution in 1947 meant that railroad property taxable for local purposes would be taxed at local general property tax rates. Subsequent legislation adopted in 1948 recognized the established State policy of lessening reliance upon railroad taxes, reducing the amount of railroad taxes for State purposes to offset the increased taxes for local purposes as they were indicated at that time. The result is that approximately three-fourths of all railroad taxes are now as-

[1] New Jersey Commission on Taxation of Intangible Personal Property, *Report,* March 26, 1945, p. 17.

sessed upon Class II railroad property taxable for local purposes and at local general property tax rates.

Taxes upon the gross receipts of non-railroad utilities are, in fact, the sum of two separate taxes. The first of these, the franchise tax, applies at 5 per cent upon the gross receipts of utilities having lines or mains located in, on, or over streets, highways and other public places. In 1949 it reached 153 companies (street, railways, gas and electric, water, telephone and telegraph, district telegraph and sewer) who paid taxes totaling $14.2 million. Representing a "natural growth" in tax base, the franchise tax increased from $7 million in 1939 to $14.2 million in 1949 without any change in the 5 per cent tax rate.

The second tax upon the gross receipts of public utilities applies at the State-wide average general property tax rate to gross receipts of street, railway tractions, gas and electric and power companies using the public streets, roads, highways and other public places. This tax is paid in addition to the franchise tax and is in lieu of local taxes upon the personal property owned by the utilities. In 1949, 28 companies paid a total of $14 million to represent an increase of 133 per cent over the $6 million collected from this tax in 1939. As contrasted with the flat rate franchise tax, this increase was due only in part to "natural growth" in the tax base and in part to changes in local tax rates which averaged $4.61 per $100 valuation taxable in 1939 and $6.14 per $100 valuation taxable in 1949.

Corporation Taxes

Corporation taxes provided $17.6 million, or 3 per cent, of all State and local taxes in 1949. In addition to the general corporation franchise tax, this group includes specialized taxes applicable to banks, financial businesses and insurance corporations (other than selective property taxes upon intangibles of insurance companies).

The general corporation franchise tax yielded $8 million in 1949 and accounted for slightly less than one-half of all corporation taxes and for 1.4 per cent of all State and local taxes. Largely as a result of legislation effective in 1946 which substituted a net worth tax for an ineffective and erratic tax upon capital stock, the general corporation tax in 1949 was four times the $2 million assessed in 1939. However, the change was accompanied by abandonment of the general property tax upon intangible personal property and the resultant elimination of the threat of "tax lightning" assessments against intangibles of corporations and individuals alike. The maximum rate of taxation is 8/10 of 1 mill per dollar of net worth of corporation taxpayers.

Special corporation taxes applicable to insurance companies and measured by gross premiums provided only slightly less tax revenue than was derived from the general corporation franchise tax. Amounting to $7.4 million in 1949, these taxes increased 68 per cent since 1939.

Other special corporation taxes included the bank stock tax and the companion tax upon financial businesses. Each of these taxes applied at the rate of 3/4 of 1 per cent, as compared to the 8/100 of 1 per cent basic rate at which general business corporations are taxed upon a comparable tax base. The bank stock tax increased three-fold between 1939 and 1949 when it amounted to $1.8 million or 3/10 of 1 per cent of all State and local taxes. The financial business tax was adopted in 1946 as a means to protect the constitutionality of the bank stock tax under the Federal rule providing that shares of national banks cannot be taxed at a rate exceeding that imposed upon other moneyed capital used in competition with the business of national banks. This enactment was necessitated by the exemption of intangibles from the general property tax in 1945. The tax yield from the financial business tax was less than $400,000 in 1949 when it represented 1/10 of 1 per cent of all State and local taxes.

Inheritance Taxes

A fortuitous and unpredictable source of tax revenue, inheritance and estate taxes amounted to $9.5 million in 1949 to represent 1.6 per cent of all State and local taxes. Totaling $6.9 million in 1939, the annual total of inheritance and estate taxes has varied since that year by such extremes as $5.4 million in 1941 to $15.8 million in 1947.

Selective Consumption Taxes

Although the sales tax is an anathama in New Jersey, the State is not without its taxes measured by commodity sales. Taxes upon the sale of alcoholic beverages, cigarettes and gasoline totaled $62 million in 1949 to represent almost 10.5 per cent of all State and local taxes. Revenues derived from these selective sales taxes increased by more than $30 million between 1939 and 1949.

Adopted in 1948, the cigarette tax was applied for the first time in 1949 when it yielded $17.7 million. Of this amount some $1.5 million represented a non-recurring windfall derived from the taxation of cigarette inventories on hand when this tax became effective so that the tax which would be derived in another year with sales at the 1949 level is approximately $16 million. New Jersey is now one of forty States which taxes cigarette sales and one of twenty-six cigarette tax States which apply a rate as low as three cents per package.

Gasoline sales are taxed in every State and New Jersey is one of five States which have maintained a tax rate as low as three cents per gallon. Without any change in tax rates, the gasoline tax totaled $30 million in 1949 as compared with $23.3 million in 1939. About 5 per cent of all State and local taxes are derived from this tax.

Alcoholic beverage taxes increased from $8.6 million in 1939 to $14.8 million in 1949.

Pari-Mutuel Betting

The tax upon pari-mutuel betting at horse racing tracks is among the newcomers to the New Jersey family of taxes. Applicable for the first time in 1943, this tax yielded $9.9 million in 1949 to account for 1.7 per cent of all State and local taxes. The measure of the tax is the amount of contributions to all pari-mutuel pools at every race track. The rates are 6 per cent on $40 million or less and 7 per cent on all over $40 million, plus "breakage."

Motor Vehicle and Drivers' Licenses

All motor vehicle and drivers' licenses totaled $32.2 million in 1949 to represent 5.4 per cent of total tax collections. Together with the gasoline sales tax, this means that more than 10 per cent of all New Jersey taxes are associated directly with the ownership and operation of motor vehicles. With only modest changes in motor truck registration fees, the amount of vehicles and drivers' licenses evidenced a "natural growth" of more than one-half from the $20 million collected in 1939.

For the registration period April 1, 1948 through March 31, 1949, the Division of Motor Vehicles reported total revenues of $31.2 million. Of this amount, $22 million was derived from registration fees; $7.4 million from various charges against vehicle owners, including the drivers' licenses; and $1.8 million in miscellaneous bureau receipts, including $1.2 million in inspection fees. The $22 million in registration fees was derived as follows:

Type of Vehicle	Amount of Fee (thousands)	Number of Registrations (thousands)
Passenger vehicles	$13,099	1,108
Commercial vehicles	6,754	175
Trailers	1,217	24
Omnibus vehicles	460	11
Farm trucks	325	18
Dealers' tags	93	3
Others	68	24
"No fee" registrations	...	15
Total	$22,016	1,378

Payroll (U.C.) Taxes

Payroll taxes occupy a unique position in the State and local tax structure because they are rigidly segregated for the payment of unemployment and cash sickness benefits and are in no way available for any other purpose. U. C. taxes collected are deposited in a special account in the Federal Treasury from which the State draws amounts sufficient to pay benefits. For these reasons there is some question that these taxes should be considered within any over-all appraisal of the general tax structure. They are largely in the nature of insurance premiums paid by employees and employers to cover the contingency of unemployment.

With these reservations, however, it must be recognized that payroll taxes constitute a public charge for a public service and one which is in some measure within the control of the State and subject to interstate variation. New Jersey is one of two States which tax employees (1 per cent)[1] as well as employers (2.7 per cent).[1] Payroll taxes totaled almost $72 million in 1949 to account for about 12.1 per cent of all State and local taxes.

Administration and Distribution of State and Local Taxes

As shown in Table 5, taxes assessed for local purposes in New Jersey totaled $387.2 million in 1949 to account for 65.4 per cent of all State and local taxes. In contrast, taxes for State purposes including State aid to local governments and payroll taxes for unemployment compensation benefits totaled $205 million to account for 34.6 per cent of all taxes. State taxes exclusive of payroll taxes totaled $174.7 million in 1949 as compared with $97.3 million in 1939.

[1] Employees pay ¼ of 1% for U. C., ¾ of 1% for T. D. B. Employers pay basic tax of 2.7% for U. C. but experience rating reduced this to an average of .98% in 1949. Employers also pay ¼ of 1% for T. D. B., which will also be experienced rated beginning in 1951. The tax is on the first $3,000.00 of annual earnings of each employee.

TABLE 5

State and Local Tax Structure in New Jersey—1939-1949

(Amounts in Thousands of Dollars)

Tax Source	1939 Total Taxes	1939 For State Purposes	1939 For Local Purposes	1942 Total Taxes	1942 For State Purposes	1942 For Local Purposes	1946 Total Taxes	1946 For State Purposes	1946 For Local Purposes	1949 Total Taxes	1949 For State Purposes	1949 For Local Purposes	Per cent Change 1939-1949 Total Taxes	Per cent Change 1939-1949 For State Purposes	Per cent Change 1939-1949 For Local Purposes
Municipally Administered:															
General Property (excl. Railroad)	$249,871	$16,599[1]	$233,272	$250,548	$15,381	$235,167	$266,621	$11,234	$255,387	$343,972	....	$343,972	37.7%	....	47.5%
Poll and Dog Taxes	145	....	145	96	....	96	54	....	54	46	....	46	—68.3	....	—68.3
Total	$250,016	$16,599	$233,417	$250,644	$15,381	$235,263	$266,675	$11,234	$255,441	$344,018	....	$344,018	37.6%	....	47.4%
County Administered:															
Bank Stock	$615	....	$615	$780	....	$780	$1,373	....	$1,373	$1,808	....	$1,808	194.6%	....	194.0%
State Administered:															
Public Utilities	$12,984	....	$12,984	$16,319	....	$16,319	$19,838	....	$19,838	$28,263	....	$28,263	117.8%	....	117.8%
Railroads	18,600	$10,383[1]	8,217[1]	18,514	$9,962	8,552	16,650	$9,300	7,350	16,357	$4,640	11,717	—12.1	—55.3%	42.6
Corporations:															
Corporation Franchise	1,937	1,937	....	1,731	1,731	....	6,988	6,988	....	8,045	8,045	....	315.3	315.5	....
Insurance	4,417	4,196	22	4,992	4,761	231	5,712	5,449	263	7,424	6,853	571	68.1	63.3	158.4
Financial Business	....	....	....	....	....	....	....	....	....	356	....	356	....	....	....
Miscellaneous	....	....	....	....	....	....	....	....	....	18	18	....	....	....	....
Inheritance and Estate	6,915	6,588	327	6,416	6,137	279	7,611	7,153	458	9,528	9,127	401	37.8	38.5	22.6
Alcoholic Beverage	8,634	8,634	....	11,020	11,020	....	13,195	13,195	....	14,767	14,767	....	71.0	71.0	....
Cigarettes	....	....	....	....	....	....	....	....	....	17,731	17,731	....	....	....	....
Pari-Mutuel Betting	....	....	....	32	32	....	3,614	3,614	....	9,887	9,887	....	....	....	....
Motor Fuel	23,258	23,258	....	20,159	20,159	....	21,376	21,376	....	30,024	30,024	....	29.1	29.1	....
Motor Vehicle and Drivers' Licenses, etc.	20,355	20,355	....	23,937	23,937	....	23,731	23,731	....	32,187	32,187	....	58.1	58.1	....
All Other	176	85	91	180	85	95	147	85	62	176	107	69	....	25.9	—24.2
Payroll (U.C.) Tax	43,978	43,978	....	71,927	71,927	....	63,647	63,647	....	71,699	71,699	....	63.0	63.0	....
Total	$141,254	$119,414	$21,840	$175,227	$149,751	$25,376	$182,509	$154,538	$27,971	$246,462	$205,085	$41,377	74.5%	71.7%	89.5%
Grand Total—All Taxes	$391,885	$136,013	$255,892	$426,651	$165,132	$261,519	$450,557	$166,035	$284,522	$592,288	$205,085	$387,203	51.1%	50.8%	51.3%

[1] State school and soldiers' bonus taxes assessed to Class II railroad property shown as State tax upon railroads: local purpose taxes reduced accordingly.

Source: New Jersey Department of the Treasury, Division of Taxation, and Governor's Budget Messages.

Taxes Administered by Municipalities

Consistent with the emphasis placed upon local property taxes within the New Jersey structure, the municipalities are responsible for administering taxes which provide a large portion of the total tax revenue. As administrators of all general property taxes except those upon Class II railroad property, municipalities assessed taxes totaling $344 million in 1949 to account for 58.1 per cent of all State and local taxes. In addition to the general property taxes, municipalities assess poll and dog taxes amounting to only $46,000 in 1949.

Although the amount of municipally administered taxes increased only 38 per cent between 1939 and 1949, the amount available for use of local governments increased 51 per cent. This condition resulted from withdrawal by the State from general property taxes assessed in 1939 for State school aid and to amortize the veterans' bonus bonds from World War I. In contrast with 1939 when these State purpose property taxes accounted for $17 million of the $250 million of municipally administered taxes, the 1949 total of $344 million was available in its entirety for local purposes.

As local tax administrators, municipalities assess property taxes for counties and local school districts as well as for their own use. Furthermore, the municipalities are responsible for full payment of all county and school taxes with the result that all revenue losses associated with tax delinquencies are absorbed into the municipal share of the tax. Under municipal cash basis budgeting as it applies in New Jersey, the contingency of uncollected taxes is met by anticipating delinquencies and delinquent tax collections according to experience of the past year and assessing taxes sufficient to cover the difference between them.

For purposes of distribution, locally assessed general property taxes and State assessed taxes upon Class II railroad property are inseparable. Class II railroad taxes are collected by the State and paid to the municipalities where they become part of the aggregate amount of property taxes for local distribution. In 1949 the Class II railroad taxes amounted to $11.7 million. Added to the $344 million of locally assessed property taxes, this means a total of $355.7 million for distribution in 1949 as follows:

	Amount of Tax (millions)	Per Cent Distribution
Municipalities (including net reserve for uncollected taxes)	$147.3	41.4%
County (including district court and county library)	68.9	19.4
Local school districts (including regional high schools	139.5	39.2
Total	$355.7	100.0%

Taxes Administered by Counties

Counties in New Jersey play a minor role in the administration of State and local taxes. The only county administered tax is the bank stock tax which amounted to $1.8 million in 1949 to represent 0.3 per cent of all State and local taxes. For all practical purposes the bank stock tax is self-assessed by the taxpayer. Banks and the counties serve as receiving agents in the collection of the tax which is divided equally between the county and the municipality in which the bank is located.

State Administered Taxes

Although the State administers taxes which account for only 41.6 per cent of all State and local taxes, it is responsible for almost all non-property taxes for both State and local purposes. As shown in Table 5, the $246.4 million of State administered taxes in 1949 included $41 million of taxes for local purposes and $71.7 million of payroll taxes for unemployment compensation and cash sickness benefits. In part, as a result of legislative changes, and in part, as a result of increased prices and business activity, State administered non-property taxes have increased in relative importance within an over-all increase of 51 per cent in all State and local taxes between 1939 and 1949. State administered taxes increased 74 per cent as compared with 38 per cent for municipally administered taxes. State administered taxes for local purposes increased 89 per cent. The State derives no revenue from locally administered taxes, but it administers 10 per cent of all local tax sources in addition to providing State aids from State tax sources.

The principal local taxes assessed by the State are those upon the gross receipts of public utilities and Class II railroad taxes. Utility gross receipts taxes amounting to $28 million in 1939 are assessed by the State and apportioned among the municipalities for local collection according to the location of scheduled property of the utility taxpayers. State costs incurred in the administration of utility taxes and paid directly to the State are deducted from the amount apportioned to municipalities. In contrast, the local tax upon Class II railroad property is both assessed and collected by the State and paid to the municipalities where the property is located without deduction for administrative costs. Class II railroad taxes are assessed at local property tax rates upon valuations determined by the State.

Other State administered local taxes include the net worth tax upon financial businesses ($356,000), 5 per cent of the resident inheritance taxes ($401,000), one-half of automobile fire insurance premiums taxes ($571,000), and the outdoor advertising tax, less administrative cost ($69,000). Totaling $1.4 million in 1949, these State taxes were made available in various ways for municipal and county purposes.

Well over half of all taxes for State use are designated for special purposes. These include payroll taxes for unemployment compensation and cash sickness benefits, highway users' taxes, taxes upon foreign fire insurance companies for the New Jersey Firemen's Home and the Firemen's Association, and one-eighth of foreign automobile insurance company taxes for the State Police retirement fund. Altogether these special purpose taxes totaled $134.5 million in 1949 to account for 65.6 per cent of the $205 million of all State purpose taxes. This means that only $70.5 million, or 34.4 per cent of all State taxes were clearly available for general State purposes, including the payment of State aid to local governments, as indicated below:

	Amount of Tax (millions)	*% of All State Purpose Taxes*
Special Purpose Taxes:		
Payroll taxes	$71.7	35.0%
Highway users' taxes	62.3	30.4
Foreign fire insurance taxes (for Firemen's Home and Firemen's Association)	.4	
One-eighth of foreign auto insurance taxes[1] (for State Police retirement fund)	.1	.
Total Special Purpose Taxes	$134.5	65.6%
All Other State Purpose Taxes	70.5	34.4
Total State Purpose Taxes	$205.0	100.0%

[1] One-half of foreign automobile insurance taxes are paid to county police pension fund and municipal police and firemen's pension fund (shown in Table 2 as local purpose taxes)—three-eighths of tax is paid to general state fund.

State taxes associated with highway use in 1949 were divided almost equally between gasoline tax at 3 cents per gallon ($30 million) and motor vehicle and drivers' licenses ($32.2 million). While nominally dedicated for highway purposes, these taxes have provided revenues in excess of highway expenditures, thus making it possible to use them to finance other State services.

The two largest State taxes for general purposes are those upon alcoholic beverages and cigarettes. These taxes upon selective commodities totaled $32.5 million in 1949 to provide 15.9 per cent of all taxes for State purposes and 46.1 per cent of all general purpose State taxes. Alcoholic beverage taxes increased 71 per cent from $8.6 million in 1939 to $14.8 million in 1949. The cigarette tax is a new addition to the New Jersey tax structure and was collected for the first time in 1949.

Taxes upon pari-mutuel betting were the source of $9.9 million, or 14.0 per cent of all general purpose State taxes in 1949. Another newcomer into the New Jersey family of taxes, pari-mutuel taxes were applied for the first time in 1942.

Inheritance and estate taxes have for many years been a traditional but somewhat erratic source of State tax revenue. In 1949 these taxes totaled $9.5 million and the State's share of $9.1 million represented 12.9 per cent of all general purpose State taxes.

General corporations paid State taxes amounting to $8 million in 1949. Insurance companies and railroads provided another $12 million of State tax revenues to bring the total of clearly business State taxes to $20 million. After adjustment for the small amount of insurance taxes dedicated for local and special State purposes, these business taxes provided 27.0 per cent of all taxes available for general State purposes.

In summary, the structure of tax support for general State purposes in New Jersey rests upon a foundation of cigarettes (25.1 per cent), alcoholic beverages (21 per cent), pari-mutuel racing (14 per cent), inheritances (12.9 per cent), general corporations (11.3 per cent), insurance companies (9.2 per cent), and railroads (6.5 per cent).

Distribution of State and Local Taxes Among Taxpayers

Distribution as Between Business and Individuals

Most State and local tax measures in New Jersey can be segregated more or less definitely as between those which apply to business and those which apply to individuals. However, the presence of two major exceptions to this rule causes any reliable over-all separation of taxes to apply to less than one-half of the total amount of taxes. First, local general property taxes upon real estate represented about one-half of all State and local taxes in 1949, and information is not available from which to apportion these taxes as between property owned for business purposes and property owned by individuals for personal use with any assurance of accuracy. Secondly, in the same way the State gasoline tax amounting to 5 per cent of all taxes applies to business users as well as individuals and there is no clear way to separate them.

Upon this basis Table 6 shows the approximate distribution of 1949 State and local taxes as between business and individual taxpayers. The real estate and gasoline taxes totaling $322 million are shown as mixed in their allocation. All other taxes total $270 million and are divided roughly as between $160 million of business taxes and $110 million taxes upon individuals.

General property taxes assessed to business and individuals upon their real estate were the source of 75.6 per cent of all local purpose taxes in 1949. The 24.4 per cent of local taxes from sources other than real property totaled about $95 million and was derived largely from taxes upon business. Non-real estate local taxes upon individuals in 1949 amounted to $8 million of which $7.5 million represented general property taxes assessed upon household personal property.

Some $44 million of local taxes upon business resulted from the taxation as general property of business tangible personal property and the intangibles of insurance companies. Another $40 million represented State administered local taxes upon railroad property and gross receipts of public utilities. Local taxes upon banks, financial businesses, automobile fire insurance premiums, motor bus excises, and billboards totaled $3.2 million.

Taxes for all State purposes in 1949 included the $30 million of gasoline taxes applicable to business and individuals and $175 million of other taxes apportioned roughly as between $73 million upon business and $102 million upon individuals. These totals include $71.7 million of payroll taxes derived $27.4 million from employees and $44.3 million from employers.

State purpose taxes, exclusive of gasoline and payroll taxes, totaled $203.3 million of which approximately 27.7 per cent was paid by business and 72.3 per cent was paid by individuals. While $8 million of the business tax for State use was derived from the general corporation franchise tax, almost $12 million was obtained from selective business taxes upon railroads and insurance companies. There is no State tax which rests upon unincorporated business as such.

TABLE 6

Distribution of New Jersey State and Local Taxes as Between Business and Individual Taxpayers—1949

(Millions of Dollars)

Tax Measure	Local Purpose Taxes				State Purpose Taxes				All State and Local Taxes			
	Business	Individual	Mixed	Total	Business	Individual	Mixed	Total	Business	Individual	Mixed	Total
General Property (excluding Railroad)												
Real estate	....	....	$292.5	$292.5	....	....	....	....	....	....	$292.5	$292.5
Tangible personal property	$39.1[1]	$7.5	....	46.6	....	....	....	....	$39.1	$7.5	....	46.6
Intangible personal property	4.9	....	....	4.9	....	....	....	....	4.9	....	....	4.9
Total General Property (excluding Railroad)	$44.0	$7.5	$292.5	$344.0	....	....	....	....	$44.0	$7.5	$292.5	$344.0
Railroads and Public Utilities	$40.0	....	....	$40.0	$4.6	....	....	$4.6	$44.6	....	....	$44.6
General Business Corporations	....	....	....	....	8.0	....	....	8.0	8.0	....	....	8.0
Insurance and Financial Corporations	2.7	....	....	2.7	6.9	....	....	6.9	9.6	....	....	9.6
Inheritance and Estate	....	.4	....	.4	....	$9.1	....	9.1	....	9.5	....	9.5
Alcoholic Beverage	....	....	....	....	....	14.8	....	14.8	....	14.8	....	14.8
Cigarette	....	....	....	....	....	17.7	....	17.7	....	17.7	....	17.7
Pari-Mutuel Betting	....	....	....	....	....	9.9	....	9.9	....	9.9	....	9.9
Motor Fuel	....	....	....	....	....	....	$30.0	30.0	....	....	30.0	30.0
Motor Vehicle, Drivers' Licenses, etc[2]	....	....	....	....	9.0	23.2	....	32.2	9.0	23.2	....	32.2
All Other Taxes	.1	....	....	.1	.1	....	....	.1	.2	....	....	.2
Payroll (U. C.) Tax	....	....	....	....	44.3	27.4	....	71.7	44.3	27.4	....	71.7
Total	$86.8	$7.9	$292.5	$387.2	$72.9	$102.1	$30.0	$205.0	$159.7	$110.0	$322.5	$592.2
Percentage Distribution	22.4%	2.0%	75.6%	100.0%	35.6%	49.8%	14.6%	100.0%	27.0%	18.6%	54.4%	100.0%

1 Local property taxes upon business inventories ($22.4 million); other business **tangibles ($16.0 million)**; farm stock and machinery ($0.7 million).

2 Receipts from motor vehicles registrations, drivers' licenses and other fees are apportioned between business and individuals by using the approximate percentage (28%) which various types of commercial registrations have been of total revenues for the last three years.

Taxes Paid by Business—General Property Taxes

As the largest tax paid by general business in New Jersey, the local general property tax applies to the assessed valuation of business tangible personal property and real estate at the same tax rates at which non-business property is taxed. Property taxes upon such business tangibles as inventories and machinery and equipment represented 10.8 per cent of all local property taxes in 1949. While the reported amount of property taxes resting upon real estate is not divided as between business property and non-business property, it is common knowledge that business is a large real estate taxpayer.

In 1949 a sample of 5,600 business corporations reported assessed valuations of land amounting to about 8 per cent of the taxable value of all lands and buildings in the State. These same corporations reported assessed valuations of tangible personal property representing 28 per cent of all business tangibles assessed for taxation. Upon this basis rough estimates indicate that business real estate represents something like $1,400 million of the $4,851 million total real estate assessed for taxation in the State. Concentration of business real estate in metropolitan taxing districts suggests that business real estate probably accounts for at least 31 per cent of all general property taxes assessed to real estate. The *Commission* recognizes that such an estimate is at best a most nebulous one but it feels compelled to point out that the largest business tax in New Jersey is the real estate tax.

General property taxes applicable to special business include State assessed Class II railroad property and intangibles of insurance companies. In 1949 these two classes of property accounted for 4.2 per cent of the over-all general property tax base and 4.7 per cent of all general property taxes assessed.

Upon this basis rough but conservative estimates indicate that the New Jersey general property tax rests upon business as follows:

	Business Taxpayers		*All Taxpayers*		*Business as % of Total*	
	Valuation	*Tax*	*Valuation*[1]	*Tax*	*Valuation*	*Tax*
	(amounts in millions of dollars)					
Real estate	$1,400	$90.0	$4,776	$292.4	29%	31%
Tangible personal property	632	38.4	769	46.6	82	82
Class II railroad property	175	11.7	175	11.7	100	100
Intangibles of insurance companies	75	4.9	75	4.9	100	100
Total—General Property	$2,282	$145.0	$5,795	$355.7	39%	41%

[1] Net valuation taxable, after exemptions and deductions.

Outside the area of the general property tax a large portion of all business taxes in New Jersey rest upon selective businesses. These taxes include local purpose taxes paid by public utilities upon their gross receipts ($28 million in 1949) and by banks and financial businesses upon their capital ($2.1 million). Other selective business taxes are those upon insurance companies ($7.4 million) and State purpose taxes upon railroads ($4.6 million).

Taxes Paid by Individuals

Individuals pay taxes in New Jersey only when they own property, die, drink, smoke cigarettes, bet on horses or drive an automobile. Outside of these taxable activities, employed individuals may pay up to 1 per cent tax upon the first $3,000 of their annual wage, but this tax is largely in the nature of an insurance premium against the contingency of unemployment or sickness and is in no way a payment for general State and local governmental services.

Individuals who own real estate are taxable upon its value as determined by local assessment and at local tax rates. While all individuals who own such tangible property as household furniture, objects of art and other personalty are liable for taxation at local general property rates upon its value, this tax is assessed in a haphazard manner and for all practical purposes is nominally effective only as it applies to homeowners. Particularly in the larger cities, the household personal property tax is the source of considerable tax delinquency of a sort which costs more to collect than to write off, and for this reason receives little attention from local tax assessors. In Hudson County municipalities, the household property tax is not assessed at all. Outside of Hudson County nine municipalities with population in excess of 50,000 (1940) reported 19 per cent of all household personal property tax assessed in 1949 as compared with 30.7 per cent of all non-railroad general property taxes.

Aside from the general property tax only the gasoline tax and the motor vehicle fees bear any relationship to the benefits derived from State and local services and none of them can be termed measures of ability to pay taxes. It is entirely possible for individuals of substantial means to reside in New Jersey and pay no direct taxes for the support of State and local government.

The extent to which individuals who are not reached by direct taxation are taxed indirectly is a matter of conjecture. The two taxes most often considered in this respect are the general property tax upon rented homes and the public utilities tax measured by gross receipts. In the case of the property tax upon rented homes, there can be no question that taxes enter into the costs taken into account by landlords in determining the amount of rental charges. However, taxes are but one of several factors influencing rentals and particularly in the face of rent controls, there is no clear indication that the tax rests entirely upon the renter or that a changed tax picture would bring any change in the level of rents. Gross receipts taxes paid by utilities are among the costs entering into rate determinations, but to the extent that such taxes are passed on to consumers, they apply to property owners and renters alike. Upon this basis there seems little basis for contending that discrepancies in direct taxes as between property owners and renters are corrected by the application of indirect taxes.

CHAPTER III

BUSINESS TAXATION

A. PERSONAL PROPERTY

The taxation of personal property today bears the hallmark of the general property tax of which it is a part. To read the law, is to believe that personal property, that is, household goods, farm stock and machinery, industrial machinery and equipment, office furniture and fixtures, raw materials, work in process, semi-finished goods and finished goods, are all one and the same kind of land and buildings for purposes of taxation. The so-called General Tax Act talks in terms of the levy, assessment and collection of taxes on "real and personal property." It differentiates little between real property and personal property, between fixed personal property, such as machinery, and personal property held solely for purposes of resale, such as inventories of raw material, work in process, semi-finished goods and finished goods. The law does provide that the values of such inventories shall be determined as the average value during the year, and it even exempts from taxation merchandise which is stored in a public warehouse. The law provides no assistance for determining the average value, and if any assessor is seeking to determine such an average value he would be a most rare case.

While the law requires the assessment of personal property at 100 per cent of its value, it is common knowledge that no assessor seeks to enforce the law as written. If he did, there would be a flight of such personal property as could be moved to more hospitable soil. The experience ranges all the way from a complete failure to assess one form or another of personal property to a reasonably full exploitation according to what the traffic will bear. Table 7 shows that of the 563 municipalities there are 543 which assess personal property in the form of household goods, 495 levy some assessment on business inventories and 491 on other business personalty such as machinery and equipment. The table also shows that there is no significant difference in this regard between municipalities with low tax rates as compared to those with higher tax rates.

More municipalities are assessing personal property at the present time than were assessing it three years ago. In the case of business personalty the greatest percentages of municipalities assessing this type of property occurs in those having a tax rate between $5.00 and $5.99. In the lowest tax rate group, that is, those having a tax rate under $3.00, only 77.8 per cent assess business inventories, although 88.9 per cent of the municipalities assess other business personalty. Table 7 shows that over all there is a rather general use of the personal property tax, but it does not show the extent to which the degree of use varies among municipalities.

The *Commission's* studies show that there is still ample room for "tax lightning" to strike in the field of personal property. The "lightning" strikes when an assessor who has been assessing personal property at only a small fraction of its true value suddenly and sharply increases the ratio of his assessment to true value. He may do this for the current year and may even reach "omitted property" for two years back. So long as the assessment does not exceed 100 per cent of true value there would be no legal recourse for protection. This is "tax lightning" to the taxpayer who is stricken.

Three years ago this *Commission* declared: "The *Commission* believes that the present situation with respect to the tangible personal property tax is intolerable. It also believes that some new manner of taxing this type of property must be adopted, and that the longer the present situation is permitted to continue the more difficult the readjustment will become." When this statement was made the total amount of taxes assessed on business personal property was $28.6 million. In the three years which have elapsed this has risen to $38.4 million. In the short space of three years the tax assessed against business personalty has thus increased 35 per cent while the tax assessed against general property (excluding railroads) increased 28.7 per cent.

Table 8 shows that tangible personal property represented 13.1 per cent of the general property tax in 1949, but the tax on business inventories and on other business personalty such as machinery and equipment amounted to 10.8 per cent alone. By its very nature the personal property tax problem is thus primarily a problem in the taxation of business—in that business provides 82.5 per cent of the yield.

TABLE 7

Tangible Personal Property Within General Property Tax in New Jersey By Municipalities According to General Property Tax Rates—1949

(Amounts in Thousands of Dollars)

		Distribution by Tax Rate					
Item	*Totals*	*Under $3*	*$3-$3.99*	*$4-$4.99*	*$5-$5.99*	*$6-$6.99*	*$7 or More*
1. Total number of municipalities	563	9	26	70	159	150	149
2. No. of municipalities assessing tangible personal property:							
A. Household goods	543	8	25	66	156	144	144
B. Farm tangibles	336	6	18	57	92	82	81
C. Business inventories	495	7	24	61	147	136	120
D. Other business	491	8	24	64	145	126	124
3. Per cent of all municipalities assessing tangible personal property:							
A. Household goods	96.4%	88.9%	96.2%	94.3%	98.1%	96.0%	96.6%
B. Farm tangibles	59.7	66.7	69.2	81.4	57.9	54.7	54.4
C. Business inventories	87.9	77.8	92.3	87.1	92.5	90.7	80.5
D. Other business	87.2	88.9	92.3	91.4	91.2	84.0	83.2
4. Total general property tax assessed	$355,689	$1,314	$3,329	$25,174	$124,348	$133,141	$68,383
5. Tangible personal property tax assessed:							
A. Household goods	$7,478	$10	$63	$508	$3,674	$2,034	$1,190
B. Farm tangibles	687	14	26	133	208	134	171
C. Business inventories	22,436	292	146	1,514	5,623	10,911	3,949
D. Other business	16,031	218	251	1,640	5,618	5,850	2,455
	$46,631	$534	$486	$3,795	$15,123	$18,929	$7,764
6. Tangible personal property tax as per cent of total general property tax:							
A. Household goods	2.1%	0.8%	1.9%	2.0%	3.0%	1.5%	1.7%
B. Farm tangibles	0.2	1.1	0.8	0.5	0.2	0.1	0.3
C. Business inventories	6.3	22.2	4.4	6.0	4.5	8.2	5.8
D. Other business	4.5	16.6	7.5	6.5	4.5	4.4	3.6
Total	13.1%	40.6%	14.6%	15.0%	12.2%	14.2%	11.4%

Source: New Jersey County Abstracts of Tax Ratables.

TABLE 8

Amount and Source of General Property Taxes Assessed in New Jersey 1946-1949

(Amounts Rounded to Millions of Dollars)

	1946	*1947*	*1948*	*1949*	*% Change 1946-1949*	*% Distribution 1946*	*% Distribution 1949*
Real property	$227.2	$253.5	$274.1	$292.4	28.7%	82.9%	82.2%
Railroad property	7.4[1]	6.5[1]	12.1	11.7	57.4	2.7	3.3
Tangible personal property:							
(a) Household goods	5.6	6.5	6.8	7.5	33.8	2.0	2.1
(b) Farm stock and machinery	0.5	0.5	0.6	0.7	48.2	0.2	0.2
(c) Business inventories	17.0	19.2	20.8	22.4	32.0	6.2	6.3
(d) Other business tangibles	11.6	12.8	14.5	16.0	38.2	4.2	4.5
Total—tangibles	$34.7	$39.0	$42.7	$46.6	29.8%	12.6%	13.1%
Intangibles of insurance companies	4.7	5.1	5.3	4.9	2.1	1.8	1.4
Total general property tax	$274.1	$304.1	$334.2	$355.7	29.8%	100.0%	100.0%

[1] Tax on Class II railroad property at 3 per cent and one-half railroad franchise tax included in general property tax for purpose of comparison with later years.

Source: New Jersey County Abstracts of Tax Ratables.

Potential "Tax Lightning"

The *Commission* has estimated that the book value of all tangible personal property used in business in New Jersey totaled at least $3 billion in 1949, an increase of 50 per cent over the $2 billion estimated for 1946. In contrast to this over-all estimate, the assessed valuation of business tangibles totaled $632.3 million. The difference between the total value and the assessed value—$2,377 million—is today's measure of potential "tax lightning." It appears that full application of the general property tax law to all business tangibles throughout the State in 1949 would have increased the assessed valuation of such property to about 3.8 times what actually prevailed. Where "tax lightning" may strike and when depends upon the location of pressures upon local governments for additional services within their restricted tax resources.

While there may be some basis for questioning the use of book value as indicative of true value, the differences in the case of tangible personal property are probably not large. Particularly in the case of business inventories, book value is perhaps as accurate an indicator of market value or true value as can be obtained in the aggregate. In the case of assets of a more permanent or fixed nature, book values tend to understate the actual value in periods of high level prices such as the present.

As of 1949, the conditions are estimated by Tables 9, 10 and 11 which show:

> A marked disparity in the aggregate assessment ratio (ratio of assessed to book values) between buildings and improvements and tangible personal property. For the State as a whole, the former is 63.9 per cent while the latter is 21.7 per cent. As among individual municipalities as well as among major classes of business, these variations are extreme (Tables 9 and 10).
>
> A disgraceful inequality as among similar taxpayers not only in different parts of the State but even within the same municipality (Table 11).

TABLE 9

General Property Assessment Ratios—By Major Taxing Jurisdiction

Sample of Corporation Franchise Tax Returns—1949

(Amounts Rounded to Millions of Dollars)

	Newark	Jersey City	Bayonne	Elizabeth	Paterson	Passaic	Camden	Trenton	All Other Munici- palities	State Total
Book Value of Property in Sample:										
(a) Land	$28.4	$11.2	$0.7	$5.1	$7.0	$3.5	$4.9	$3.4	$116.8	$191.1
(b) Buildings and Improvements	51.6	37.2	2.1	7.0	10.4	11.3	10.0	8.4	274.5	412.5
(c) Tangible Personal Property	117.0	65.8	5.4	13.9	26.2	27.1	25.3	27.0	515.4	823.0
Total Book Value	$207.1	$114.1	$8.2	$26.1	$43.6	$41.9	$40.2	$38.8	$906.6	$1,426.7
Assessed Value of Property in Sample:										
(a) Land	$21.1	$9.5	$0.9	$3.4	$4.7	$3.0	$4.1	$2.6	$73.1	$122.3
(b) Buildings and Improvements	40.5	29.9	1.7	4.2	6.6	6.9	7.5	5.3	161.0	263.7
(c) Tangible Personal Property	40.8	23.1	.8	3.7	4.7	5.3	7.9	5.8	86.9	178.9
Total Assessed Value	$102.4	$62.5	$3.3	$11.3	$15.9	$15.2	$19.5	$13.7	$321.0	$564.9
Assessment Ratio for Sample:										
(a) Land	54.9%	84.9%	117.0%	66.7%	67.3%	83.7%	83.8%	75.1%	62.6%	64.0%
(b) Buildings and Improvements	78.4	80.5	81.3	60.2	63.4	61.3	74.9	62.9	58.7	63.9
(c) Tangible Personal Property	34.9	35.1	14.8	26.3	17.8	19.5	31.3	21.5	16.9	21.7
Average Assessment Ratios	49.5%	54.8%	40.8%	43.4%	36.6%	36.2%	48.6%	35.3%	35.4%	39.6%
Total Assessed Value of All Property:										
(a) Land	$180.3	$168.1	$43.3	$36.8	$50.6	$23.8	$36.1	$36.6	$988.2	$1,503.9
(b) Buildings and Improvements	338.4	210.3	65.9	85.1	112.1	50.3	81.0	92.8	2,311.3	3,347.2
(c) Business Tangibles	128.3	58.6	24.8	15.0	17.8	19.5	18.1	26.5	323.7	632.3
Total Assessed Value of All Property[1]	$656.6	$377.0	$134.0	$139.5	$184.7	$95.3	$140.3	$162.1	$3,796.2	$5,685.7
Sample as Per Cent of Total Assessed:										
(a) Land	11.7%	8.8%	2.0%	9.3%	9.3%	12.5%	11.4%	7.1%	7.4%	8.1%
(b) Buildings and Improvements	12.0	14.2	2.6	5.0	5.9	13.8	9.3	5.7	7.0	7.9
(c) Business Tangibles	31.8	39.4	3.2	24.4	26.2	27.1	43.7	21.9	26.8	28.3
Average Per Cent of All General Property[1]	15.6%	16.6%	2.5%	8.1%	8.6%	15.9%	13.9%	8.5%	8.5%	9.9%

[1] Total includes household and farm tangibles not shown separately.

Source: New Jersey Corporation Franchise Tax Returns, 1949; New Jersey County Abstracts of Tax Ratables, 1949.

TABLE 10

General Property Assessments

Ratio of Assessed to Book Values, by Major Industry Group, 1948

(A Sample of 5,624 Corporation Franchise Tax Returns, 1949)

(Amounts Rounded to Millions of Dollars)

	Mining and Quarrying	Manufacturing	Public Utilities	Wholesale Trade	Retail Trade	Services	Finance, Insurance, Real Estate	Construction	Agriculture, Forestry, Fishing	Not Reported	Totals
Book Value of Property in Sample:											
(a) Land	$939	$38,776	$3,246	$4,231	$10,395	$14,091	$76,869	$714	$447	$41,399	$191,107
(b) Buildings and Improvements	1,069	167,326	11,833	8,002	15,174	29,016	109,888	1,343	735	68,136	412,522
(c) Tangible Personal Property	4,212	539,177	15,959	49,319	81,152	13,283	6,774	2,065	1,019	110,064	823,024
Total Book Value	$6,220	$745,279	$31,038	$61,552	$106,721	$56,390	$193,531	$4,122	$2,201	$219,599	$1,426,653
Assessed Value of Property in Sample:											
(a) Land	$345	$27,509	$2,362	$2,691	$5,566	$6,273	$46,712	$362	$288	$30,239	$122,347
(b) Buildings and Improvements	374	88,401	9,174	4,894	17,315	16,154	74,485	507	534	51,855	263,693
(c) Tangible Personal Property	1,041	99,127	4,236	10,763	24,401	5,364	3,007	995	214	29,724	178,872
Total Assessed Value	$1,760	$215,037	$15,772	$18,348	$47,282	$27,791	$124,204	$1,864	$1,036	$111,818	$564,912
Assessment Ratio for Sample:											
(a) Land	36.7%	70.9%	72.8%	63.6%	53.5%	44.5%	60.8%	50.7%	64.4%	73.0%	64.0%
(b) Buildings and Improvements	35.0	52.8	77.5	61.2	114.1	55.7	67.8	37.8	72.7	76.1	63.9
(c) Tangible Personal Property	24.7	18.4	26.5	21.8	30.1	40.4	44.4	48.2	21.0	27.0	21.7
Total Assessed to Book	28.3%	28.9%	50.8%	29.8%	44.3%	49.3%	64.2%	45.2%	47.1%	50.9%	39.6%
Number of Corporations Sampled	31	1,513	175	439	792	267	1,358	57	15	977	5,624

Source: New Jersey Corporation Franchise Tax Returns, 1949.

TABLE 11

Personal Property Assessments

Ratios of Assessed to Book Values in Seven Cities

By Assessment Ratio Class, 1948—(A Sample of 1,326 Corporation Franchise Returns, 1949)

	Under 10%	10%-19.9%	20%-29.9%	30% 39.9%	40% 49.9%	50% 59.9%	60% 69.9%	70% 79.9%	80%-89.9%	90%-99.9%	100% and Over	Total
Newark:												
Number of corporations	79	95	81	60	42	24	23	18	6	20	116	564
Total book value	$26,863	$23,149	$17,598	$14,936	$12,756	$2,370	$1,961	$1,710	$262	$2,815	$12,595	$117,015
Total assessed value	1,358	3,497	4,316	5,042	5,949	1,284	1,253	1,285	219	2,760	13,854	40,817
Assessment ratio	5.1%	15.1%	24.5%	33.8%	46.6%	54.2%	63.9%	75.1%	83.6%	98.0%	110.0%	34.9%
Jersey City:												
Number of corporations	29	20	26	23	12	7	4	2	0	6	56	185
Total book value	$6,855	$8,925	$31,777	$2,900	$6,653	$352	$2,407	$29	0	$413	$5,443	$65,754
Total assessed value	234	1,423	7,414	995	3,189	185	1,491	22	0	402	7,742	23,097
Assessment ratio	3.4%	15.9%	23.3%	34.3%	47.9%	52.6%	61.9%	75.9%	0	97.3%	142.2%	35.1%
Paterson:												
Number of corporations	51	31	31	10	4	8	1	2	1	2	15	159
Total book value	$10,844	$8,876	$3,431	$1,063	$346	$190	$70	$11	$107	$465	$810	$26,213
Total assessed value	497	1,239	843	372	147	106	46	8	96	463	847	4,664
Assessment ratio	4.6%	14.0%	24.6%	35.0%	42.5%	55.8%	65.7%	72.7%	89.7%	99.6%	104.6%	17.8%
Camden:												
Number of corporations	29	16	8	5	5	1	3	3	0	2	36	108
Total book value	$9,816	$9,198	$1,153	$389	$285	$29	$203	$110	0	$80	$4,000	$25,263
Total assessed value	569	1,169	255	134	124	15	126	80	0	78	5,344	7,894
Assessment ratio	5.8%	12.7%	22.1%	34.4%	43.5%	51.7%	62.1%	72.7%	0	97.5%	133.6%	31.3%
Passaic:												
Number of corporations	35	17	7	3	2	1	0	2	1	2	19	89
Total book value	$16,820	$1,627	$4,536	$2,335	$44	$7	0	$40	$39	$52	$1,583	$27,083
Total assessed value	1,371	258	1,131	764	19	4	0	30	35	50	1,617	5,279
Assessment ratio	8.2%	15.9%	24.9%	32.7%	43.2%	57.1%	0	75.0%	89.7%	96.2%	102.1%	19.5%
Trenton:												
Number of corporations	19	30	24	12	12	9	5	4	5	0	32	152
Total book value	$4,622	$14,839	$3,191	$1,253	$787	$718	$200	$105	$115	0	$1,128	$26,958
Total assessed value	325	1,887	755	433	361	384	127	79	92	0	1,363	5,806
Assessment ratio	7.0%	12.7%	23.7%	34.6%	45.9%	53.5%	63.5%	75.2%	80.0%	0	120.8%	21.5%
Elizabeth:												
Number of corporations	24	14	8	2	3	1	1	1	1	3	11	69
Total book value	$5,268	$3,622	$2,281	$64	$456	$39	$151	$7	$145	$143	$1,763	$13,939
Total assessed value	229	533	532	22	196	22	93	5	130	136	1,768	3,666
Assessment ratio	4.3%	14.7%	23.3%	34.4%	43.0%	56.4%	61.6%	71.4%	89.7%	95.1%	100.3%	26.3%

* Ratio of assessed value to book value.

The conclusion is this:

> Even assuming that personalty would not be assessed in excess of the going rate for realty—the figures still allow for "tax lightning" assessments to strike personalty on an average of up to THREE TIMES their present ratio of assessed to book value, and many could go a great deal higher. *This is a thoroughly unsound condition for any tax law—it is a hazardous if not intolerable position for any business.*

USE OF PERSONAL PROPERTY TAX

The personal property of business includes its machinery and equipment, furniture and fixtures, and its inventories. The property known as inventories may in turn be divided into raw materials, work in process, semi-finished goods and finished goods, in the case of manufacturers. In the case of wholesalers and retailers the inventories are normally known as stock-in-trade. The extent to which this kind of property is now taxed, as well as taxable, is shown in Table 9. That table shows how the eight largest cities and all other municipalities in the State treat personal property of business. As a point of common comparison, the table uses the book value of this property as carried on the books of some 5,624 corporations. This is shown in the table as \$191.1 million for land, \$412.5 million for buildings and improvements, and \$823.0 million for tangible personal property, throughout the State.

Of the total of \$1,426.7 million, \$520.1 million, or more than a third of the book value of all the property used in business is accounted for by property located in the eight largest cities. In the case of personal property alone only \$207.6 million out of \$823.0 million, or about 25 per cent of the book value is located in these eight largest cities. Comparing the assessed value of the personal property with these book values, shows an almost complete reversal in that \$92.0 million of all the tangible personal property out of a total of \$178.9 million is located in the eight largest cities. That is, while only 25 per cent of the book value is shown in the eight largest cities, over 50 per cent of the assessed value is shown in those cities—which is clear evidence that so far as the personal property tax on business is concerned it is being used to a much greater extent in the cities than outside the cities.

Anyone might ask, is not the remedy for the morass of inequities an improved system of assessment and equalization? Implied in the question is the premise that there is nothing wrong with the personal property tax on business that a proper administration could not correct. It is the fallacy of this premise that lies at the root of the problem. The inherent economic characteristics of machinery and equipment and of business inventories are so different from each other and even more so from those of land, that any tax system which assumes to treat them alike is destined to produce at its best severe inequalities and inequities.

Table 12 shows that inventories as a per cent of assets among manufacturing companies amounted to 34.53 per cent, whereas in retailing the percentage was 35.51 per cent and in wholesaling it became 45.64 per cent. In other words, wholesale trade inventories were half again as large a percentage of total assets as they were in manufacturing. Among industries in the same major group, the differences are more significant. In manufacturing, inventories as a per cent of assets range from 16.70 per cent in stone and clay products, to 45.24 per cent in apparel. Even in retail trade the difference is spread between a ratio of 30 per cent for women's ready to wear and furniture groups to 47 per cent for the hardware and shoe groups. From the viewpoint of an ad valorem tax, such as the New Jersey general property tax, it might be argued that this difference is not material since all assets would be treated alike. The answer is that the erratic tax treatment of inventories as compared to fixed assets gives the wholesaler a relatively greater opportunity to enjoy a large volume of business with less exposure to the property tax than a company which requires a substantial part of its assets to be in the form of fixed capital, that is, in the form of land, buildings, machinery and equipment.

Table 12 shows an even more significant difference in the turnover of inventories among different industries. The volume of sales as a multiple of inventory, known as the inventory turnover ratio, is significant in showing how a given value of inventory may be employed in different businesses to achieve markedly different business activity or volume. In manufacturing, for example, inventory in the food products group shows a turnover ratio of 13.90 as compared with the 8.60 ratio in the textile mill products. In companies with assets under $250,000 the differences are even

TABLE 12

Relationship Between Inventories and Assets, Sales and Profits for Sample of Business Firms by Major Industry as of About December 31, 1948

Industry	*Number of Companies* — *Assets Under $250,000*	*Number of Companies* — *Total Reporting*	*Inventories As Per Cent of Assets* — *Assets Under $250,000*	*Inventories As Per Cent of Assets* — *Total Reporting*	*Sales As Multiple of Inventories* — *Assets Under $250,000*	*Sales As Multiple of Inventories* — *Total Reporting*	*Profit As Per Cent of Sales* — *Assets Under $250,000*	*Profit As Per Cent of Sales* — *Total Reporting*
1. All Manufacturing	298	1,933	33.08%	34.53%	8.76	6.25	3.02%	4.78%
A. Food products	11	196	31.87	30.76	15.52	13.90	0.78	1.67
B. Textile mill products	14	176	40.45	36.38	8.60	5.32	4.69	5.79
C. Apparel	64	208	44.69	45.24	7.30	6.00	2.63	3.41
D. Leather and leather products	6	95	38.25	39.64	8.47	6.15	....	3.24
E. Lumber products	20	100	40.91	32.03	6.11	6.11	3.16	5.89
F. Paper and paper products	17	105	21.94	25.70	11.65	7.25	3.03	4.07
G. Printing and publishing	38	105	18.37	28.96	12.65	5.27	4.49	5.76
H. Chemicals and chemical products	31	145	34.59	33.22	8.60	5.49	1.50	5.25
I. Stone and clay products	5	45	10.71	16.70	19.51	7.82	4.20	9.47
J. Iron and steel products	35	249	28.39	33.47	9.58	5.87	4.20	6.50
2. All Retail Trade	417	942	43.92	35.51	5.81	7.86	3.97	3.58
A. Food and beverages	18	70	32.18	34.67	16.13	16.25	1.51	1.56
B. Department stores	11	97	44.24	31.40	5.66	7.50	3.73	4.00
C. Men and boys' clothing	29	58	55.17	43.34	3.67	5.05	4.20	4.14
D. Women's ready to wear	33	59	34.41	30.28	7.43	9.57	2.92	3.46
E. Shoes	21	44	61.15	47.45	4.89	6.58	2.99	2.96
F. Furniture	52	112	44.67	30.39	3.79	5.23	5.29	6.03
G. Automobile and accessories	31	83	37.44	30.11	10.06	12.88	4.20	4.88
H. Hardware	32	57	49.53	47.16	4.39	5.30	5.16	4.51
3. All Wholesale Trade	284	961	41.81	45.64	13.26	8.91	1.95	2.17
A. Dairy, poultry, fruit, vegetables	27	63	19.54	28.06	67.79	27.27	0.78	0.74
B. Groceries	25	141	55.08	53.74	10.58	9.45	1.20	0.98
C. Wines and liquors	7	51	33.40	49.31	17.42	7.74	1.85	1.95
D. Tobacco and tobacco products	9	19	38.46	43.76	22.58	15.07	1.43	0.67
E. Textile products and apparel	15	51	51.01	46.66	6.24	7.08	3.61	2.16
F. Shoes	12	21	38.39	39.04	16.52	9.37	1.43	1.51
G. Lumber	26	88	31.74	33.51	14.55	10.86	2.64	3.56
H. Paper and paper products	21	62	47.18	33.73	8.81	12.30	2.07	2.27
I. Iron and steel products	6	21	23.74	19.47	19.50	26.64	4.83	1.94
J. Electrical products	16	41	49.24	42.26	6.49	7.95	3.21	4.05
K. Machinery and equipment	5	53	42.58	45.22	5.72	5.92	5.92	4.84
L. Auto parts and accessories	19	43	52.89	49.69	5.37	5.42	3.95	4.00

Source: Robert Morris Associates, Philadelphia, 1949.

more extreme. Even in retail trade inventory turnover ratio will vary from 5.3 in hardware to 16.25 in food and beverages. In wholesale trade the turnover ratios are extremely high, as would be expected, and show even greater differences as between large and small firms.

By their nature business inventories have value only for the purpose of resale. In accounting terminology they are considered a current asset as compared with machinery and equipment which are considered a fixed asset, similar to buildings. This characteristic of inventories as a current asset is underscored where the varying rates of profit, as a per cent of sales, are studied. It is apparent from the data presented in the table that there is no correlation whatsoever as between the rate of profit on sales and either the rate of inventory turnover or the ratio of inventories to total assets. The profit percentages shown vary all the way from 0.67 per cent to 9.47 per cent. It is common knowledge, of course, that as among individual companies in the same industry the rate of profit on sales may vary even greater than the composite figures as between industries.

> **Any system of taxation which seeks to treat all inventory alike, regardless of whether it is fast moving or slow moving, profitable or not, is thus bound to conflict with inherent characteristics of American business. This conflict is even more pronounced under the present tax system of New Jersey in which inventories are taxable while the yield of their sale, taking the form of cash and accounts receivable, is completely exempt from taxation as property.**

The characteristics of inventory which should determine its taxation treatment have already been summarized in this way:[1]

> "It is perfectly clear that treatment of tangible business personalty, particularly business inventories, under the general property tax, however assessed, is entirely undesirable from an economic viewpoint. The economic objection is directed principally toward any effort to assess inventories of finished goods, work in process or raw materials on an ad valorem basis. This type of property, which has borne the brunt of the present personal property tax on business ($17 million out of a total of $28.6 million in 1946) has greatly varying characteristics from industry to industry, so that in some industries inventory may turn over twice a

[1] New Jersey Commission on State Tax Policy, *Second Report,* p. xiv.

year whereas in others it may turn over twelve times a year or more. The value of raw materials and work in process is especially questionable in those industries where spoilage is an important factor. While slow-moving inventory may be kept on the books at the same value as rapidly moving inventory, it obviously has vastly different characteristics as a tax source. It is well known, moreover, that inventory is readily controllable in some industries, and any attempt at effective application of an ad valorem tax would merely result in a flight of such inventories out of the State. In brief, inventory is mobile, is consumption goods, whereas other forms of personal property are relatively fixed in location and are production goods. It is neither logical nor practical to tax them the same way.

"It is the characteristic of inventory as a current asset, uniformly recognized by accountants, which distinguishes it from machinery and equipment, furniture and fixtures which are similarly recognized as fixed assets. This is no mere distinction of terminology. The fixed assets are, as their designation implies, stable in their location, use and identity. Current assets, however, are constantly fluctuating in amount, in character as between inventory and accounts receivable or cash, and frequently even in location. Any system of taxation which attempts to treat both in the same manner must obviously be unsuited to one or the other."

In summary, ***the Commission finds—***

The law now requires tangible personal property of business, that is, machinery and equipment, furniture and fixtures, inventories of raw materials, work in process, semi-finished goods, finished goods and stocks-in-trade, to be assessed and taxed in the same manner as real estate, but the requirements of the law have been completely disregarded everywhere throughout the State.

The existence of the legal requirements of full value assessment of tangible personal property used in business as against the practice of a frational or no assessment of this kind of property places in the hands of assessors a power to make tax lightning strike—that is, to invoke the full authority of the law at any time and without warning, even to go back two years by "omitted property" assessments. This is an unwholesome tax environment and an intolerable condition of doing business. Its very uncertainty, in fact, is a hazard known to have discouraged the location of new employment-giving enterprise in this State.

Experience throughout the State shows that there has been the greatest disparity among municipalities in the extent of their use and enforcement of the personal property tax.

An analysis of the experience of individual taxpayers, moreover, shows a disgraceful degree of inequality and inequity in the application of the tax not only among municipalities but even within the same municipality.

By its very nature business personal property cannot stand taxation according to its value at the same rates and according to the same standards of value as land and buildings.

The full value of personal property used in business, accordingly, is not now and never can be part of the local property tax base.

The varying economic characteristics of business inventories create a condition in which it is impossible to apply an ad valorem tax which will operate fairly and equitably as among the various types of business.

CONDITIONS OF A SOLUTION

Almost everyone will recognize the problem raised by the present condition of the law regarding the taxation of business personal property, but there may well be substantial differences of opinion as to a solution. Certain conditions must be met by any solution. It should be sound and equitable from the viewpoint of economics and taxation. It should be certain to end the present hazards of "tax lightning." It must of necessity recognize the great diversity of past practice among municipalities and of past experience among taxpayers.

A realistic solution must retain substantial tax flexibility for municipalities, and must provide effective relief against discrimination for taxpayers. Any solution which merely transfers the burden from one group of taxpayers to another, or diverts present inequities and inequalities from one class of property to another would obviously fall short of the requirement. In its net result an acceptable solution must, moreover, save the various municipalities harmless in its effect upon their capacity to finance the needs of local government.

* * * *

There are five approaches to meet the tax problem of business personalty:

1) *To enforce the law as written.*

As a point of beginning the *Commission* is convinced from its studies that many of the problems of the general property tax in New Jersey, as in other States, are attributable to poor administration. This is not so much a reflection on the abilities and willingness of existing assessors, as it is upon the unwillingness of State, county, and municipal governments, and perhaps even of taxpayers themselves, to spend what it would take to establish and staff a fully competent system of property tax administration. There is already enough law on the books to provide the basis for effective equalization through the office of the State director of taxation and various county tax boards. But laws do not administer themselves. There is not a single county board of taxation in the State which is adequately staffed to perform its function of equalization within the county. The State Division of Taxation has one and one-third employees and a total appropriation of $5,200 for the purpose of supervising the assessment and equalization of some $322,160,000 in property taxes upon real and personal property. The result is that 565 local assessment districts each go pretty much their own way, and it is a wonder that some of them go at all in view of their admitted lack of preparation for the job, discouraging compensation, and totally inadequate facilities for assessment.

To enforce the law as written, would thus require at the outset a complete overhauling of the present machinery for assessment and equalization. The *Commission* has set aside a study of the real estate tax for its concentrated attention during the ensuing year, and until such a study has been made it does not seem appropriate to consider separate machinery for the assessment of personal property.

To enforce the law as written could very well clean up the present gross inequalities within the various municipalities, eliminate the danger of tax lightning, and reduce the general tax rate, by the addition of large blocks of personal property ratables now taxable but not taxed. These benefits would have to be measured as against the cost of driving business out of the State, discouraging the location of enterprises requiring heavy investments in machinery and equipment and inventories, and further emphasizing the present discrimination of the tax system against property and in favor of income. From the viewpoint of economic development of the State, moreover, there is a real question as to whether New Jersey could afford to apply the general property tax in a way that no other State has ever succeeded in doing, and in a way which would defy the economic characteristics of personal property which make such property unsuited to the full application of any general property tax.

2) *To abolish ad valorem taxation on business personalty completely, and to adopt some form of in lieu taxation.*

This approach is the other extreme to full enforcement of the general property tax. An in lieu tax, to meet the requirements of an acceptable solution, would have to raise at least $38 million a year, at the current rate of yield of the property tax on business personalty. There would be two ways to provide such in lieu tax—one would be for the State to levy, assess and collect the in lieu tax and to share it with or return it to the municipalities; the other would be for the State to enact enabling legislation authorizing those municipalities which so desired, perhaps those that have been using the personal property tax in the past, to levy, assess and collect some form of in lieu tax. The inter-municipal and inter-State characteristics of business create a condition of tax replacement which would make the second alternative difficult, at least for replacement of the entire business personalty tax. Elsewhere in this report various sources of revenue which could equitably produce the required amount are described. If as a matter of policy the Legislature wishes to follow the lead of the neighboring State of New York which has completely abolished the taxation of personal property as property, one of the available tax sources could be selected for replacement.

The problem of replacing the $38 million in local revenue now being realized from the assessment of business personalty, in such manner as to save the various municipalities harmless almost defies solution. There are such great variations among the municipalities in the extent of their present use of the personal property tax that any plan for the distribution of a fixed sum, other than by giving each municipality an amount equivalent to the amount it raised in some past period, is bound to produce many changes as compared with the present distribution of the tax yield. The alternative possible formulas for the sharing of such a tax all require more or less adjustment, depending upon the amount to be replaced, among municipalities.

3) *To establish a flat rate for State-wide taxation of business personalty, either with or without State administration.*

This approach would recognize the difference between business personalty and real estate. It would seek to cure the tax lightning situation by establishing a rate low enough to be tolerated by business personalty and which would substitute certainty for the present uncertainty. It would require adequate provision for assessment of the tax if its uniformity of rate were not to be defeated by gross irregularities in valuation of the property to which the rate would apply. Since the establishment of a flat rate to be applied State-wide would be justified only from the point of view of achieving inter-municipal uniformity, State assessment would of necessity follow the establishment of a State-wide rate. This approach would have the advantage of cleaning up not only local inequities but would also eliminate inter-municipal inequalities on this class of property. If it were successful, it would bring on new problems of its own.

It has already been noted that if the system were locally administered, valuations could still remain grossly unequal and the advantages of uniformity of treatment would be defeated.

The idea of uniformity as between municipalities also runs counter to the basic difference in tax requirements among municipalities. The only way to avoid inter-municipal tax competition would be to find some way to equalize municipal revenue requirements. To end the competition on business personalty would merely transfer its full effects to business and individually-owned real estate.

As a State administered tax, if sufficient facilities were provided it could be administered with uniformity. If a good job were done on this one class of property at the State level, however, the better the job the more it would create a new inequality within each municipality as between real property locally assessed and personal property State assessed. In most municipalities, the discrimination would operate against the owner of personal property.

This has long been a complaint of the railroads in New Jersey, whose property is State assessed as compared with local assessment of other property. It would soon become the universal complaint of taxpayers throughout the State who were assessed for personal property. It would be inevitable, moreover, that there would be differences of opinion as between the State assessor and the local assessor as to what type of machinery constituted real property locally assessable or personal property State assessable. This has also long been a problem in railroad taxation, where property of railroads not used for railroad purposes is locally assessable as compared with other railroad property which is State assessed. It has not been impossible to handle in the case of railroads, principally because there are not over twenty or so taxpayers. It would become unmanageable were it to affect the interests of tens of thousands of taxpayers.

If the yield of a uniform tax were to be returned to the municipalities where the personalty assessed is situated—and that seems to be the favored way to return an ad valorem tax—many municipalities throughout the State, which have not been enforcing the present law, would receive more than their entire cost of government. They would not even have to use the real estate tax at all.[1] If this result were to be avoided by fixing the State-wide rate low enough, other municipalities which have been enforcing the law would lose substantially. Again the problem of distributing the proceeds of the tax would loom large in any such solution.

Regardless of the method and effect of redistribution to the municipalities, any State-wide flat rate that could be fixed for assessment of inventories according to their value would fall short of the objective of effective reform of the taxing system as applied to inventories. It has been shown that this type of property is not economically fit for continued taxation according to its value at any substantial rate. In the neighboring States of New York and Pennsylvania, moreover, neither State permits State or local taxation of business inventories as property. From the viewpoint of State competition for the location of industry, this should be a significant consideration in New Jersey.

4) ***To establish a classification within the general property tax so that personal property could be locally assessed at set fractions of true or book value.***

The adoption of the new constitution, including the revised tax clause, has freed the Legislature to provide for the taxation of personal property according to various classifications. Under the

[1] An extreme case of applying a predetermined tax rate to local ratables may be found in the result of the assessment of Doris Duke Cromwell by Hillsborough Township for the years 1940 and 1941 under the omitted property provisions of the general tax law. The assessments called for tax payments of nearly $7 million for each year as compared with the township's budget of about $97,000 annually. If the assessments had been collectible the township could have lived for 70 years without levying any other taxes. See *Township of Hillsborough* v. *Doris Duke Cromwell,* 326 U. S. 620, 66 Sup. Ct. 445, 90 L. Ed. 298 (1946).

new clause the Legislature may also provide for uniform standards of value (such as book value) which would serve to eliminate the technicalities of the old "true value" standard as applied to personal property. The State is thus free to deal with the personal property tax problem by using the classified property tax in whole or in part. For this reason it is no longer necessary or desirable to consider the indirect method of classifying the rate.[1]

The experience of other States as well as the intensified difference of treatment during the past three years in our own State has convinced the *Commission* that any method of dealing effectively with the personal property tax problem must allow for variation among the different municipalities in accordance with their revenue needs, unless the first approach of completely abolishing taxation of business personalty as property, is to be adopted. From this point of view a classified property tax would have the advantage of placing a ceiling on the assessment of personalty which could foreclose tax lightning. Like the classified rate, it is unlikely to improve the condition of assessment inequalities among different taxpayers, but such improvement could be left for the time when a complete overhauling of assessment supervision and equalization is undertaken. The classified property tax could give recognition to the differences between personal property and real property and between the various kinds of personal property. It could not overcome the objection that inventory is basically unsuited to ad valorem assessment. Nor would it meet the State's competitive disadvantage in this regard. Under a classified property tax the several classes of property would continue to be locally assessed at the local tax rate but each would be assessed at a fixed fraction of its value. This element of local administration would avoid the inflexibility of a State-wide levy, as well as its difficulty of redistribution.

The *Commission* recommends that if the State wishes to make a start toward a solution of the business personalty tax problem, the least that it could do would be to enact legislation converting the general property tax into a classified property tax.

[1] This was the substance of the Commission's proposal of 1947 with respect to machinery and equipment. See *Second Report*, p. 41 et seq.

5) ***To adopt a classified property tax with respect to land, buildings, machinery and equipment, and to provide some form of in lieu tax with respect to business inventories.***

This approach would take the long range view of the ultimate form of our tax system and would meet the competitive necessities of business faced with the choice of location in New York, New Jersey or Pennsylvania. It would also meet the basic economic objection to ad valorem taxation on inventories. As a solution, it could lay the groundwork for overcoming all of the inequities and inequalities in the present taxation of personal property, without seeking to impose uniformity of rule where there is the greatest diversity of experience. Local assessment of machinery and equipment at a fraction of book value would permit the continuance of the present practice of many assessors, but would give it the sanction of legality and the certainty of definition. It would remain, however, to establish an adequate and effective in lieu tax for inventories.

The great diversity in present practice and usage here again is an obstacle to any uniform tax. The obstacle is smaller in that only $22.4 million of the $38.4 million assessed against business personalty would be involved in the replacement. Even this sum is practically impossible to redistribute without some disturbance of local tax yields. If the Legislature wishes to undertake this fifth approach, the *Commission* would therefore recommend:

a) *An optional local taxing statute which would enable those municipalities which have been taxing inventories in the past to levy, assess and collect a stated in lieu tax.* As a matter of home rule, this group of municipalities could prefer to place their entire local tax burden upon real estate, but if the New Jersey State League of Municipalities speaks for any substantial number this is unlikely. The optional local tax could be applied effectively only to localized business. This would include retailing, services, hotels and amusements. To bring them in would admittedly cover some businesses not now subject to any tax on inventories because they do not use them in business. In any comprehensive view of the tax system, however, it is insufficient to establish equity within the group of taxpayers owning or using inventories—it is equally necessary to establish tax equity as between those businesses which require relatively large amounts of inventory as compared with those which require lesser amounts or none. The *Commission* would recommend that the most appropriate local replacement of the tax on inventories would be a consumers' sales tax or a gross business tax comparable to those optional in New York and Pennsylvania.

b) *As to businesses primarily inter-municipal or inter-State such as wholesale or manufacturing, the Commission would recommend that the in lieu tax be integrated with the existing corporation franchise tax.* Practically all of these businesses are incorporated and are already required to file tax returns under the Corporation Business Tax Act. Any modification of that act could, if the Legislature desired to deal with the problem through this alternative, make appropriate provision for the necessary replacement. Since the replacement would require about $11,000,000, the estimated tax on manufacturing inventories, it could be achieved without excessive disturbance of present local tax yields.

* * *

The *Commission* would add this word of caution: The personal property tax problem will get worse, not better. This was its prediction in 1947 and it is a fact in 1950. The *Commission* believes it is the province of the Legislature to choose among the various acceptable alternative solutions which have been described. We urge only that the future economic well being of the State, to the extent that it may be influenced by the location of new industry requiring substantial capital investment in machinery and equipment and business inventories, demands that the erratic, unsound and grossly inequitable tax on business personal property be recognized as an economic rather than as a political problem and that it be eliminated without further delay.

B. Business Franchise and Privilege Taxes

The principal corporate franchise tax, applicable to all corporations other than those specially taxed or exempt for reasons of public policy, is the Corporation Business Tax Act (1945), as amended to date. That act was adopted as a result of an extensive study of the taxation of intangible personal property and the report of this *Commission* as a result of that study.[1] The new Franchise Tax Act had to be so drawn as to meet certain conditions of 1945, the principal among which was the requirement that certain large holding companies which had colonized in Flemington should pay at least as much under the new Franchise Tax Act as they had been paying in ad valorem property taxes upon their intangibles in Hunterdon County.

[1] New Jersey Commission on Taxation of Intangible Personal Property, *Report* (submitted to the Governor and Legislature, March 26, 1945).

A key factor in the transition from the old ad valorem method of taxing intangible personal property to the new franchise tax was the fact that the holding companies were domestic corporations (or they would not have been subject). When the new act was adopted in 1945, therefore, it presented the somewhat unusual picture of a State discriminating against domestic corporations and in favor of foreign corporations. This discrimination was intentional and was achieved through the design of an allocation formula which would meet the desired conditions as to the domestic holding corporations that were involved. In subsequent years one step toward reduction of this discrimination against domestic corporations was taken in 1947 through a revision in the allocation formula. It is significant that the tax law which had to be designed to avoid favoring the large holding companies also applied with equal force to other domestic corporations engaged in general business in New Jersey.

As a result of this history, unincorporated business gained the advantage of the exemption of intangibles, but has never been called upon to pay any replacement tax. Partnerships and individual proprietorships now pay nothing as such for support of State Government.

An analysis of the corporation franchise tax returns most recently available is presented in Tables 13-17. These tables warrant the conclusion that:

NEW JERSEY DISCRIMINATES

- Against domestic corporations and in favor of foreign corporations
- Against corporations of any kind in favor of partnerships
- Against business requiring substantial capital investment and in favor of those requiring little property and investment—a discrimination compounded by the condition of the business personalty tax
- Against the company with equity capital and in favor of the company with borrowed capital
- Against domestic corporations doing business through subsidiaries or using capital in the form of intangible personal property (accounts receivable, stocks, bonds, securities generally) and in favor of those doing business through departments or branches, or using tangible capital in the form of land, buildings, machinery, inventory, etc.
- Against businesses earning little or no profit and in favor of businesses earning large profits

TABLE 13

Distribution of New Jersey Corporation Franchise Tax

By State of Incorporation

Corporations Using Long Form Returns—1949

State of Incorporation	Franchise Tax	Total Assets (000)	Assets in N. J. (000)	% of Assets in N. J.	Tax as % of Assets in N. J.	Number of Corporations
New Jersey	$3,813,538	$18,018,300	$1,703,991	9.5%	0.22%	8,863
California	9,923	359,779	14,475	4.0	0.07	25
Connecticut	2,877	266,120	2,497	0.9	0.12	27
Delaware	1,180,867	19,387,760	1,238,427	6.4	0.10	841
Illinois	32,368	2,411,007	42,734	1.8	0.08	94
Indiana	4,630	137,090	3,678	2.7	0.13	21
Maine	50,429	1,068,678	73,396	6.9	0.07	20
Maryland	29,500	854,513	33,135	3.9	0.09	63
Massachusetts	47,997	354,835	18,387	5.2	0.10	65
Michigan	10,605	754,259	9,720	1.3	0.11	47
New York	660,901	15,468,540	817,774	5.3	0.08	1,280
Virginia	15,578	1,100,711	11,825	1.1	0.13	16
Ohio	55,306	1,727,430	69,243	4.0	0.08	95
Wisconsin	4,443	372,816	5,951	1.6	0.07	22
Pennsylvania	154,589	5,363,138	154,834	2.9	0.10	316
All Others	36,627	1,343,636	33,665	2.5	0.11	128
Total	$6,080,178	$68,988,612	$4,233,732	6.1%	0.14%	11,923

TABLE 14

New Jersey Corporate Franchise Tax Returns—1949

By Tax Base (Corporations Using Long Form)

(Tax in Dollars—Others in Thousands of Dollars)

TAX BASE—DOMESTIC CORPORATIONS	No. of Returns	Allocated Net Worth	Total Tax	Total Real and Tangible Personal Property	Total Assets	Net Worth	Adjusted Net Worth
100% Allocation	6,705	$1,918,510	$1,457,874	$1,370,770	$2,658,503	$1,796,033	$1,939,532
Allocated Net Worth	850	3,561,276	2,258,318	7,132,665	14,860,204	11,436,400	11,031,471
A. None or 0	18	....	475	9,055	10,399	8,101	9,286
B. Allocated by Assets	722	3,278,679	2,237,204	6,007,016	13,241,408	10,504,807	10,092,676
C. Allocated by Business	108	282,541	20,589	1,116,302	1,608,063	923,413	929,430
D. Asset—Business (Same But Less Than 100%)	2	56	50	292	334	79	79
25% for Investment Companies	32	15,836	4,286	691	15,091	13,811	15,849
15% for Regulated Investment Companies	4	305	383	910	1,091	188	404
0.2 Mills of Assets to New Jersey	1,272	59,747	92,677	306,644	483,483	58,515	65,949
Totals	8,863	$5,555,674	$3,813,538	$8,811,680	$18,018,300	$13,304,947	$13,053,205
FOREIGN CORPORATIONS							
100% Allocation	453	$289,015	$238,114	$1,207,732	$5,767,190	$3,358,649	$3,416,739
Allocated Net Worth	2,466	2,433,783	1,956,118	23,511,599	44,118,510	28,693,862	30,186,854
A. None or 0	315	47	15,725	637,494	1,319,484	850,761	886,630
B. Allocated by Assets	511	395,257	13,655	2,863,427	4,869,264	3,030,030	3,188,754
C. Allocated by Business	1,629	2,039,464	1,926,188	20,003,944	37,920,064	24,804,642	26,102,814
D. Asset—Business (Same But Less Than 100%)	11	40	550	6,734	13,639	8,429	8,656
25% for Investment Companies	16	36,894	7,797	4	30,177	27,154	38,715
15% for Regulated Investment Companies	3	71,412	8,568	....	76,841	76,119	71,412
0.2 Mills of Assets to New Jersey	132	106,021	56,043	241,851	973,653	305,731	169,990
Totals	3,070	$2,937,125	$2,266,640	$24,961,186	$50,970,312	$32,461,515	$33,883,710
Domestic and Foreign	11,933	$8,492,799	$6,080,178	$33,772,866	$68,988,612	$45,766,462	$46,936,915

TABLE 15

Distribution of New Jersey Corporation Franchise Tax

By Amount of Tax

Corporations Using Long Form Tax Returns—1949

Corporations by Amount of Franchise Tax	Number of Corporations			Amount of Franchise Tax			Per Cent Distribution of Tax		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Under $100	5,257	1,848	7,105	$262,285	$99,846	$362,131	6.9%	4.4%	6.0%
$100—$199	1,783	357	2,140	247,391	51,621	299,012	6.5	2.3	4.9
$200—$499	1,050	357	1,407	316,860	114,464	431,324	8.3	5.0	7.1
$500—$999	369	184	553	254,563	130,400	384,963	6.7	5.8	6.3
$1,000—$4,999	305	248	553	653,197	508,943	1,162,140	17.1	22.5	19.1
$5,000—$9,999	52	38	90	370,544	280,033	650,577	9.7	12.4	10.7
$10,000—$24,999	27	22	49	443,437	315,132	758,569	11.6	13.9	12.5
$25,000—$49,999	11	12	23	373,154	444,662	817,816	9.8	19.6	13.5
$50,000—$99,999	7	3	10	455,223	215,221	670,444	11.9	9.5	11.0
$100,000 and over	2	1	3	436,884	106,318	543,202	11.5	4.7	8.9
Totals[1]	8.863	3,070	11,933	$3,813,538	$2,266,640	$6,080,178	100.0%	100.0%	100.0%

[1] Total tax collected from all corporations, $7,303,956.44; taxes from prior year, penalties and uncollected taxes bring total to $8 million. Total returns for New Jersey, 41,600.

Total domestic, 37,250
Total foreign 4,350

TABLE 16

NEW JERSEY CORPORATE FRANCHISE TAX RETURNS—1949

BY BUSINESS CLASSIFICATION (CORPORATIONS USING LONG FORM)

Business Classification	*Number of Returns*			*$ Thousands Amount of Tax*			*% Distri.*	
	Domestic	*Foreign*	*Total*	*Domestic*	*Foreign*	*Total*	*Returns*	*Tax*
Manufacturing	1,951	1,097	3,048	$1,573	$1,418	$2,991	25.5	49.2
Retail Trade	1,085	229	1,314	152	104	256	11.0	4.2
Wholesale Trade	661	279	940	260	98	358	7.9	5.9
Finance, Insur., Real Estate	2,112	339	2,451	506	133	639	20.5	10.5
Services	413	171	584	73	22	95	4.9	1.6
Public Utilities	278	133	411	135	23	157	3.4	2.6
Construction	96	86	182	9	7	16	1.5	0.3
Agri., Forestry, Fishing	29	9	38	16	6	22	0.3	0.4
Mining and Quarrying	56	15	71	20	9	29	0.6	0.5
Not Classified	2,182	712	2,894	1,069	441	1,510	24.3	24.8
Total	8,863	3,070	11,933	$3,814	$2,259	$6,073	100.0	100.0

TABLE 17

EFFECT OF INCOME ALTERNATIVE IN CORPORATION FRANCHISE TAX

SAMPLE 505 CORPORATIONS WITH 100 PER CENT ALLOCATION FACTOR IN NEW JERSEY

New Jersey Net Worth Tax as Per Cent of Income	*No. of Corporations*	*Net Worth Tax*	*Net Income (thousands)*	*Tax With Income Alternative At 1%*	*At 2%*	*At 3%*
Under 0.5%	222	$53,067	$25,548	$255,480	$510,960	$766,440
0.5%-1.0%	145	30,849	4,464	44,640	89,280	133,920
1.1%-2.0%	71	9,611	720	9,611	14,400	21,600
2.1%-3.0%	30	2,638	110	2,638	2,638	3,300
Over 3.0%	37	8,902	172	8,902	8,902	8,902
Total Sample	505	$105,067	$31,014	$321,271	$626,180	$934,162

Before determining upon needed adjustments in the corporation franchise tax, it is helpful to examine two related taxes, the financial business tax and the bank stock tax. These last two taxes are related to special forms of business but in the development of the financial business tax the pattern of the corporation franchise tax was followed. The history of the financial business tax, and its required relation to the bank stock tax (under Federal law) are set forth in another report previously issued by this *Commission.*[1]

The bank stock tax is assessed upon a determined value of the capital stock of banks, at the rate of 7.5 mills per dollar. The yield throughout the State is $1.8 million, divided between the municipalities and the counties in which the banks are located. "Financial businesses" are taxed at the same rate on their net worth. The yield is $350,000 annually, and this yield is likewise distributed to the counties and municipalities (L. 1946, ch. 174). The rate of these two taxes is nine times the comparable rate on general business corporations.

It is significant to note here, however, that if the State is ever to reach a policy of full equality in taxation it must eventually abandon much of its present selective and special treatment of taxpayers in favor of a more uniform and general treatment.

The only broad-based business tax aside from the general property tax in New Jersey is the corporation business franchise tax which yielded $8 million in 1949. Some 11,933 corporation taxpayers which did not file the "short form" of tax return provided for smaller firms accounted for $6 million of the tax indicating a distribution by industry groups as shown in Table 16. While the business classification was not reported for 24 per cent of the

[1] *First Report* (1946).

recorded corporations accounting for 25 per cent of the tax, the remaining companies are distributed over a wide range of business activity.

As the largest group of taxpayers, manufacturing corporations represented 26 per cent of the returns and 49 per cent of the total tax as tabulated. Wholesale and retail trade corporations accounted for 11 per cent of the returns and 4 per cent of the tax while financial, insurance and real estate companies represented 21 per cent of the recorded taxpayers and 11 per cent of the tax. These results are bound to follow in a tax which is measured solely by capital investment without regard to business activity.

An examination of the data reported in Tables 13 through 16 above, and the review of its public hearing has convinced the *Commission* that the several objectives of solution of the tangible personal property tax problem of the inequalities in the present corporation franchise tax, and of the selective and special treatment of banks and financial businesses, can all be solved by a modification in the corporation franchise tax. *If the Legislature desires to achieve these objectives, the following plan would be effective:*

> **The basic measure of the corporate franchise tax could be amended to require the payment of the greater of 5/10 of a mill on net assets and 3 per cent of net income. The franchise tax paid on the basis of income would alone yield about $32-$35 million annually, and that paid by corporations on the net assets basis would yield about $2 to $3 million annually. (See Tables 17 and 18.)**

This proposal would allow for the replacement of all or part of the $22.4 million tax on business inventories, the present $8 million yield of the corporation franchise tax, the $1.8 million yield of the bank stock tax, and the $350,000 yield of the financial business tax. It would be feasible to return to the municipalities a fair proportion of this yield, as a replacement for the tax on business inventories. Here again the problem of a suitable distribution formula would be encountered, but it could be further cut down in size by dealing with a replacement of the yield from manufacturers' inventories alone. This plan would have many advantages not only from the view point of the State at large but also from the viewpoint of the particular taxpayers affected.

> All business would be freed from the threat of tax lightning on inventories, and would be assured of a stable way of guarding against tax lightning on machinery and equipment.

TABLE 18

Comparison Between 1949 Tax Paid and 1 Per Cent Tax on Net Income

Sample of 11,840 New Jersey Corporation Tax Returns

Allocated by Three-Way Business Formula

(Amounts in Thousands of Dollars)

Business Allocation Percentage	*Domestic Corporations*		*Foreign Corporations*		*All Corporations*		*Federal Income & Profits Tax*
	1949 Tax	*1% Net Income*	*1949 Tax*	*1% Net Income*	*1949 Tax*	*1% Net Income*	
Under 5%	$1,117	$276	$258	$885	$1,375	$1,161	$1,532,562
5%-10%	404	211	321	74	725	285	298,646
11%-20%	158	236	286	718	444	954	231,853
21%-30%	40	58	298	954	338	1,012	143,797
31%-40%	54	86	206	465	260	551	51,743
41%-50%	30	33	71	125	101	158	12,951
51%-60%	81	650	188	517	269	1,167	76,679
61%-70%	55	126	66	118	121	244	13,239
71%-80%	96	172	37	115	133	287	14,019
81%-90%	93	237	41	86	134	323	13,696
91%-100%	115	220	132	144	247	364	15,411
100%	1,584	3,118	311	2,311	1,895	5,429	173,693
Totals	$3,827	$5,423	$2,215	$6,512	$6,042	$11,935*	$2,578,289

* Estimate of total tax after amendment to provide alternative tax upon income at 1% allocated by business factor	$13,500,000
Present tax on companies in the sample	6,000,000
Increase	$7,500,000

Source: New Jersey Corporation Franchise Tax Returns, 1949. Totals differ slightly from those in Tables 13–16 due to tabulations from different schedules.

All business, large and small, would be relieved of the present ad valorem tax locally assessed on inventories.

Banks and financial business would be relieved of the present highly discriminatory rate which they now pay, and which is now *nine times* the tax rate assessed on general business corporations when measured by their net worth.

All business would be freed of the present inequities and inequalities in the Corporation Business Tax Act.

Business in general would become subject to the income measure of valuing the franchise, but in any year only about one-half of all business corporations show a profit, and it is only the profitable companies which would in proportion to their profits be required to pay on the income measure. The remaining half of the companies would pay at 0.5 mills even less than they are now required to pay under the net worth tax, but they too would be the recipients of the advantage of the exemption of inventories from local taxation.

That part of the proposal which calls for the replacement of the present locally assessed ad valorem tax on inventories has been considered by the *Commission* from the viewpoint of the stability of the tax yield. While stability alone cannot be the criterion of any sound tax system in all its parts, the *Commission* is not unaware of the continuing need of municipalities for revenue in good times and bad. The *Commission* finds that the fluctuations in total inventories on hand and in the value of units of inventory are roughly as great as the fluctuations in income which may be expected. Business activities and business inventories are closely related and they both fluctuate over the course of the business cycle. (See Table 19.) This means that local assessments of inventories would necessarily be limited by economic conditions if they were not to become confiscatory. It is hardly necessary to add that the huge delinquencies in property taxes of depression years should teach us that the real property tax itself has only a fictitious stability which is offset by accumulated delinquencies exceeding 50 per cent of the amount levied in the not too distant past history of this State.

In any event, State tax policy cannot be geared to the worst possible economic condition but should rather be geared to average conditions. There can be no justification for a tax system built upon discriminatory and unequal treatment merely to afford stability of revenue without regard to other factors.

TABLE 19

Relationship Between Business Sales and Inventories in Manufacturing, Wholesale and Retail Trade in the United States

1939-1949

(Amounts in Millions of Dollars)

Year	Business Sales				Inventories at End of Year				Inventories as Per Cent of Sales			
	Manu-facturing	Wholesale	Retail	Total	Manu-facturing	Wholesale	Retail	Total	Manu-facturing	Wholesale	Retail	Total
1939........	$61,340	$30,057	$42,042	$133,439	$11,516	$3,200	$5,285	$20,001	18.8%	10.6%	12.6%	15.0%
1940........	70,313	33,478	46,388	150,179	12,873	3,357	5,767	21,997	18.3	10.0	12.4	14.6
1941........	98,069	42,957	55,490	196,516	17,024	4,151	7,262	28,437	17.4	9.7	13.1	14.5
1942........	124,150	48,191	57,639	229,980	19,221	3,702	7,307	30,230	15.5	7.7	12.7	13.1
1943........	151,233	51,957	63,721	266,911	19,897	3,577	6,872	30,346	13.2	6.9	10.8	11.4
1944........	160,826	54,063	69,573	284,462	19,122	3,686	6,906	29,714	11.9	6.8	9.9	10.4
1945........	148,456	57,323	76,644	282,423	17,924	4,216	7,049	29,189	12.1	7.4	9.2	10.3
1946........	144,246	73,653	100,787	318,686	23,432	5,823	10,591	39,846	16.2	7.9	10.5	12.5
1947........	185,652	87,646	118,908	392,206	28,016	7,545	12,426	47,987	15.1	8.6	10.5	12.2
1948........	211,963	70,925	130,042	412,930	34,066	7,325	14,969	56,360	16.1	10.3	11.5	13.6
1949........	213,556	65,760	128,183	407,499	30,817	6,888	13,839	51,544	14.4	10.5	10.8	12.6

Source: U. S. Department of Commerce, Bureau of Foreign and Domestic, **"Survey of Current Business."**

Allocation Factors

One of the most significant, but at the same time most difficult to analyze, parts of the business tax structure is the formula for allocating corporate net worth within and without the State. The present law uses two basic formulas: one of them is the so-called Massachusetts formula. This formula allocates to New Jersey a percentage of net worth equal to the average of three fractions: payroll in New Jersey over payroll everywhere; tangible property in New Jersey over tangible property everywhere; and receipts in New Jersey over receipts everywhere.

The second formula basically allocates net worth according to the percentage of total assets in New Jersey to total assets everywhere. In determining total assets in New Jersey the formula requires all intangible personal property of a domestic corporation to be given a location within the State, in accordance with the legal theory of such location. As to foreign corporations the formula only requires intangible personal property which has a "business situs" in New Jersey to be attributed to this State in calculating the total assets allocation formula.

As a measure of relief in the application of the total assets formula to domestic corporations, the law was amended in 1947 to permit such corporations to attribute up to 50 per cent of their intangible personal property to other States where such property could be shown to have a "business situs" in such States. It should be emphasized that these are only formulas for allocating the tax base which is net worth, that the State does not and has not since 1945 taxed intangible personal property as property.

In determining the tax to be paid, whichever of these two formulas, the Massachusetts formula or the total assets formula, produces the greater percentage in New Jersey is used. The result has been that foreign corporations pay on that proportion of their net worth roughly equal to the proportion of their business which is done in New Jersey. Domestic corporations however are obliged to pay a tax measured by their net worth without regard to whether or not they do any business in New Jersey—this is the effect of the total assets allocation formula.

Table 14 shows, for example, that among the domestic corporations in the sample 850 out of a total 6,705 used one of the allocation formulas. Of the total 850—722 were allocated on the basis of assets. Among the foreign corporations 2,466 allocated, but only 511 were on the assets basis while 1,629 were allocated by business done according to the Massachusetts formula. The table also shows that the 108 domestic corporations that did allocate on the business formula paid a total tax of only $20,589 as compared with $2.2 million paid under the assets allocation. Among the foreign corporations the 511 that paid on the total assets basis involved only $13,615 in tax while those that paid on the business allocation basis involved almost $2 million in tax. The conclusion is that among domestic corporations only the relatively smaller corporations, among those allocating at all, pay on the business allocation basis. Among the foreign corporations the converse is true. The bulk of the foreign corporations pay on the business allocation basis. *If the Legislature wishes to equalize the treatment of domestic and foreign corporations*

> It will be necessary eventually to provide the same allocation formulas for domestic and foreign corporations. If this were done by extending the business formula to all corporations, it might still be necessary to make special provision for allocation in the case of the large domestic holding corporations to overcome the same problem that was presented when the present legislation was adopted in 1945.

Public Utilities, Railroads, Motor Carriers, Airlines and Insurance Companies

These industries are more or less specially taxed under the present laws. The taxes payable by public utilities, railroads and insurance companies have been described in Chapter II. The taxes payable by motor carriers are described in Chapter VI. The taxes payable by airlines are special only in the sense that the special characteristics of aircraft as personal property require some adaptation of the conventional concepts of the general property tax.

Public Utilities

The so-called public utilities gross receipts and franchise taxes are in fact two taxes, one measured by gross receipts and applicable to all public utilities at the rate of 5 per cent as a franchise tax; the other assessed in lieu of a property tax upon property in, on or above the public streets owned by street railway, traction, gas and electric light, heat and power corporations, at the average State rate of the general property tax. The yield of these two taxes from the principal classes of taxpayers is reported in Chapter II.

After the cost of administration is deducted the entire yield is apportioned to the municipalities of the State according to a formula prescribed by statute. These taxes are thus a State assessed locally collected tax and do not enter into State tax collections or the State budget in any way. They represent an accepted and relatively stable source of local tax revenues, and since their revision in 1940 have not been the subject of objection either by the municipalities, the utilities or the consuming public. The *Commission* does not at this time suggest any further revision of these public utility taxes.

Railroad Taxes

Two years ago this *Commission* submitted to the Legislature a comprehensive report and a series of recommendations on the subject of railroad taxes.[1] The legislation adopted upon the recommendations of that report has been in effect for two years. At the public hearings conducted by the *Commission*, representatives of the railroad industry presented the case for a continuing review and revision of the railroad tax law, in light of the relatively heavy tax burden on that industry, the changing conditions of economic competition among various forms of transportation, and the ultimate necessity for adjusting railroad taxes in New Jersey toward the levels prevailing in other states. The *Commission* has considered the evidence and arguments presented. In view of the comparatively recent study of the question and adoption of a new law, the full effects of which are not yet apparent, the *Commission* does not at this time have any suggestions to add to its prior report on railroad taxes.

Insurance Companies

As a result of a practice having its origin in 1903, the application of the general property tax to life insurance companies was placed upon the basis of an assessment on capital and surplus. Various deductions are allowed but the basic principle has continued unchanged to the present time. The burden of the tax having become excessive, legislation was adopted in 1945 which retained the basic principle but provided for a scaling down of the base over a period of years, and for the deduction of the amount paid on account of the local property tax on capital and surplus from the amount due on account of the State tax on gross premiums.

[1] *Third Report.* **(Submitted to the Governor and Legislature, February 16, 1948.)**

Except for marine insurance companies which are taxed on their underwriting profits, every stock insurance company, other than a life insurance company, was similarly taxable on its capital and surplus computed in a manner provided by statute, provided that "the assessment against the intangible personal property of any stock insurance company subject to the provisions of this section shall in no event be less than fifteen per centum (15%) of the sum of the paid-up capital and the surplus in excess of the total of all liabilities of such company, . . . after deductions from such total of capital and surplus of the amount of all tax assessments against any and all real estate, title to which stands in the name of such company." (R. S. 54:4–22, as amended by Laws of 1945, Chapter 132.) This method of taxing stock insurance companies was also of long standing, having had its origin in 1918. The 15 per cent minimum, however, was adopted by the Laws of 1938, Chapter 245. This minimum provision has been the subject of recent litigation in the United States Supreme Court, the results of which have affected the entire insurance tax situation.

In *New Jersey Realty Title Insurance Company* vs. *Division of Tax Appeals,* 18 Law Week 4121 (February 6, 1950), the United States Supreme Court has held that the levy on 15 per cent of capital and surplus is in effect a tax upon the assets which create the capital and surplus and is, therefore, unconstitutional to the extent that such assets include tax exempt Federal bonds. The Supreme Court concluded that regardless of the label applied the nature of the statute is to impose a property tax on the Federal securities, rather than a tax on any privilege or corporate franchise which had previously been recognized as valid.

As a result of the decision, if the various insurance companies were to exclude their holdings of Federal securities from their respective capital and surplus there would be little if any tax base left. From the viewpoint of the companies this would not necessarily result in a complete savings. It would primarily result in the loss of revenue to the City of Newark and the few other municipalities which have been receiving insurance tax payments. The State's revenue from its premium tax would correspondingly increase since it would no longer be offset by the deduction of taxes payable to the municipalities.

As a matter of principle, the *Commission* is unaware of any justification for special municipal taxation of insurance business as distinguished from the real and personal property owned by such business and taxable in the same manner as other property in the community. The City of Newark particularly has come to rely heavily on insurance tax ratables, at present to the extent of 14 per cent of the city's total ratables, and this is perhaps the only practical justification for continuing any special municipal tax on insurance companies. If the city were to be deprived of this revenue source without some adequate provision for its replacement a heavy burden would be cast upon other taxpayers in the city. In a sense, therefore, the city has acquired a vested interest in what is fundamentally an unsound distribution of tax sources from the insurance business as between the State and the municipalities.

The *Commission* is aware that negotiations between the insurance companies, representatives of the City of Newark and State finance officials have resulted in agreement upon a form of legislation which will at least satisfy all of the parties concerned for the time being, and which will not result in substantial loss of revenue to the City of Newark. The *Commission* accordingly is making no further recommendation on the subject at this time.

Chapter IV

TAXES PAYABLE BY INDIVIDUALS

The Federal Government

The support of government by individuals in New Jersey is directed primarily toward the Federal Government. As shown in Chapter I, $1,681,758,000 was collected in taxes by Federal, State and local governments in New Jersey in 1949. Of this sum, $681 million or 40.5 per cent of the total was collected on account of the Federal individual income tax and was paid to the Federal Government. Inheritance and estate taxes amounting to $49.1 million were collected in New Jersey in the same year, but the State received only $9,590,000, about 20 per cent of the total. Various excise taxes such as those on gasoline, alcoholic beverages, tobacco products, amusements, sales, were collected in the State, and they total $228,287,000, or 13.6 per cent of the grand total. Of this sum the State and local government collected only $54,529,000, about 25 per cent of the total.

The general property tax, on real and personal property, amounted to $322,160,000, but it was only 19.2 per cent of the total Federal, State and local taxes collected in New Jersey. All of this sum went directly for the support of county, municipal and school governments; none of it was used for State Government. Taxes on motor vehicles and drivers complete the list of principal taxes payable by individuals in New Jersey and amounted to $30,480,000 in 1949, or 1.8 per cent of the total Federal, State and local taxes collected in New Jersey. All of this sum was paid to the State Government.

It cannot be too strongly underscored, therefore, that when any individual in New Jersey talks about heavy personal taxes he must be talking primarily about Federal taxes.

State and Local Taxation

It has been said that anyone who does not smoke, drink alcoholic beverages, bet on horses, drive an automobile or leave an estate upon his death, pays nothing for the support of State Government in New Jersey. From the point of view of State taxation this has resulted in New Jersey's achieving the record of the lowest per capita State tax collections of any State in the Nation.

The policy of financing government primarily through selective sales taxes, such as those on cigarettes, alcoholic beverages and gasoline, has had a curious effect upon the comparative tax picture, when New Jersey is compared with the other States. Table 20 shows the amount and percentage distribution of all State tax collections and of New Jersey's State tax collections for the fiscal years ending in 1948 and in 1949. The table shows that in both years New Jersey's State taxes were only 2 per cent of the total of all State tax collections in 1948 and 1949. The State's favorable position in per capita State tax collections is again reflected in these figures in that the 2 per cent may be compared with the proportion of the national population resident in New Jersey which is 3.3 per cent. The most significant taxes which are used in other States but not used in New Jersey are the corporation income tax and the individual income tax. The former produced $661 million in 1949 and the latter $575 million in the same year. While New Jersey uses selective sales taxes it does not use any general sales or gross receipts taxes. In other States the latter produced $1.6 billion in 1949. The striking fact is that while New Jersey is assumed to be a non-sales tax State, the figures show that in 1949 it raised 54.5 per cent of its State tax collections from sales and gross receipts taxes as compared with 59.2 per cent for all States. The conclusion is that:

> **New Jersey depends upon sales and gross receipts taxes to finance State Government practically as much as other States which employ the general consumer sales tax, from the viewpoint of the percentage of total requirements derived from these sources.**

This is not so much a matter of total tax burden as it is of the distribution of the tax burden among the various classes of taxpayers. It is obvious that a State which elects to collect revenue on a State-wide basis through one form or another of State tax will increase its per capita State tax collections, but the significance of the increase may be reduced to the extent that the State also elects to share these collections with local government. The figures will show a higher per capita State tax collection, but they may also show a lower per capita real estate tax. As a matter of policy in New Jersey, on the other hand, we have been following the rule that responsibility for the raising of taxes should follow as closely as possible authority for the spending of taxes. The result is that we show a higher per capita tax on real estate, the

TABLE 20

Per Cent Distribution—State Tax Collections

All States and New Jersey—1948 and 1949 (Excluding U. C. Taxes)

(Amounts in Millions of Dollars)

Tax Sources	1948 Dollars All States	1948 Dollars New Jersey	1948 N. J. as % of All States	1948 % Each Tax is of Total All States	1948 % Each Tax is of Total New Jersey	1949 Dollars All States	1949 Dollars New Jersey	1949 N. J. as % of All States	1949 % Each Tax is of Total All States	1949 % Each Tax is of Total New Jersey
Total Collections Excluding Unemployment Compensation	$6,732	$134.7	2.0%	100.0%	100.0%	$7,369	$144.5	2.0%	100.0%	100.0%
Sales and Gross Receipts	$4,045	$61.3	1.5%	60.1%	45.5%	$4,363	$78.8	1.8%	59.2%	54.5%
General Sales or Gross Receipts	1,479	....	...	22.0	....	1,606	....	...	21.8	....
Motor Vehicle Fuels	1,260	27.6	2.2	18.7	20.5	1,372	30.1	2.2	18.6	20.8
Alcoholic Beverages	426	15.1	3.5	6.3	11.2	426	14.8	3.5	5.8	10.2
Tobacco Products	339	....	...	5.0	....	390	18.0	4.6	5.3	12.5
Insurance Companies	193	7.2	3.7	2.9	5.3	211	6.1	2.9	2.9	4.2
Public Utilities	155	....	...	2.3	....	168	....	...	2.3	....
Other	194	11.4	5.9	2.9	8.5	191	9.8	5.1	2.6	6.8
License and Privilege	$981	$42.0	4.3%	14.6%	31.2%	$1,077	$48.1	4.5%	14.6%	33.3%
Motor Vehicles and Operators	593	29.3	4.9	8.8	21.8	663	32.9	5.0	9.0	22.8
Corporations in General	149	7.5	5.0	2.2	5.6	161	8.7	5.4	2.2	6.0
Alcoholic Beverages	74	0.7	0.9	1.1	0.5	74	0.6	0.8	1.0	0.4
Hunting and Fishing	47	0.7	1.5	0.7	0.5	54	0.8	1.5	0.7	0.6
Other	118	3.8	3.2	1.7	2.8	125	5.1	4.1	1.7	3.5
Individual Income	$499	....	...	7.4%	....	$575	....	...	7.8%	....
Corporation Income	585	....	...	8.7	....	661	....	...	9.0	....
Property	279	$22.9	8.2%	4.1	17.0%	280	$8.7	3.1%	3.8	6.0%
Death and Gift	180	8.5	4.7	2.7	6.3	179	8.9	5.0	2.4	6.2
Severance	131	....	...	2.0	....	200	....	...	2.7	....
Other (except U. C.)	31	....	...	0.5	....	34	....	...	0.5	....

Source: U. S. Department of Commerce, Bureau of the Census, "Sources of State Tax Revenue in 1949," November, 1949, page 2.

main support of local government than other States which have tended toward the opposite policy. One of the best examples of this is found in the figures for State aid to education as compared with per pupil expenditures for education. New Jersey is near the bottom of the list in the rank of States measured by per pupil State aid, but New Jersey is at the top of the list in having the highest average expenditure per pupil in average daily attendance. The difference is a matter not so much of educational policy as it is of tax policy. The broader implications of this choice are discussed in another chapter in this report, but at this point it is important to emphasize that what the individual pays toward the support of State Government is much less than a third of the story. His greatest payments by any standard are in the form of direct and indirect taxes imposed by the Federal Government; his responsibility for the support of State and local government will in the long run depend upon two factors: (1) Division of service responsibility between State and local government, and (2) the division of financial responsibility between them.

State Government is admittedly supported in New Jersey by a relatively narrow and selective tax base. Whether this has been the cause or the effect of a prudent and economical State expenditure policy is an open question. Whether it need be changed depends more on future demands on State Government than it does on present revenue requirements. It has already been shown that the State is not financing a greater proportion of its needs from sales and gross receipts taxes than other States on the average. There is often little to choose from as between a so-called general consumer sales tax with a variety of exemptions and exceptions and an admittedly selective sales tax. By and large our selective sales taxes have spread the burden widely and have avoided the principal evils of special taxation but this much is clear:

> New Jersey cannot expect to undertake new and additional services of government or to assume a larger share of State responsibility for financing existing local services of government within the framework of the present selective sales taxes. These are being used, insofar as general State purposes are concerned, about as much as they ought to be used in any sound taxing system. Any substantially additional State revenue requirements should be met from other State tax resources. Unless the State is willing to adopt the diversion of gasoline taxes to non-highway uses

as a permanent policy, moreover, some remodeling of the State tax structure may be inevitable even were the State Government to do no more than maintain its present level of State services and its already assumed financial responsibilities for the services of local government.

Sales and Income Taxes

Alternative Tax Measures

Any significant remodeling of the New Jersey tax structure must involve at least some consideration of tax measures not now in use within the State. The prominence of general property taxes within the local revenue picture means that the choice is between continued reliance upon property or a departure to other tax sources as a property tax replacement.

Sales taxes and income taxes are the largest sources of general tax revenues used in other States but not presently included within the New Jersey system of taxes. New Jersey is one of five States which do not apply either a retail sales tax or an income tax upon individuals or upon corporations. None of New Jersey's neighboring States is without at least one of these tax measures, and no other major industrial State is in such a position. From this standpoint the New Jersey tax structure is comparable to that existing in Maine, Nebraska, Nevada and Texas.

As shown in Table 21, 28 States use the sales tax. Income taxes upon individuals are assessed in 32 States and 34 States tax corporation income. Thirty States tax both corporation and personal income, and 18 of them also apply a retail sales tax.

As among New Jersey's neighboring States the importance of sales taxes and income taxes are indicated by the fact that income taxes upon individuals and corporations in New York account for 43 per cent of the total State tax collections while in Pennsylvania 21 per cent of the total State's tax collections are derived from a corporation income tax only. Connecticut collects 33 per cent of its total State tax revenues from corporate income and general sales taxes. Massachusetts derives 31 per cent of its total from personal and corporate income taxes. Delaware obtains 15 per cent of its State tax revenue from a personal income tax.

TABLE 21

General Sales and Income Taxes Within State Tax Structures, 1949

(Amounts in Thousands of Dollars)

	Sales Tax	*Income Tax* Personal	*Income Tax* Corporate	*Total Sales & Income Taxes*	*Total All Taxes*	*Sales & Income As % of Total Taxes*
18 States Taxing Sales and Personal and Corporate Income:						
Alabama	$32,173	$13,229		$45,402	$108,402	41.9%
Arizona	17,397	$3,010	$5.269	25,676	......[2]	....
Arkansas	21,949	3,176	6,325	31,450	81,362	38.7
California	294,446	50,178	76,291	420,915	750,397	56.1
Colorado	25,789	11,189	5,783	42,761	84,646	50.5
Indiana[3]	......	......	......	72,327	......[2]	....
Iowa	56,781	16,679	2,936	76,396	140,374	54.4
Kansas	38,593	11,931	3,763	54,287	99,399	54.6
Louisiana	44,447	19,052[1]		63,499	221,752	28.6
Maryland	27,951	18,551	7,665	54,167	119,498	45.3
Mississippi	25,535	4,231	7,779	37,545	87,200	43.1
Missouri	70,439	22,037[1]		92,476	154,960	59.7
New Mexico	17,352	1,483	1,415	20,250	......[2]	....
North Carolina	40,649	24,507	41,016	106,172	210,925	50.3
North Dakota	11,940	4,948	1,421	18,309	35,608	51.4
Oklahoma	35,181	8,067	9,022	52,270	143,898	36.3
Tennessee	42,732	2,995	8,509	54,236	139,927	38.8
Utah	13,598	4,210	3,005	20,813	42,987	48.4
Total	$816,952	$399,672		$1,288,951	$2,421,335	48.3%[2]
3 States Taxing Sales and Corporate Income:						
Connecticut	$15,282	......	$15,276	$30,558	$92,967	32.9%
Rhode Island	5,931	......	6,644	12,575	39,722	31.7
South Dakota	11,513	......	187	11,700	30,606	38.2
Total	$32,726	......	$22,107	$54,833	$163,295	33.6%

6 States Taxing Sales Only:[5]						
Illinois	$170,970	......	......	$170,970	$376,314	45.4%
Michigan	198,762	......	......	198,762	374,526	53.1
Ohio	140,071	......	......	140,071	364,738	38.4
Washington	107,960	......	......	107,960	196,414	55.0
West Virginia	59,450	......	......	59,450	101,047	58.8
Wyoming	6,538	......	......	6,538	16,043	40.8
Total	$683,751	......	......	$683,751	$1,429,082	47.8%
12 States Taxing Personal and Corporate Income:						
Georgia	......	$26,999[1]		$26,999	$108,777	24.8%
Idaho	......	$5,927	$3,610	9,537	29,706	32.1
Kentucky	......	10,113	8,819	18,932	102,321	18.5
Massachusetts	......	42,558	26,153	68,711	224,288	30.6
Minnesota	......	32,228	17,680	49,908	162,998	30.6
Montana	......	4,125	2,240	6,365	......[2]	....
New York	......	160,831	160,775	321,606	742,335	43.3
Oregon	......	35,863	20,041	55,904	98,399	56.8
South Carolina	......	29,934[1]		29,934	93,443	32.0
Vermont	......	2,183	1,401	3,584	18,326	19.6
Virginia	......	14,291	22,625	36,916	130,263	28.3
Wisconsin	......	41,257	46,128	87,385	189,390	46.1
Total	......	$715,781		$715,781	$1,900,246	37.3%[2]
2 States Taxing Personal Income Only:						
Delaware	......	$2,357	......	$2,357	$15,587	15.1%
New Hampshire	......	943[4]	......	943	19,791	4.8
Total	......	$3,300	......	$3,300	$35,378	9.3%
1 State Taxing Corporate Income Only:						
Pennsylvania	......	......	$94,786	$94,786	$443,937	21.4%
Total—42 States[5]	$1,533,429	$1,235,646		$2,841,402	$6,393,273	42.5%[2]

[1] Personal and corporate taxes not separated.
[2] Data not available. These data excluded from average ratios.
[3] Indiana applies gross income taxes (gross sales) to individuals and business—both corporate and unincorporated.
[4] Income from intangibles.
[5] Five States levying neither sales nor income taxes are: Maine, Nebraska, Nevada, New Jersey, and Texas. Florida levied a 3% general sales tax to be effective November 1, 1949.

Source: U. S. Dept. of Commerce, Bureau of the Census, *Sources of State Tax Division,* 1949 (November 1949).

1) *The Retail Sales Tax*

Estimates indicate a potential retail sales tax yield in New Jersey at the 1948 level of business as follows:

	1 Per Cent Rate	*2 Per Cent Rate*	*3 Per Cent Rate*
Without exemptions	$44 million	$88 million	$132 million
With exemption for food ...	$31 million	$62 million	$93 million

While the experience among the States varies widely, there is every indication that the application of a supplementary use tax would increase the estimated yields by approximately 3 per cent. Thus the combination of a general sales tax and a use tax within the New Jersey tax structure could provide tax revenues from a broad base ranging from 1/20 to 1/4 of the amount of all State and local taxes in 1949, depending upon the rate of tax and the exemptions allowed.

As among 28[1] States which apply retail sales taxes, all but four also apply the use tax. The most common sales tax rate is 2 per cent. One State (Rhode Island) applies a 1 per cent tax rate and seven States (California, Florida, Michigan, North Carolina, Washington, South Dakota and Ohio) apply a 3 per cent tax rate. California applies a State sales tax at 3 per cent and many California cities also apply local sales taxes at rates ranging from 0.5 per cent to 1.0 per cent.

2) *Personal Income Tax*

The application of personal income taxes is conditioned by the extent to which exemptions are allowed and the degree to which the tax rates are graduated. For example, a proportional tax at a fixed rate upon the income of all individuals without deductions would be an entirely different tax from one applied at steeply graduated rates upon income in excess of substantial personal exemptions. Massachusetts applies differentiated but ungraduated tax rates depending upon the source from which income is derived varying from 1.5 per cent upon wages and business income to 3 per cent upon gains from intangibles and 6 per cent upon income from interest and dividends. It also imposes an additional surtax amounting to 23 per cent of the normal tax payable. The lowest personal exemptions are those provided in Utah where they amount to $600 for single taxpayers, $1,200 for married taxpayers and $300 for each dependent. The highest exemptions are those in Arkansas where they amount to $2,500 for single taxpayers, $3,500 for married taxpayers and $400 for each dependent.

[1] Including Florida where the sales tax became effective November 1, 1949.

The *Commission* estimates that five variations of personal income taxes at the 1947 level of income in New Jersey would provide revenues as follows:

		Exemptions		Tax Rates	Estimated Yield
Tax variation 1		$5,000		3%	$29 million
Tax variation 2		1,000		1%	28 million
Tax variation 3	Single	1,000	First	$5,000—1%	
	Married	2,500	Next	5,000—2%	
	Dependents	400	Over	10,000—3%	30 million
Tax variation 4	Single	1,000	First	1,000—1%	
	Married	2,500	Next	4,000—2%	
	Dependents	400	Next	5,000—3%	
			Over	10,000—4%	42 million
Tax variation 5	Single	1,000	First	1,000—1%	
	Married	2,500	Next	1,000—2%	
	Dependents	400	Next	1,000—3%	
			Next	2,000—4%	
			Next	5,000—5%	
			Over	10,000—6%	57 million

Possible Sources of Tax Revenues

1) *Estimated Tax Yield by Counties and Municipalities*

Mobility of the population and their activities means that sales taxes and income taxes can be attributed to particular jurisdictions only according to some definition of situs. For example, a common practice among States which tax corporation income is to apportion interstate business income according to a three-way formula based upon gross receipts, payrolls, and physical property. While personal incomes are usually attributed to the place where the taxpayer resides, they are sometimes apportioned to the place where he works. Retail sales are most commonly attributed to the place where the sale is made without regard to where the customer lives, but restrictions upon the taxation of interstate commerce have the effect of introducing a second factor based upon the place where the sale is delivered.

Even though New Jersey applies neither a general sales tax nor an income tax upon individuals or corporations, its taxpayers are affected in large numbers by these apportionment factors. The New York income tax applies to incomes of non-residents earned in New York to the extent that the New York tax exceeds the tax paid at the place of residence. Some 65,000 New Jersey citizens who paid no income taxes in their home State paid $3.6 million of income taxes to New York in 1947 to account for 2.4 per cent of all personal income taxes collected in that State. The City of

Philadelphia applies a gross income tax at 1.5 per cent to incomes earned within the city by residents and non-residents alike and thus reaches those New Jersey citizens who work there. New York City collects a 2 per cent sales tax which can be avoided by shoppers from New Jersey only when they ask to have their purchases delivered to their homes.

Just as these problems of allocation apply as between New Jersey and neighboring States, they also apply as among local jurisdictions within New Jersey. Table 22 shows the estimated amount of retail sales and effective buying income of individuals (gross income less personal taxes) and the relationship between them in each of the 21 New Jersey counties in 1948. Table 23 shows similar estimates of retail sales and effective buying income in each of 58 New Jersey municipalities. As a group, these 58 of the State's 365 municipalities account for 76 per cent of all New Jersey retail sales and 69 per cent of the effective buying income. The State's 13 largest municipalities contain 40 per cent of the total population and account for 48 per cent of all retail sales as compared with 41 per cent of buying income. As shopping centers, these 13 municipalities would provide 48 per cent of any general retail sales tax applied without exemptions and more than one-half of all sales taxes applied with an exemption for food. The implication that some of these taxes would be collected from residents of other municipalities is evidenced by the fact that residents of the 13 cities would pay something like 41 per cent of a State-wide tax upon personal income.

Differences Between Urban and Rural Areas

But all shopping centers are not large cities and all large cities are not shopping centers. For example, Jersey City as the State's second largest city accounts for 7 per cent of New Jersey's population and 7 per cent of personal income, but only 5 per cent of all retail sales. In contrast, Vineland with a population of 2/10 of 1 per cent of New Jersey's total accounts for less than 2/10 of 1 per cent of all personal income but 6/10 of 1 per cent of all retail sales. Retail sales exclusive of food in 1948 were actually more in Vineland than they were in Hoboken, which has 6 times as much personal income.

This means that the relative distribution of sales taxes and personal incomes as among local jurisdictions is determined in greater measure by the type of activity than by the size of the municipality. As a large gathering place for people with leisure

TABLE 22

Retail Sales With and Without Food as Per Cent of Effective Buying Income and Per Cent Distribution by Counties, 1948

(Amounts in Thousands of Dollars)

County	Retail Sales		Effective Buying Income	Retail Sales As Per Cent of Buying Income		Per Cent Distribution		
						Retail Sales		Effective Buying Income
	Total	Except Food		Total	Except Food	Total	Except Food	
Atlantic	$158,303	$115,161	$201,610	78.5%	57.1%	3.6%	3.7%	2.9%
Bergen	360,093	235,584	665,880	54.1	35.4	8.2	7.6	9.7
Burlington	69,153	47,335	89,980	76.9	52.6	1.6	1.5	1.3
Camden	224,456	155,867	343,192	65.4	45.4	5.1	5.0	5.0
Cape May	47,311	32,508	45,611	103.7	71.3	1.1	1.1	0.7
Cumberland	78,646	56,410	88,303	89.1	63.9	1.8	1.8	1.3
Essex	1,052,399	775,631	1,722,870	61.1	45.0	23.9	25.1	25.1
Gloucester	48,833	35,366	62,900	77.6	56.2	1.1	1.1	0.9
Hudson	597,644	392,253	1,068,939	55.9	36.7	13.6	12.7	15.6
Hunterdon	31,730	24,269	41,293	76.8	58.8	0.7	0.8	0.6
Mercer	235,866	172,474	337,020	70.0	51.2	5.4	5.6	4.9
Middlesex	223,595	144,987	319,346	70.0	45.4	5.1	4.7	4.6
Monmouth	211,770	149,641	287,430	73.7	52.1	4.8	4.8	4.2
Morris	122,648	88,252	160,239	76.5	55.1	2.8	2.9	2.3
Ocean	53,761	39,686	56,700	94.8	70.0	1.2	1.3	0.8
Passaic	357,902	255,588	526,690	68.0	48.5	8.1	8.3	7.7
Salem	39,355	30,517	45,603	86.3	66.9	0.9	1.0	0.7
Somerset	63,835	46,603	81,969	77.9	56.9	1.5	1.5	1.2
Sussex	34,600	27,476	40,676	85.1	67.5	0.8	0.9	0.6
Union	342,345	233,529	617,456	55.4	37.8	7.8	7.6	9.0
Warren	41,726	28,900	63,932	65.3	45.2	0.9	0.9	0.9
Total—21 Counties	$4,395,971	$3,088,039	$6,867,639	64.0%	45.0%	100.0%	100.0%	100.0%

Source: Sales Management, Inc., *Sales Management,* May 10, 1948.

TABLE 23

Retail Sales With and Without Food and Effective Buying Income in 58 New Jersey Municipalities

(Amounts in Thousands of Dollars)

Municipality	Retail Sales	Retail Sales Less Food	Effective Buying Income	Sales as % of Income Total	Sales as % of Income Less Food
13 Municipalities with Population 50,000 or More:					
Atlantic City	$117,144	$90,006	$122,337	95.8%	73.6%
Camden	130,409	95,833	169,133	77.1	56.7
Newark	684,933	546,390	819,880	83.5	66.6
East Orange	75,753	57,553	155,610	48.7	37.0
Irvington	54,711	38,599	109,320	50.0	35.3
Jersey City	222,303	130,548	469,800	47.3	27.8
Bayonne	78,283	52,104	130,698	59.9	39.9
Hoboken	38,843	18,467	68,759	56.5	26.9
Union City	96,809	71,699	90,185	107.3	79.5
Trenton	183,563	133,152	182,610	100.5	72.9
Paterson	195,046	142,705	237,360	82.2	60.1
Passaic	93,413	68,978	97,368	95.9	70.8
Elizabeth	131,802	95,570	187,284	70.4	51.0
Total—13 Municipalities	$2,102,952	$1,541,604	$2,840,344	74.0%	54.3%
45 Other Municipalities:					
Hackensack	$77,060	$55,244	$50,725	151.9%	108.9%
Teaneck	17,285	7,801	64,129	27.0	12.2
Englewood	31,328	23,625	42,493	73.7	55.6
Ridgewood	18,364	12,590	35,543	51.7	35.4
Garfield	15,484	9,903	29,665	52.2	33.4
Rutherford	17,644	12,405	26,602	66.3	46.6
Burlington	11,341	8,426	11,968	94.8	70.4
Collingswood	15,038	10,420	28,386	53.0	36.7
Ocean City	12,727	8,247	7,891	161.3	104.5
Wildwood	13,720	9,322	9,576	143.3	97.3
Bridgeton	27,290	19,637	26,414	103.3	74.3
Millville	14,707	9,523	16,541	88.9	57.6
Vineland	27,683	20,863	11,000	251.7	189.7
Montclair	57,868	38,940	104,598	55.3	37.2
Bloomfield	37,885	25,851	94,778	40.0	27.3
Orange	37,868	23,807	67,385	56.2	35.3
West Orange	16,842	10,936	59,458	28.3	18.4
Belleville	14,728	9,353	46,856	31.4	20.0
Maplewood	16,835	11,102	56,402	29.8	19.7
Nutley	13,677	8,166	50,353	27.2	16.2
South Orange	16,827	11,910	40,604	41.4	29.3
Woodbury	13,819	9,986	12,698	108.8	78.6
Kearny	29,913	17,226	69,271	43.2	24.9
North Bergen	31,673	20,995	71,864	44.1	29.2
West New York	53,186	35,782	67,382	78.9	53.1
Princeton	18,162	12,914	24,125	75.3	53.5
Perth Amboy	63,843	46,273	56,350	115.1	82.1
New Brunswick	70,433	48,878	59,641	118.1	82.0
Woodbridge	14,086	7,532	28,276	49.8	26.6
Asbury Park	50,189	40,523	27,196	184.5	149.0
Long Branch	22,447	14,489	32,528	69.0	44.5
Red Bank	32,401	23,832	40,295	80.4	59.1
Freehold	14,400	10,515	12,997	110.8	80.9
Morristown	39,615	31,532	32,709	121.1	96.4
Dover	20,605	14,506	17,787	115.8	81.6
Clifton	41,517	30,498	104,774	39,6	29.1
Salem	12,002	9,115	12,633	95.0	72.2
Somerville	19,151	14,617	14,426	132.8	101.3
Plainfield	69,839	46,599	76,137	91.7	61.2
Linden	17,159	11,667	46,638	36.8	25.0
Union	16,090	10,005	64,680	24.9	15.5
Westfield	16,956	11,104	47,197	35.9	23.5
Summit	18,829	12,428	40,443	46.6	30.7
Rahway	16,432	11,187	32,088	51.2	34.9
Phillipsburg	13,102	8,908	25,460	51.5	35.0
Total—45 Municipalities	$1,229,050	$849,182	$1,898,962	64.7%	44.7%
Total—58 Municipalities	$3,332,002	$2,390,786	$4,739,306	70.3%	50.4%
Total for State	$4,395,971	$3,088,039	$6,867,639	64.0%	45.0%
58 Municipalities as Per Cent of State	75.8%	77.4%	69.0%		

Source: Sales Management, Inc., "Sales Management," May 10, 1948.

and money, Asbury Park is the situs of retail sales other than food, amounting to 49 per cent more than the effective buying income of all of its citizens. In contrast, Hoboken as one of the State's major workshops has non-food sales amounting to only 27 per cent of the income of its citizens, who apparently shop elsewhere. As shown in Table 23, this distinction is particularly evident when the comparison is made in terms of retail sales other than food sales, which tend to be more closely associated with resident income.

By Type of Taxpayer

It is customary to regard sales taxes as "regressive" and income taxes as "progressive" in their impact upon taxpayers within the various income groups. These broad classifications are in terms of the effective tax rates relative to the income of the taxpayer. The central point of controversy between them involves the degree to which tax liability should as a matter of policy be related to capacity to pay taxes.

However, it must be recognized that the distinction between "regressive" sales taxes and "progressive" income taxes loses some of its validity when actual tax measures are compared. A retail sales tax which exempts the basic necessities may in fact be little less "regressive" than a broad based income tax with few deductions or exemptions. Particularly among taxpayers at the lower level of the income scale, income taxes can and sometimes do result in greater tax liability than sales taxes designed to produce a comparable revenue yield.

For example, the personal income tax in Oregon applies at rates graduated from 2 per cent to 8 per cent with exemptions of $750 for single taxpayers, $1,500 for married taxpayers and $300 for dependents. Oregon derived $31 million from this income tax in 1948 which is approximately the amount which it could have derived from a 3 per cent sales tax with food exempt. Comparison between these two tax measures as they apply to a family of four with an income of $3,500 indicates an income tax liability of about $41 as compared with a possible 3 per cent retail sales tax of something like $24.

Variations in the application of five income tax variations (see page 95 to different individuals is indicated in Table 24. While the first and the second tax variation would produce approximately the same amount of annual revenue, they would rest with different weight upon individual taxpayers. Tax Variation 1 would cause a taxpayer with $25,000 annual income to pay $600 in annual tax to New Jersey, while this same taxpayer under Tax Variation 2 would pay $240. In contrast, the taxpayer with an annual income of $4,000 would pay no tax under Tax Variation 1 whereas his tax liability would amount to $30 under the 2nd variation, and $7 under the 3rd.

TABLE 24

AMOUNT OF INCOME TAX LIABILITY FOR INDIVIDUAL TAXPAYERS BY INCOME LEVEL UNDER FIVE INCOME TAX VARIATIONS

	Net Income Before Exemption				
	$2,000	*$4,000*	*$10,000*	*$25,000*	*$100,000*
Single Taxpayer:					
Tax Variation No. 1	...	...	$150	$600	$2,850
Tax Variation No. 2	$10	$30	90	240	990
Tax Variation No. 3	10	30	130	570	2,820
Tax Variation No. 4	10	50	210	800	3,000
Tax Variation No. 5	10	60	340	1,230	5,730
Married Taxpayer With Two Children:					
Tax Variation No. 1	...	...	$150	$600	$2,850
Tax Variation No. 2	$10	$30	90	240	990
Tax Variation No. 3	...	7	84	501	2,751
Tax Variation No. 4	...	7	141	708	3,708
Tax Variation No. 5	...	7	225	1,092	5,592

While the application of general retail sales taxes relates to expenditure patterns rather than income received, they bear some relationship to income levels for the simple reason that expenditures are determined largely by available income. Particularly under sales taxes which exempt such basic purchases as food, the tax actually applies to an increasing proportion of total family expenditures as the amount of income increases.

Expenditures by city families in 1944 for food, housing and medical care accounted for 78 per cent of total expenditures by families in the lowest income bracket as compared with 53 per cent of all expenditures by families with incomes in excess of $5,000. Thus, for all practical purposes, a sales tax with exemptions for these basic expenditures would apply within a range between 22 per cent of family expenditures for the lowest income family to an average of 47 per cent of all expenditures for families with incomes in excess of $5,000.

Estimates based upon the typical city worker's family budget of $3,400 in 1947 indicate that a 1 per cent sales tax with broad coverage such as was adopted in Rhode Island in 1947 would cause the family to pay an annual tax of $20.80. In contrast, the same family would pay $7.65 under a 1 per cent sales tax applied to taxable purchases as defined in Connecticut where liberal exemptions are allowed. As shown in Table 25, the principal differences between these two sales tax measures concern the taxation of sales of food for home consumption, fuel, utilities and children's clothing.

TABLE 25

CITY WORKER'S FAMILY BUDGET—FOUR PERSONS ESTIMATED BY U. S. DEPARTMENT OF LABOR, JUNE 1947

Item	*Family Budget Expenditures*	*Amount Taxable In Rhode Island*	*Amount Taxable In Connecticut*
Food	*$1,064.00*	*$1,064.00*	*$123.00*
Home Consumption	941.00	941.00	123.00
Restaurant Meals	123.00	123.00	......
Housing	*738.00*	*318.00*	*114.00*
Rent	......	......	......
Fuel	624.00	96.00	......
Water, Gas, Electric, and Telephone	......	108.00	......
House Furnishings	81.00	81.00	81.00
Household Operation	33.00	33.00	33.00
Clothing	*420.00*	*420.00*	*253.00*
Adult	253.00	253.00	253.00
Children	167.00	167.00	......
Medical Care	*165.00*	*19.00*	*12.00*
Medical and Dental	116.00	......	......
Hospital Services	30.00	......	......
Supplies and Eyeglasses	7.00	7.00	......
Drugs and Medicines	12.00	12.00	12.00
Transportation	*354.00*	*157.00*	*157.00*
Automobile Purchase	107.00	107.00	107.00
Repairs, Oil, Tires and Tubes	50.00	50.00	50.00
All Other Automobile	97.00	......	......
Public Transportation	100.00	......	......
Other Goods and Services	*304.00*	*101.00*	*106.00*
Reading and Recreation	83.00	25.00	30.00
Personal Care	56.00	21.00	21.00
Tobacco	40.00	10.00	10.00
Gifts and Contributions	81.00	40.00	40.00
Miscellaneous	44.00	5.00	5.00
Total All Goods and Services	$3,045.00	$2,079.00	$765.00
Taxes, Insurance, Dues, etc.	329.00	......	......
Total Estimated Budget	$3,374.00	......	......
Total Estimated Sales Tax		$20.79	$7.65

Source: Connecticut Public Expenditure Council, February 10, 1948.

The Place of Sales and Income Taxes Within the Present Tax Structure

The Relation to Selected Sales and Selected Businesses

It must be recognized that every State makes extensive use of sales and gross receipts taxes even though only 28 of them apply general sales taxes. Upon this basis the difference between sales tax States and non-sales tax States is largely one of definition of the tax base.

The importance of these taxes ranges from 25.5 per cent of all State revenue collected in Oregon to 86.4 per cent in West Virginia.[1] Aside from the large revenues derived in the 28 sales tax States from general sales and use taxes, major sources of sales tax revenues are derived in all States from alcoholic beverages, cigarettes, and gasoline. Indiana applies a general gross income tax to individuals and businesses.

Thirty-six States received more than one-half of their tax revenues from sales and gross receipts taxes in 1949. States having retail sales tax measures appear at the top of the list in terms of reliance upon sales and gross receipts taxes. However, this emphasizes the extra weight of sales taxes imposed above and beyond the special taxes upon selected commodities as compared with non-sales tax States such as New Jersey where 50.4 per cent of all State collected revenues are derived from such sources.

Selective sales taxes in New Jersey apply primarily to the sales of gasoline and cigarettes. At 3 cents per pack of cigarettes retailing at 20 cents, the cigarette tax amounts to a selective tax at approximately 15 per cent. In the same way, the gasoline tax at 3 cents a gallon upon gasoline retailing at 20 cents per gallon is a 15 per cent selective sales tax. Taxes upon the sale of alcoholic beverages represent selective sales taxes at rates varying with the type of the beverage sold. Other taxes presently applied in New Jersey and related to the sales and gross receipts tax field are those upon the gross receipts of public utilities at rates in excess of 11 per cent and taxes upon pari-mutuel racing pools at 6 per cent for all under $40 million and 7 per cent for all over that amount. Insurance premiums are subject to a tax based upon the gross amount of business done.

Relation to the General Property Tax

As shown in Table 23, estimates indicate that approximately ¾ of all retail sales in New Jersey are made in 58 of the State's 365

[1] See U. S. Bureau of the Census, *Sources of State Tax Revenue in 1949* (Washington, D. C., October 1949).

municipalities. These same 58 municipalities account for about 78 per cent of all retail sales except food sales and 69 per cent of all general property taxes.

The possible tax revenue from a 2 per cent retail sales tax at the 1948 level of business without exemptions would amount to approximately 25 per cent as much as the 1949 general property tax. Exemptions of food sales from a 2 per cent sales tax would provide tax revenue equal to about 17 per cent of the general property tax.

These ratios between potential sales tax revenues and general property taxes vary widely as among the counties and as among individual municipalities within counties. Table 26 shows this relationship in 58 individual New Jersey municipalities. The 13 largest municipalities would account for approximately 50 per cent of all sales taxes where food is exempt as compared with 45 per cent of all general property taxes assessed in 1949. At a 2 per cent rate such a tax would provide revenue amounting to about 19 per cent of all general property taxes assessed in these 13 municipalities. As among the 13 municipalities, however, this ratio would vary from a low of 6 per cent in Hoboken to a high of 31 per cent in Paterson.

The remaining 45 municipalities shown in Table 26 account for 28 per cent of potential sales taxes as compared with 24 per cent of all general property taxes in 1949. The average yield from a 2 per cent sales tax with food exempt would be approximately 20 per cent of the general property tax for these 45 municipalities. In this case the variation is even greater than that shown for the 13 largest municipalities. For example, it ranges from a low of about 7 per cent in Linden to a high of almost 55 per cent in Dover.

The Commission concludes—

> **Individual residents of New Jersey are supporting State Government only to the extent that they contribute through selective sales taxes. They are free of the major broad based tax requirements imposed in other States, but this means a greater tax impact at the local level which is at present concentrated on the real estate tax. The principal forms of taxation of individuals in other States, the consumers sales tax and the personal income tax, represent an untapped fiscal resource of the State which could, through the use of appropriate exemptions and deductions, be made to operate equitably—if the Legislature should elect to pursue any fiscal policy which requires their use.**

TABLE 26

Relationship Between Estimated Retail Sales Tax at 2 Per Cent (1948) and General Property Tax Assessed in 58 New Jersey Municipalities

(Amounts in Thousands of Dollars)

Municipality	County	General Property Tax 1949	Estimated Sales Tax at 2% (1948): Without Exemptions	Estimated Sales Tax at 2% (1948): Food Exempt	Sales Taxes as % Property Tax: Without Exemptions	Sales Taxes as % Property Tax: Food Exempt
13 Municipalities with Population 50,000 and more:						
Atlantic City	Atlantic	$7,190	$2,343	$2,086	32.6%	29.0%
Camden	Camden	7,913	2,608	1,917	33.0	24.2
Newark	Essex	49,482	13,699	10,928	27.7	22.1
East Orange	Essex	5,531	1,515	1,151	27.4	20.8
Irvington	Essex	4,811	1,094	772	22.7	16.0
Jersey City	Hudson	33,262	4,446	2,611	13.4	7.8
Bayonne	Hudson	9,771	1,566	1,042	16.0	10.7
Hoboken	Hudson	6,140	777	369	12.7	6.0
Union City	Hudson	4,633	1,936	1,434	41.8	31.0
Trenton	Mercer	9,334	3,670	2,663	39.3	28.5
Paterson	Passaic	9,223	3,901	2,854	42.3	30.9
Passaic	Passaic	5,411	1,868	1,380	34.5	25.5
Elizabeth	Union	8,084	2,636	1,911	32.6	23.6
Total 13 Municipalities		$160,784	$42,059	$31,118	26.2%	19.4%
13 Municipalities as Per Cent of State Total		45.2%	47.8%	50.4%	....	....
45 Other Municipalities:						
Hackensack	Bergen	$2,515	$1,541	$1,105	61.3%	43.9%
Teaneck	Bergen	2,277	346	156	15.2	6.9
Englewood	Bergen	1,820	627	473	34.5	26.0
Ridgewood	Bergen	1,609	367	252	22.8	15.7
Garfield	Bergen	1,425	310	198	21.8	13.9
Rutherford	Bergen	1,127	353	248	31.3	22.0
Burlington	Burlington	443	227	169	51.2	38.1
Collingswood	Camden	761	301	208	39.6	27.3
Ocean City	Cape May	1,313	255	165	19.4	12.6
Wildwood	Cape May	783	274	186	35.0	23.8
Bridgeton	Cumberland	925	546	393	59.0	42.5

Millville	Cumberland	725	294	190	40.6	26.2
Vineland	Cumberland	403	554	417	137.5	103.5
Montclair	Essex	4,749	1,157	779	24.4	16.4
Bloomfield	Essex	3,767	758	517	20.1	13.7
Orange	Essex	2,621	757	476	28.9	18.2
West Orange	Essex	2,564	337	219	13.1	8.5
Belleville	Essex	2,208	295	187	13.4	8.5
Maplewood	Essex	2,239	337	222	15.1	9.9
Nutley	Essex	1,881	274	163	14.6	8.7
South Orange	Essex	1,840	337	238	18.3	12.9
Woodbury	Gloucester	488	276	200	56.6	41.0
Kearny	Hudson	4,100	598	345	14.6	8.4
North Bergen	Hudson	3,626	633	420	17.5	11.6
West New York	Hudson	3,426	1,064	716	31.1	20.9
Princeton	Mercer	789	363	258	46.0	32.7
Perth Amboy	Middlesex	3,572	1,297	925	36.3	25.9
New Brunswick	Middlesex	2,800	1,409	978	50.3	34.9
Woodbridge	Middlesex	2,023	282	151	13.9	7.5
Asbury Park	Monmouth	1,661	1,004	810	60.4	48.8
Long Branch	Monmouth	1,530	449	290	29.3	19.0
Red Bank	Monmouth	848	648	477	76.4	56.3
Freehold	Monmouth	410	288	210	70.2	51.2
Morristown	Morris	1,204	792	631	65.8	52.4
Dover	Morris	532	412	290	77.4	54.5
Clifton	Passaic	3,554	830	610	23.4	17.2
Salem	Salem	388	240	182	61.9	46.9
Somerville	Somerset	651	383	292	58.8	44.9
Plainfield	Union	3,428	1,397	932	40.8	27.2
Linden	Union	3,376	343	233	10.2	6.9
Union	Union	2,429	322	200	13.3	8.2
Westfield	Union	2,071	339	222	16.4	10.7
Summit	Union	1,753	377	249	21.5	14.2
Rahway	Union	1,646	329	224	20.0	13.6
Phillipsburg	Warren	1,015	262	178	25.8	17.5
Total 45 Municipalities		$85,315	$24,581	$16,984	28.8%	19.9%
45 Municipalities as Per Cent of State Total		24.0%	28.0%	27.5%	....	....
STATE TOTAL		$355,689	$87,919	$61,761	24.7%	17.4%

Source: County *Abstracts of Tax Ratables, 1949* and *Sales Management,* May 10, 1949.

Chapter V

THE PROPERTY TAX

Real Estate

The administration of the general property tax, particularly as it affects real estate, represents a large-scale problem which the *Commission* has set aside largely for its next year's work. The principal problem of policy in this area revolves around the extent to which real estate shall be required to pay the cost of government. This was the heart of the argument presented at the *Commission's* hearings, on behalf of the New Jersey State League of Municipalities. Mr. James J. Smith, appearing for the League, declared:

> "A program of new and adequate revenue resources in the form of 'home rule' tax legislation of a specific nature, providing for State administration of locally imposed taxes within the framework of uniform tax measures would provide an orderly development of local financial independence. Just as the State would prefer a reallocation of tax resources as between the Federal and State Government, to get away from the need of going hat in hand to Washington, begging for the return of a few of the dollars that New Jersey's citizens have paid in tribute to the Federal Government, so we, in the municipalities would recommend that the broadening of the tax base should carry with it the recognition of local autonomy."

The *Commission* considers the relationship of real estate tax relief to general State tax policy in the succeeding chapter of this report. It is impressed with the sincerity of the municipal officials, however, and particularly with their willingness to assume responsibility for such taxes as may be required to relieve real estate.

Before embarking on any idea of new and additional tax sources to be locally administered, the *Commission* has deemed it desirable to explore ways and means of making the property tax work better, on the one hand, and of cutting down the tax burden on real estate, on the other. In this connection the administration of the property tax will be the subject of the *Commission's* next report.

For the time being it is important to note, as shown in Table 27, that the total property tax raised has increased from $258.7 million in 1939 to $355.7 million in 1949, *an increase of 37.5 per cent in ten years.* This is all the more significant when it is noted that the increased tax dollars cannot be accounted for by increased assessments, in that net valuations taxable increased only 3.1 per cent during the same period. The average tax rate in 1939 was $4.61 per hundred, whereas in 1949 it had risen to $6.14 per hundred. Table 27 also shows that municipalities with low tax rates in 1939 (see part B of the Table) have increased their property taxes by greater percentages than those with higher tax rates in 1939. Municipalities with low tax rates in 1949 (see part A of Table 27) also show substantial increases in property taxes assessed as between 1939 and 1949. *The conclusion is that whether a municipality was a low tax rate district in 1939, or whether it is a low tax rate district today, has made no difference in the upward trend of real estate taxes assessed.*

A rather striking difference is shown by the table as between low tax rate districts in 1939 and those in 1949, in the column headed net valuation taxable. Those which had a low tax rate in 1949 show substantial increases in net valuation taxable over a ten-year period, while those which had a low tax rate in 1939 show losses or minor increases in net valuation taxable over the two years. The full significance of this difference is impossible to measure without a district by district analysis, but it is at least apparent that low tax rates in 1939 were not in themselves sufficient to attract new ratables, on the one hand, while low tax rates in 1949 on the other, were apparently due in some cases to a marked increase in net valuation taxable.

In brief the Commision finds—

> **Despite the predominance of the philosophy of no new taxes during the past ten years, taxpayers at the local level are paying almost $100 million more in 1949 than they were in 1939. The figures show no significant over-all increase in net valuation taxable and a very substantial increase in the average tax rate. Regardless of whether or not economic values have increased over the ten-year period, the fact remains that taxpayers are paying 37.5 per cent more in tax dollars, regardless of the base or measure of the tax.**

Two possible methods of ending the present rising trend in real estate taxes may be considered: (a) real estate tax exemption;

TABLE 27

General Property Assessment Ratios—By Book Value for Major Industry Groups

Sample of Corporation Franchise Tax Returns—1949

(Amounts Rounded to Millions of Dollars)

	Mining and Quarrying	Manufacturing	Public Utilities	Wholesale Trade	Retail Trade	Services	Finance, Insurance, Real Estate	Construction	Agri., Forestry, Fishing	Not Reported	Totals
Book Value of Property in Sample:											
(a) Land	$939	$38,776	$3,246	$4,231	$10,395	$14,091	$76,869	$714	$447	$41,399	$191,107
(b) Buildings and Improvements	1,069	167,326	11,833	8,002	15,174	29,016	109,888	1,343	735	68,136	412,522
(c) Tangible Personal Property	4,212	539,177	15,959	49,319	81,152	13,283	6,774	2,065	1,019	110,064	823,024
Total Book Value	$6,220	$745,279	$31,038	$61,552	$106,721	$56,390	$193,531	$4,122	$2,201	$219,599	$1,426,653
Assessed Value of Property in Sample:											
(a) Land	$345	$27,509	$2,362	$2,691	$5,566	$6,273	$46,712	$362	$288	$30,239	$122,347
(b) Buildings and Improvements	374	88,401	9,174	4,894	17,315	16,154	74,485	507	534	51,855	263,693
(c) Tangible Personal Property	1,041	99,127	4,236	10,763	24,401	5,364	3,007	995	214	29,724	178,872
Total Assessed Value	$1,760	$215,037	$15,772	$18,348	$47,282	$27,791	$124,204	$1,864	$1,036	$111,818	$564,912
Assessment Ratio for Sample:											
(a) Land	36.7%	70.9%	72.8%	63.6%	53.5%	44.5%	60.8%	50.7%	64.4%	73.0%	64.0%
(b) Buildings and Improvements	35.0	52.8	77.5	61.2	114.1	55.7	67.8	37.8	72.7	76.1	63.9
(c) Tangible Personal Property	24.7	18.4	26.5	21.8	30.1	40.4	44.4	48.2	21.0	27.0	21.7
Average Assessment Ratios	28.3%	28.9%	50.8%	29.8%	44.3%	49.3%	64.2%	45.2%	47.1%	50.9%	39.6%
Number of Corporations Sampled	31	1,513	175	439	792	267	1,358	57	15	977	5,624

(b) the elimination of present real estate tax exemptions, some of which may be unwarranted by considerations of public policy. The *Commission* has studies under way in both of these fields.

Tax Limitation

Tax limitations have for a long time been looked upon with disfavor by those experienced in the requirements of public finance, but much of the opinion was based upon depression conditions. Of more recent significance, however, was the submission of a constitutional amendment in New York to revise the 2 per cent real estate tax limitation which has long applied in that state. It is quite clear from the involved nature of the amendment that 2 per cent has become too restrictive a limitation, but it is also signficant that the Moore Committee which studied the matter did not recommend repeal of the limitation but rather that it be modified in light of current needs. This *Commission* will continue its consideration of possible real estate tax limitation in connection with its projected study of the entire real estate tax.

Tax Exemptions

The *Commission* has accumulated a large stock of information on the subject of real estate tax exemptions. A good part of the information deals with tax exempt Federal property. The true picture of tax exempt real estate other than Federal property is practically impossible to obtain because of the nominal or indifferent valuations placed upon such property by many local assessors. The *Commission* is continuing its study of this problem, and particularly of the developing significance of veterans' tax exemptions as they affect the smaller municipalities.

Assessment Ratios

A key consideration in any over-all view of the general property tax must be the existing variations in the ratio of assessed to true value as among different classes of taxpayers, and as among different taxing districts. While it is a statutory duty of the county boards of taxation to equalize assessments among the different taxing districts, counties throughout the State report that they have not had any assessment ratio studies during the past ten years. Without the benefit of such studies, there can be no effective equalization as among taxing districts.

The *Commission* recognizes that the ratio of assessed value to book value is not conventional, and may not always be valid. In the case of the ratio of assessed value to book value of personal property the *Commission* deems the ratio to be reasonably satisfactory since the book value of personal property, especially inventories, is likely to be a very close approximation of its over-all true value. Recognizing the limitations of assessed to book value in the case of land and buildings, the *Commission* nevertheless believes it is significant to consider for comparative purposes the wide industry variations shown in Table 28.

The assessment ratio in manufacturing alone ranges from 71 per cent for land down to 18 per cent for tangible personal property, but as between manufacturing and retail trade the assessment ratio for land ranges from 71 per cent in the former down to 53.5 per cent in the latter, while that for buildings ranges from 52.8 per cent in manufacturing to 114.1 per cent in retail trade. Other differences are apparent from examination of the table. While Table 28 is, as has been stated, not in any sense conclusive of differences in assessment ratios, it nevertheless is a substantial guide to what might be expected from the assessment ratio studies. The *Commission* is prepared to undertake such studies as part of its analysis of the operation and effect of the general property tax.

PERSONAL PROPERTY

Household Goods

Problems of household personalty assessment are today worse rather than better than they were three years ago when the *Commission* discussed them in its Second Report. The *Commission* accordingly renews its recommendation of that report—

> **Taxation of household personal property should be abolished and municipalities should be given the option of levying an occupancy tax in lieu of the present household goods tax.**

*　　*　　*　　*　　*　　*　　*

We have already discussed the problem of business personalty. To those who would argue that the *Commission's* proposal will result in a narrowing of the local tax base, it is only fair to add that there will not be much tax base left in New Jersey's largest cities if the problem of taxation of tangible business personalty is not solved. The core of this problem lies in the large cities which have been using the personal property tax more extensively than the smaller municipalities, but the solution must necessarily encompass the State. The benefit of a solution will in turn redound

TABLE 28

Changes in New Jersey Property Tax and Net Valuation Taxable
(1939-1949)

Tax Rate 1949	Number of Taxing Districts	Property Taxes Assessed (thousands) 1939	Property Taxes Assessed (thousands) 1949	Per Cent Change	Net Valuation Taxable (thousands) 1939	Net Valuation Taxable (thousands) 1949	Per Cent Change	Average Tax Rates 1939	Average Tax Rates 1949
A. By Size of Tax Rate in 1949									
Under $3.00	9	$583	$1,314	125.4%	$29,020	$47,989	65.4%	$2.01	$2.74
$3.01-$4.00	26	2,625	3,329	26.8	80,702	92,793	15.0	3.25	3.59
$4.01-$5.00	70	17,385	25,174	44.8	508,658	538,609	5.9	3.42	4.67
$5.01-$6.00	159	88,035	124,348	41.2	2,012,766	2,255,382	12.1	4.37	5.51
$6.01-$7.00	150	103,124	133,141	29.1	2,144,910	1,984,792	—7.5	4.81	6.71
$7.01-$8.00	81	34,947	50,531	44.6	659,948	681,383	3.2	5.30	7.42
$8.01 and over	68	12,004	17,852	48.7	181,553	193,355	6.5	6.61	9.23
Total	563	$258,703	$355,689	37.5%	$5,617,557	$5,794,303	3.1%	$4.61	$6.14
B. By Size of Tax Rate in 1939									
Tax Rate 1939									
Under $3.00	35	$2,527	$4,371	73.0%	$138,238	$122,870	—12.5%	$1.83	$3.56
$3.01-$4.00	120	34,618	51,552	48.9	973,326	1,026,866	5.5	3.56	5.02
$4.01-$5.00	184	157,651	212,176	34.6	3,406,734	3,403,688	—0.1	4.63	6.23
$5.01-$6.00	122	39,815	55,772	40.1	743,098	841,938	13.3	5.36	6.62
$6.01-$7.00	54	16,401	21,783	32.8	256,868	284,335	10.7	6.38	7.66
$7.01-$8.00	29	5,944	7,709	29.7	80,412	91,637	14.0	7.39	8.41
$8.01 and over	19	1,747	2,325	33.1	18,881	22,969	21.7	9.25	10.12
Total	563	$258,703	$355,689	37.5%	$5,617,557	$5,794,303	3.1%	$4.61	$6.14

In 1939 Cape May City and North and South Cape May were separate municipalities and their general property taxes and net valuations taxable are reported at their various tax rates, *i.e.*, Cape May City at $5.84, North Cape May at $7.40, and South Cape May at $11.24. In 1949 they are included in Cape May City at a rate of $7.72.

In 1939 Raritan Town, Somerset County did not levy taxes and taxes to be levied for local purposes were certified to the Township of Bridgewater. In 1949 it reported a tax rate of $7.48 and was listed accordingly.

In 1939 Medford Lakes, Burlington County did not exist as a separate municipality. In 1949 it reported a tax rate of $6.16 and is listed accordingly.

Source: New Jersey County Abstracts of Tax Ratables.

to the advantage of all municipalities large and small in that new locations of industry which may have been discouraged by the present unsatisfactory tax situation will increase and bring with them a train of new tax ratables.

* * * * * * *

Intangible Personal Property

It remains to review again the problem of intangible personal property. In 1945 this *Commission* recommended that any effort to tax such property on an ad valorem basis should be abandoned. Nothing that the *Commission* has seen or experienced since that time would tend to change its views. It is none the less true that the effect of exempting from taxation the various forms of intangible wealth, that is stocks, bonds and other securities, should tend to discourage investment in real estate as opposed to investment in securities. Whether or not this has had a depressing effect economically, the *Commission* is unable to learn. But it is quite clear that from the viewpoint of taxation the present system provides discrimination against the owner of real property or tangible personal property and in favor of the owner of intangible personal property. The financial business tax may to some extent reach individuals holding large blocks of securities and dealing with them in a financial business manner. But the bulk of such securities may be handled as individual investment without incurring any tax liability under the laws of New Jersey.

The *Commission* has heretofore expressed the opinion that the only fair and logical method of reaching intangible personal property for taxation is through an individual income tax. If the Governor and the Legislature wish to correct this inequity, that is still the only method of doing so.

In summary, the Commission concludes—

> **A foremost need is to place the general property tax in order. While some steps can be taken immediately to remove the unworkable portions of the tax, the basic requirements for effective and equitable levy, assessment and collection of the tax on real estate are in themselves a project for a separate, full-scale study and report.**

CHAPTER VI

HIGHWAY USER TAXES

At least $50 million a year is spent by counties and municipalities on the construction, maintenance and policing of facilities for highway users. These expenditures are financed not from so-called highway user revenues but rather from the general property tax. They include the large cost of street cleaning and repair, snow removal, traffic control devices, police patrol, the construction of new streets and the resurfacing of existing streets, plus a variety of miscellaneous costs and services not included in the gross total but which directly or indirectly may be attributed to the motor vehicle. From the point of view of State Government, moreover, the cost of construction of through State highways is known to be directly related to the weight and character of vehicles that use the highways.

As this report is being written, legislation is pending with a view toward achieving two objectives:

1) The limitation of the axle loads of vehicles which may use the highways, for the purpose of protecting the pavement from damage; and

2) An increase in the license fees charged heavy vehicles so as to offset the cost of administering the weight limits as well as to require some additional contribution toward the costs attributable to heavy vehicles.

As the *Commission* understands the pending proposal, it is not primarily a revenue measure although it does make provision for some additional revenue—an estimated total of $2 million which would be offset in some measure by the anticipated increased costs of administration of the weight limits.

From the viewpoint of tax policy, the *Commission* has considered highway user taxes without regard to any regulatory features of the licensing system. It has also been convinced that no licensing system can make out-of-State trucks pay their way, because of the interstate reciprocal character of existing license laws. If New Jersey were to compel out-of-State trucks to obtain a registration in this State as a condition to the use of the highways here, all

New Jersey trucks would lose the right to travel in other States without taking out licenses there. The licensing system, moreover, is intended to reflect only a flat charge for the privilege without regard to the extent of its exercise—this applies both to interstate and out-of-State vehicles. It is, therefore, evident that—

> **If the Legislature wishes to require New Jersey registered and out-of-State trucks to pay a fair share of the cost of New Jersey highways which they enjoy, and if the Legislature wishes to measure the contribution toward that cost in proportion to the relative use of the highways by all vehicles, a tax related to such use will be required.**

New Jersey highway needs and the character of their financing are probably unmatched in any other State. This State represents a "bridge" between two of the most densly populated metropolitan centers in the world. As such, this State's traffic volume and concentration of congestion, with the attending costs of relief of these conditions, are probably unequalled anywhere else. In large part, this use of the highways is by motor carriers both private and for hire, who use the streets and highways for profit in a way which is demonstrably at the expense of other highway users as well as the general taxpayer.

Out-of-State vehicles now constitute more than one-fourth of the total traffic volume on the New Jersey highway system. For the privilege of such use, only the motor fuels tax is paid; and it is doubted that even in this tax, payments of foreign vehicles are commensurate with their use. The position of New Jersey as a very narrow bridge State allows a number of such vehicles to travel across the State without purchasing fuel in the State, thus avoiding any tax payments. This is a problem which must be faced. The highway system of New Jersey is designed for a heavy volume of traffic and for heavy vehicle loads at a considerable cost to the highway user taxpayers of the State. When so much of the traffic volume and so many of the heavily-loaded vehicles are licensed out-of-State, it is not fair to ask that the New Jersey taxpayer bear nearly all the cost.

> **As a partial solution to these problems, the *Commission* recommends the adoption of a mileage tax on all motor carriers —common, contract, or private—weighing over eight thousand pounds, which operate on the highways of the State, whether they are registered in New Jersey or other States. Such a tax,**

yielding approximately $9 million, would remove some of the inequities of the present structure with regard to payments of the various sizes of vehicles. It would tax heavy out-of-State vehicles for the use of highways. It would avert further highway indebtedness, and it could allow some relief for the general property taxpayers.

Present Highway User Tax Structure

Revenues for the financing of highways, totaling $75.7 million, are now received from five sources: the motor fuel tax, the motor vehicle registration and other fees, the autobus excise tax, Federal aid, and the issuance of bonds. The first three constitute the highway tax structure in New Jersey and yielded in 1949 over $62 million.

Table 29 shows how New Jersey compared with other States in 1948 in amounts and percentage of total highway user receipts from each of these sources. New Jersey received 47.8 per cent from the motor fuels tax, as compared with a National average of 64.8 per cent. Registration and other fees yielded 52 per cent of the total as against an average of 33.4 per cent. The autobus excise, which is the State's only motor carrier tax, produced 0.2 per cent of the total as compared with an average of 1.8 per cent.

The Motor Fuels Tax

New Jersey has a motor fuels tax levied at the rate of 3 cents per gallon of fuel sold. This tax yielded in 1949, $30 million. As shown in Table 30, the State is one of five with such a low rate. Compared with a national average of over 5 cents per gallon, New Jersey, Illinois, Michigan and Massachusetts have a 3 cents per gallon tax. While Missouri has a 2-cent State tax, St. Louis and Kansas City, as the State's two largest cities, apply an additional rate of 1 cent for their own purposes.

Relative to its neighboring Middle Atlantic and New England States, New Jersey's rate of 3 cents is compared with an average in those States of 4.36 cents.

Motor Vehicle Registration and Other Fees

Every vehicle operated on the public roads of New Jersey must be registered and a license fee must be paid. Passenger car fees are based on horsepower, commercial vehicle fees on gross weight, and omnibus or "for hire" passenger vehicles on the seating

TABLE 29

State Highway-User Revenues for 48 States and District of Columbia—1948

(Amounts in Millions of Dollars)

State	Total Highway-User Revenues	Motor Fuel Taxes	Motor Fuel Taxes as % of Total	Motor Vehicle Regis. Fees, etc.	Motor Vehicle Fees as % of Total	Motor Carrier Taxes	Motor Carrier Taxes as % of Total
Alabama	$37.4	$27.9	74.5%	$8.8	23.6%	$0.7	1.9%
Arizona	14.0	9.4	72.1	2.8	21.7	.8	6.1
Arkansas	26.4	20.1	76.0	6.3	23.9	...	0.02
California	205.3	131.7	64.1	64.6	31.4	9.1	4.4
Colorado	24.4	18.4	75.3	4.4	17.9	1.7	6.8
Connecticut	27.5	17.2	62.4	9.6	34.9	.7	2.7
Delaware	4.6	2.9	64.1	1.6	35.9	...	...
Florida	64.0	45.3	70.7	18.0	28.2	.7	1.1
Georgia	41.7	36.7	88.1	4.8	11.6	.1	0.3
Idaho	12.1	9.3	77.0	2.6	21.3	.2	1.7
Illinois	86.2	52.6	61.1	33.6	38.9	...	...
Indiana	50.6	35.0	69.2	15.4	30.4	.2	0.4
Iowa	43.1	24.4	56.6	18.1	42.0	.6	1.3
Kansas	28.9	20.4	70.6	6.2	21.5	2.3	7.9
Kentucky	41.0	28.8	70.3	11.0	26.9	1.1	2.8
Louisiana	38.9	33.1	84.9	5.8	14.9	...	0.1
Maine	17.4	11.8	67.6	5.5	31.8	.1	0.5
Maryland	34.4	20.0	58.2	14.4	41.8	...	...
Massachusetts	34.3	24.3	70.7	9.9	28.8	.2	0.5
Michigan	76.8	42.1	54.7	34.0	44.2	.8	1.0
Minnesota	42.5	25.8	60.6	16.7	39.2	.1	0.1
Mississippi	26.1	20.4	78.2	5.6	21.5	.1	0.3
Missouri	32.6	17.7	54.4	14.1	43.4	.7	2.2
Montana	10.1	7.5	73.6	2.5	24.8	.2	1.6
Nebraska	23.4	18.2	77.8	5.1	22.0	.1	0.2
Nevada	3.7	2.5	68.3	.5	14.5	.6	17.2
New Hampshire	8.3	4.5	55.0	3.7	44.9	...	0.1
New Jersey	59.9	28.6	47.8	31.2	52.0	.1	0.2
New Mexico	12.2	8.4	69.1	3.2	25.8	.6	5.0
New York	149.3	82.7	55.4	66.6	44.6	...	0.01
North Carolina	63.0	44.4	70.5	17.2	27.3	1.4	2.2
North Dakota	8.8	5.2	59.0	3.6	40.2	.1	0.8
Ohio	111.6	65.3	58.6	45.2	40.5	1.0	0.9
Oklahoma	40.5	27.3	67.3	12.8	31.5	.5	1.2
Oregon	30.0	20.8	69.3	4.6	15.2	4.7	15.5
Pennsylvania	125.8	78.2	62.2	47.6	37.8	...	0.006
Rhode Island	9.8	5.8	58.7	4.0	40.9	....	0.4
South Carolina	27.1	22.4	82.9	4.1	15.2	.5	1.9
South Dakota	10.7	7.1	66.1	2.5	22.9	1.2	11.0
Tennessee	49.1	38.8	79.2	10.0	20.4	.2	0.4
Texas	124.6	72.7	58.3	51.7	41.4	.3	0.2
Utah	8.5	6.9	80.8	1.6	19.2	...	...
Vermont	7.9	4.1	52.0	3.8	48.0	...	...
Virginia	48.4	36.9	76.2	11.0	22.9	.5	1.0
Washington	43.4	27.9	64.3	15.0	34.6	.5	1.1
West Virginia	28.5	16.0	56.1	12.1	42.5	.4	1.4
Wisconsin	50.4	29.4	58.4	18.2	36.2	2.7	5.4
Wyoming	6.7	4.7	70.4	1.2	18.2	.8	11.4
District of Columbia	10.0	6.5	65.1	3.1	30.6	.4	4.3
Total	$2,081.0	$1,348.1	64.8%	$696.0	33.4%	$37.0	1.8%

Source: U. S. Department of Commerce, Bureau of Public Roads, "State Highway Finance," 1948.

TABLE 30

COMPARISON OF MOTOR FUEL TAX RATES IN THE UNITED STATES, 1950

Number of States	*States*	*Rate Per Gallon (cents)*
1	Louisiana	9
6	Florida, Georgia, Kentucky, New Mexico, North Carolina, Tennessee	7
1	Oklahoma	6.58
2	Arkansas, Washington	6.5
10	Alabama, Colorado, Idaho, Maine, Mississippi, Montana, Nebraska, Oregon, South Carolina, Virginia	6
1	Nevada	5.5
8	Arizona, Delaware, Kansas, Maryland, Minnesota, Pennsylvania, Vermont, West Virginia	5
1	California	4.5
13	Connecticut, Indiana, Iowa, New Hampshire, New York, North Dakota, Ohio, Rhode Island, South Dakota, Texas, Utah, Wisconsin, Wyoming	4
4	Illinois, Massachusetts, Michigan, New Jersey	3
1	Missouri	2
48	Average	5.14

Source: National Highway Users Conference, Motor Vehicle Tax Service, No. 2.

capacity. These fees yielded in 1949 approximately $23 million. Other fees—drivers' licenses, inspection fees, certificates of ownership—yielded approximately $9 million.

Table 31 shows how motor vehicle fees in New Jersey compare with the highest, lowest, and average payments of such fees in all other States. These fees include registration, motor carrier, and all other fees chargeable to the owner of a vehicle. It will be noted that heavy trucks, trailers, and bus fees are much lower in

TABLE 31

COMPARISON OF MOTOR VEHICLE FEES PAID IN NEW JERSEY WITH THE HIGHEST, LOWEST, AND AVERAGE IN ALL OTHER STATES, 1949

Type of Vehicle	Highest Motor Vehicle Tax Paid	Lowest Motor Vehicle Tax Paid	Average Motor Vehicle Tax Paid	Motor Vehicle Tax Paid in N. J.	New Jersey's Rank
Small passenger car	$25.00	$2.00	$11.49	$16.50	11
Medium passenger car	34.21	2.00	12.40	11.20	21
Large passenger car	44.39	2.00	15.74	19.00	16
Pick-up truck	31.00	2.50	15.62	24.00	8
Medium truck (private)	255.00	10.00	61.12	59.00	19
Medium truck (intrastate)	355.00	25.00	106.31	59.00	30
Light tractor-trailer combination (intrastate)	1,621.00	42.00	306.48	94.00	42
Heavy tractor-trailer combination (intrastate)	3,178.75	69.00	588.25	185.00	43
Heavy truck (intrastate)	1,750.00	71.00	533.37	204.00	40
Bus (intrastate, inter-city)	3,008.00	54.00	733.38	54.00	48

Source: Griffenhagen and Associates, "Annual Motor Vehicle and Related Taxes on Motor Vehicles of Various Types in the Forty-eight States as of November 1, 1949."

New Jersey than the average in all States. Also, with the exception of the medium passenger car, light vehicles pay greater fees in this State than the average. The right-hand column shows New Jersey's rank among all States for each type of vehicle.

With regard to the minor fees paid by vehicle owners in New Jersey, the drivers' license fee is among the highest found in any State. The fee in the State is $3.00 annually, compared with a national average of $1.00. Only one State, Connecticut, has a higher fee of $5.00 and three other States, Maine, New Hampshire and Rhode Island, have a $3.00 fee.

Motor Carrier Taxes

New Jersey has no tax on motor carriers other than the autobus excise tax which yields $100 thousand annually. It imposes no additional taxes or fees of any kind on motor carriers of property. As shown in Table 32, other States have numerous taxes and fees on motor carriers. Of 44 States which impose taxes on either carriers of persons or property, 10 have gross receipts taxes, 17 have mileage taxes, 13 have special or franchise fees, and 32 have certificate or permit fees. The amount of revenue raised in 1948 in these 44 States averaged $755 thousand, ranging between $9.2 million in California and $6 thousand in Arkansas.

Other Revenues

The State received $13.4 million additional revenues for highway purposes in 1949. Federal aid amounted to $8.4 million for all highway projects, and $5 million was received from a bond issue.

TABLE 32

State Motor-Carrier Tax Receipts—1948

(Amounts in Thousands of Dollars)

State	Proceeds of State Taxes on Motor Vehicles Operated for Hire, and Other Motor Carriers[1]					
		Mileage Ton-Mile, and Passenger-Mile Taxes	Special License Fees and Franchise Taxes			
	Gross Receipts Taxes[2]		On Weight or Capacity Basis	On Flat Rate Basis	Certificate or Permit Fees	Total
Alabama	....	$705	....	....	....	$718
Arizona	$804	....	....	....	....	804
Arkansas	....	....	....	....	$6	6
California	9,026	....	....	....	161	9,187
Colorado	....	1,630	....	....	27	1,657
Connecticut	629	....	....	$95	1	725
Delaware[2]	....	....	....	....	....	....
Florida	....	676	....	26	20	723
Georgia	....	....	....	112	3	115
Idaho	91	....	$51	....	1	143
Illinois	....	....	....	....	....	....
Indiana	....	....	....	220	8	228
Iowa	....	....	466	91	....	557
Kansas	....	2,251	....	....	22	2,273
Kentucky	....	325	644	....	92	1,061
Louisiana	....	....	....	....	23	23
Maine	....	39	....	29	20	88
Maryland[3]	....	....	....	....	....	....
Massachusetts	....	....	....	143	23	175
Michigan	....	774	....	....	17	791
Minnesota	....	....	....	....	57	57
Mississippi	....	....	....	....	3	3
Missouri	....	....	736	....	....	736
Montana	121	....	....	38	1	166
Nebraska	....	....	....	46	7	53
Nevada	....	....	463	75	....	538
New Hampshire	....	....	....	7	....	7
New Jersey	....	109	....	....	....	109
New Mexico	....	640	....	....	4	644
New York	....	....	....	1	7	8
North Carolina	1,398	....	....	....	10	1,408
North Dakota	....	6	....	19	44	69
Ohio	....	....	1,018	....	....	1,018
Oklahoma	....	455	....	....	22	477
Oregon	83	3,753	1,169	....	16	5,011
Pennsylvania	7	....	....	....	....	7
Rhode Island	....	....	....	39	1	40
South Carolina	....	452	77	....	....	529
South Dakota	....	20	1,129	....	25	1,174
Tennessee	....	....	212	....	2	214
Texas	....	....	69	193	22	284
Utah[3]	....	....	....	....	....	....
Vermont[3]	....	....	....	....	....	....
Virginia	417	....	....	....	2	419
Washington	48	....	297	56	33	434
West Virginia	....	392	....	....	....	392
Wisconsin	....	....	2,393	335	....	2,728
Wyoming	....	714	....	58	....	772
District of Columbia	....	167	....	217	47	431
Total	$12,624	$13,108	$8,724	$1,800	$740	$37,389

1 Complete classification of motor-carrier tax receipts is not available in all States. The classified receipts, in some cases, include miscellaneous small receipts not classified.

2 Numerous States impose taxes on the gross receipts of motor carriers in connection with general State sales taxes or taxes on all transportation companies or public utilities. This column includes only the proceeds of gross receipts taxes reported by the States as special taxe on motor carriers.

3 No special taxes on motor carriers were reported.
Source: U. S. Public Roads Administration.

Highway Expenditures

Expenditures from the highway fund include those for the construction and maintenance of highways, debt service, the cost of administering the Highway Department, the Motor Vehicle Department, and the Motor Fuels Tax Bureau, and State grants-in-aid to localities for road and street purposes. This program at the present time requires approximately $75.4 million annually as follows:

Purpose	*Amount*
State Highway Department:	(*millions*)
Construction and maintenance	$36.7
Administration	9.7
Motor Vehicle Department	2.7
Motor Fuels Tax Bureau	.4
State Police	2.4
Other Departments and Funds	1.8
Debt Service	4.5
State Grants-in-Aid	17.2
Total	$75.4

Relationship Between Highway Revenues and Highway Expenditures

New Jersey highway receipts totaling $75.7 million from all sources in 1949 were balanced by the expenditure of $75.4 million expended for highway purposes. Deducting Federal aid of $8.4 million, the State received $67.3 million from highway user taxes and borrowed funds. Expenditures from these sources totaled $67 million.

Since $5 million of the State funds was obtained through a highway bond issue, this would indicate that, if the State is to continue a program of expenditures at the present level, additional revenues must be found or additional indebtedness must be incurred. Since transfers from highway funds to the general treasury fund have substantially depleted highway fund reserves, they are not available for highway use. The recognition of this contingency the *Commission* suggests, is another reason for the adoption of a motor carrier tax as a means to provide highway revenues which are related to a more adequate measure of highway use.

Highway Use

From traffic counts maintained by the Highway Department, it is estimated that there are approximately 15 billion miles driven annually on the highways, streets, and roads of New Jersey. Also, on the basis of these counts, it is estimated that in 1949, 79.4 per cent of the vehicles were passenger cars, 19.7 per cent were trucks, and 0.9 per cent were buses.

The position of New Jersey as a "bridge" State between the metropolitan areas of Philadelphia and New York is also pointed out. Of the vehicles using the highways, an estimated 28.7 per cent are registered outside New Jersey; 8 per cent in Pennsylvania; and 10.7 per cent in New York. Of the total number of passenger cars on the highways, 29.5 per cent are registered out-of-State; of the trucks, 26.3 per cent; and of the buses, 7.1 per cent.

These figures, however, are indicative only of the number of vehicles on the highways. Most students of highway finance agree that the size and weight of the vehicles must also be considered in determining the relative use of the highways. No one would seriously contend that the largest truck obtains the same use from the highway as a small passenger car. A 20-ton truck or truck and trailer combination obviously obtains more use of the highway than does a 1½ to 2-ton passenger car.

Such factors are recognized in highway design and construction, particularly in a State with a highly-developed highway system, such as that of New Jersey, which is designed for great traffic volumes, high density, and heavy loads. To a degree which cannot be determined exactly, highways are designed for the heavier and larger vehicle, not the smaller, thus making size and weight especially important. It is axiomatic that the width of vehicles expected to use the road plays a part in determining the highway width. Heavy loads are responsible for additional thicknesses of pavement or road foundation, as well as added maintenance costs.

> **The fact that the cost of these added improvements cannot be exactly allocated to each class of vehicle according to an indisputable formula does not remove the reality of such costs, and the *Commission* finds that any measure of highway use, if it is to reflect accurately the problems of construction and maintenance, must take cognizance of these added costs. This means that size and weight of vehicles as well as miles driven have a definite place in any realistic measure of tax upon highway use.**

The Gross-Ton-Mile, Measure of Relative Use

As the measure best incorporating these factors, the gross-ton-mile is generally accepted as perhaps the most realistic measure of determining relative highway use. In its report, *Public Aids* *to Domestic Transportation,* the Board of Investigation and Research stated:

> Gross ton-mileage (reflecting the factors of annual mileage and average road weight) appears to be the best common measure of the relative amount of transportation service rendered by roads.[1]

In their highway study for the State of Illinois, Griffenhagen and Associates stated:

> . . . The only such measure that has ever been found that would serve as a practical means for allocating costs among users is the ton-mile. It, admittedly, is not a perfect measure of relative use, but it appears to be about the only measure that can be employed as a practical matter under the present state of knowledge with respect to the means of highway financing.[2]

Simply stated, this method measures the relative use of the various types of vehicles by the number of miles driven multiplied by the gross weight of the vehicle in tons. Table 33 demonstrates how this method might be applied in New Jersey:

> The 1.3 million vehicles registered in the State in 1948 have been classified by type of vehicle (column 1). Commercial vehicles have been classified by gross weight (column 2).
>
> Annual mileage has been estimated for each vehicle from other highway studies. These mileage estimates conform closely to the mileage driven in New Jersey, and, if anything, are conservative (column 3).
>
> The average mileage per vehicle has been multiplied by the average gross weight of the vehicles (column 4) to determine the gross-ton-miles driven by each (column 5).
>
> This figure is in turn multiplied by the number of vehicles in the class to determine the number of gross-ton-miles driven by that class (column 6).
>
> A total of 33.2 billion gross-ton-miles are estimated to be driven in the State. The number driven by each vehicle becomes the measure of the relative use which that vehicle makes of the highway.

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[1] Board of Investigation and Research, ***Public Aids to Domestic Transportation,*** **Washington, D. C., Government Printing Office, 1945, p. 304.**

[2] **Griffenhagen and Associates, *A Highway Improvement Program for Illinois.* Chicago: Griffenhagen and Associates, 1948, p. 205.**

TABLE 33

Distribution of Highway Use by Domestic Vehicles in New Jersey as Measured by the Gross-Ton-Mile Method—1949

Type of Vehicle (1)	*Number of Vehicles*[1] (2)	*Estimated Average Annual Mileage Per Vehicle* (3)	*Average Gross Weight Per Vehicle (tons)* (4)	*Estimated Average Annual Ton-Miles Per Vehicle* (5)	*Estimated Average Ton-Miles Per Vehicle Class* (6)
Passenger Cars	1,108,522	8,000	1.7	13,600	15,075,899
Trucks and Trailers:					
Under 3,000 lbs.	17,877	7,000	1.1	7,700	137,653
3,001-5,000 lbs.	83,729	9,000	2.2	19,800	1,657,834
5,001-8,000 lbs.	33,376	9,000	3.4	30,600	1,021,306
8,001-10,000 lbs.	15,596	11,000	4.8	52,800	823,469
10,001-12,000 lbs.	11,274	13,000	5.8	75,400	859,060
12,001-14,000 lbs.	9,816	15,000	6.8	102,000	1,001,232
14,001-16,000 lbs.	9,470	17,000	7.7	130,900	1,239,623
16,001-20,000 lbs.	13,773	20,000	9.3	186,000	2,561,778
20,001-24,000 lbs.	6,909	22,000	11.3	248,600	1,717,577
Over 24,000 lbs.	14,483	25,000	15.0	375,000	5,431,125
Omnibus Vehicles:					
Buses	5,978	20,000	10.0	200,000	1,195,600
Taxis, etc.	4,625	50,000	2.0	100,000	462,500
Total	1,335,351				33,175,656

[1] For the 1948 registration year.

Comparison of Highway Use and User Payments

Full application of the principle of highway user taxes implies that all users should pay according to the benefit received from the highways and that the highway tax structure should be so designed that the relative use of the highways would determine for each vehicle what the total payment should be. Adherence to gross-ton-miles driven as a measure of relative use would mean that the portion of total gross-ton-miles driven by a vehicle would determine the portion of total revenues to be paid by that vehicle.

As shown in Table 34, the *Commission* has undertaken to determine how such an apportionment of highway costs might apply to the New Jersey situation. Using the ton-mile estimates from Table 33, each vehicle's share of total highway costs is related to present payments in motor fuel tax, registration fees, and other fees. Upon this basis it appears that,

> **While passenger cars and small commercial vehicles are paying more than their proper share, the large trucks and trailers are paying in some cases less than half of their apportioned share of highway costs. It should be noted, also, that the estimates apply only to vehicles registered in New Jersey. For those vehicles registered in other States, the differences would be greater, since only the gasoline tax is paid for such vehicles.**

Alternate Ways for Correcting Present System

There are several methods which could be used to correct the present highway tax system and make the payment more closely approximate the vehicle's allocated share of highway costs. First, the most obvious means would be to increase the present registration fee high enough so that the average for each vehicle class would approximate the allocated share. For States with less out-of-State traffic, this might be the approach to a solution. In New Jersey, however, reciprocal agreements on registration fees would prevent levying the tax on out-of-State vehicles, thus failing to correct one of the faults of the present system. A flat registration fee, moreover, could not allow for differences in vehicle mileage.

Second, a flat rate tax graduated by vehicle class making up the difference between present payments and allocated share could be levied as a motor carrier tax. This, however, would also introduce a measure of inequality within each vehicle class by charging all vehicles in the class the same amount regardless of the number of gross-ton-miles driven.

TABLE 34

Comparison of Allocated Share of Highway Costs and Estimated Payments in 1949

Type of Vehicle	*Established Ton-Mile Per Vehicle*	*Allocated Share of Highway Costs*	*Estimated Present Payment*				*Difference Allocated Share—Present Payments*
			Motor Fuel Tax	*Registration Fee*[1]	*Minor Fees*	*Total*	
Passenger Cars	13,600	$27.88	$15.48	$11.82	$6.87	$34.17	+ $6.29
Trucks and Trailers:							
Under 3,000 lbs.	7,700	15.78	13.14	12.45	6.87	32.46	+ 16.68
3,001-5,000 lbs.	19,800	40.59	19.29	21.29	6.87	47.45	+ 6.86
5,000-8,000 lbs.	30,600	62.73	21.09	28.04	6.87	56.00	— 6.73
8,001-10,000 lbs.	52,800	108.24	34.02	35.42	6.87	76.31	— 31.93
10,001-12,000 lbs.	75,400	154.57	46.44	42.43	6.87	95.74	— 58.83
12,001-14,000 lbs.	102,000	209.10	59.22	50.12	6.87	116.20	— 92.90
14,001-16,000 lbs.	130,900	268.34	75.00	58.86	6.87	140.73	—127.61
16,001-20,000 lbs.	186,000	381.30	109.08	75.39	6.87	191.34	—189.96
20,001-24,000 lbs.	248,600	509.63	137.49	96.84	6.87	241.20	—268.43
Over 24,000 lbs.	375,000	768.75	187.50	123.09	6.87	317.46	—451.29
Omnibus Vehicles:							
Buses	200,000	410.00	66.66	65.29	23.87	155.82	—254.78
Taxis, etc.	100,000	205.00	107.13	15.00	6.87	129.00	— 76.00

[1] If Assembly Bill No. 13 is enacted, the average registration fees for truck and trailer classes will be changed as follows: Under 3,000 lbs., $15.33; 3,001-5,000 lbs., $25.36; 5,001-8,000 lbs., $36.00; 8,001-10,000 lbs., $47.12; 10,001-12,000 lbs., $56.42; 12,001-14,000 lbs., $64.32; 14,001-16,000 lbs., $69.84; 16,001-20,000 lbs., $92.86; 20,001-24,000 lbs., $117.57; and over 24,000 lbs., $168.61.

Third, a motor carrier tax based on the gross receipts of motor carriers could be levied. This, also, would be discriminatory in that privately operated vehicles could not be subjected to the tax, while their use would equal or exceed that of the common and contract carriers.

Fourth, a ton-mile tax based on the number of gross-ton-miles driven in the State could be levied against all foreign and domestic carriers—common, contract, or private—operating on the highways of the State. This method overcomes the objections to the other three. It would tax out-of-State vehicles. It would not discriminate against vehicles traveling only a few miles in the State each year, and it would tax private carriers as well as others.

Application of a Gross-Ton-Mile Tax

In order that these inequities might be corrected and that the highway user tax structure might be more closely based on relative highway use, the *Commission* suggests that a mileage tax of one-half mill be levied per gross-ton-mile driven by each motor carrier operating in the State, weighing over eight thousand pounds.

Such a tax would apply for all carriers—common, contract, and private—whether of property or persons and whether registered in New Jersey or outside the State. Table 35 shows how this tax of one-half mill per gross-ton-mile compares with the rates of six other States having mileage taxes based on gross weight. All of the States do not tax private carriers, and reciprocal agreements for interstate operated vehicles apply in some States.

It is estimated that the tax would yield approximately $9 million. Domestic vehicles would pay an estimated $7.5 million, while the same tax on interstate carriers would yield $1.5 million. Since the yield of the tax is estimated to be approximately $9 million, this would mean that State revenues would be increased to $71.3 million without the necessity of additional bond issues. This is compared with expenditures from State funds of $67 million in 1949, indicating a surplus of $4.3 million.

The $4.3 million of revenues over the amount currently spent by the State for highway purposes might be used to do one or both of two things. *First,* additional State aid might be given local governments for highway purposes as a means to reduce the burden of local highway and street expenditures supported by the property owner through the general property tax. It has been estimated that such property owners now pay as much as 75 per cent of local highway expenditures.

TABLE 35

MILEAGE TAXES BASED ON WEIGHT IN SIX STATES[1]

State	*Taxes on Passenger Carriers*	*Taxes on Property Carriers*
Colorado	One mill per revenue-passenger-mile on interstate and intrastate common and contract carriers.	Two mills per revenue-ton-mile on intrastate and interstate common, contract and private vehicles.
Florida	Graduated ½c. to 1c. tax per mile by seating capacity on common and contract carriers. Reciprocal agreements rule.	Tax graduated by rated capacity. Less than 5,500 lbs.—1c. per mile; More than 5,500 lbs.—2c.; Tractor-semi-trailer—1c.; Reciprocity available.
Kansas	Tax of ½ mill per gross-ton-mile on intrastate and interstate common and contract carriers.	Tax of ½ mill per gross-ton-mile on intrastate and interstate common, contract, and private carriers.
Michigan	Tax of ½ to 2 mills per mill graduated by gross weight on common and contract carriers. Reciprocity available.	Tax of 1 to 2 mills based on gross weight on common and contract carriers. Reciprocity available.
New Mexico	Tax of ⅛c. to 1½c. per mile based on tonnage capacity. Interstate: 1½c. to 3c. per mile based on gross weight (in addition to registration fees).	Tax of ⅛c. to 1½c. per mile based on tonnage capacity. Interstate: 1½c. to 3c. per mile based on gross weight (in addition to registration fees).
Oregon	All carriers, interstate and intrastate, pay a tax of 1 to 28 mills per ton mile, graduated by gross weight.	All carriers, interstate and intrastate, pay a tax of 1 to 28 mills per ton mile, graduated by gross weight.

Second, as an alternative to local property tax relief (if it is felt that additional revenues beyond the $5 million to prevent further indebtedness are not required) the additional revenues from the motor carrier tax can be used to reduce the registration fee paid by passenger vehicles. As demonstrated in Table 34, these vehicles are paying over $6 each too much at present. This alternative would reduce the payments of the class by approximately $2 million. Even with this reduction, the passenger vehicles as a class will still be paying $5 million more than their allocated share.

It is also suggested that if this mileage tax is enacted, the autobus excise tax be repealed, since the proposed tax would in effect replace it.

[1] Other States have passenger mileage taxes and optional gross weight mileage taxes (in lieu of registration fees).

Source: National Highway Users Conference, Tax Service, No. 2.

Comparison with Present Payments

The suggested tax would be levied at $.0005 or ½ mill per gross-ton-mile driven by each vehicle. This would be determined by multiplying the licensed gross weight in tons by the number of miles driven by the vehicle. In the case of a truck and trailer or tractor and semi-trailer combination the tax would be computed for each vehicle separately, as are registration fees. This means that the heaviest legal load limit of 60,000 pounds for a tractor-trailer combination would pay 1.5 cents mileage tax for each mile driven on New Jersey highways.

Table 36 shows a comparison of the allocated share of highway costs, the present tax payments, and the possible gross-ton-mile tax payments. It will be noted that no mileage tax is suggested for passenger cars or for vehicles weighing less than eight thousand pounds. As shown in this and previous tables, vehicles up to five thousand pounds already pay more than their share of highway costs. The five-to-eight thousand pound class was excluded because, if the mileage tax were levied against such vehicles, they too would pay more than their share of highway costs. At present, it is estimated that each vehicle's taxes amount to only $6.73 less than its share, whereas, if the mileage tax were to be levied against that class, each vehicle's payments would be $8.57 more than its share.

It should also be recognized that, even with the mileage tax, vehicles weighing over eight thousand pounds will still fail to bear the full amount of their allocated share of highway costs. This is shown in Table 37. The amount allocated to each class is compared with estimated present payments and estimated payments with a mileage tax. It will be noted that no class to which the mileage tax applies will pay enough, even with such payments, while passenger cars will still pay $7 million too much.

Even if Assembly Bill No. 13 which would increase commercial registration fees is enacted, the heavier vehicles will still not make payments equal to their fair share of highway costs. As shown in Table 38, the increased revenue from trucks and trailers will not make up the difference between allocated shares of highway costs and total payments. Only in the case of vehicles weighing less than 5,000 pounds will the payment exceed the allocated share. There will remain large differences in the heavier classes.

TABLE 36

COMPARISON OF ALLOCATED SHARES OF REVENUES, PRESENT PAYMENTS, AND PROPOSED PAYMENTS FOR EACH VEHICLE

Type of Vehicle	*Allocated Share of Total Costs*	*Estimated Present Payments*[1]	*Differences Between Payments & Shares*	*Estimated Mileage Tax Payments*	*Total Proposed Payments*	*Differences Proposed Payments & Allocated Shares*
Passenger Car	$27.88	$34.17	+$ 6.29	......	$34.17	+ $6.29
Commercial Vehicles:						
Under 3,000 lbs.	$15.78	$32.46	+ $16.68	......	$32.46	+ $16.68
3,001-5,000 lbs.	40.59	47.45	+ 6.86	......	47.45	+ 6.86
5,001-8,000 lbs.	62.73	56.00	— 6.73	......	56.00	— 6.73
8,001-10,000 lbs.	108.24	76.31	— 31.93	$26.40	102.71	— 5.53
10,001-12,000 lbs.	154.57	95.74	— 58.83	37.70	133.44	— 21.23
12,001-14,000 lbs.	209.10	116.20	— 92.90	51.00	167.20	— 41.90
14,001-16,000 lbs.	268.34	140.73	— 127.61	65.45	206.18	— 62.16
16,001-20,000 lbs.	381.30	191.34	— 189.96	93.00	284.34	— 96.96
20,001-24,000 lbs.	509.63	241.20	— 268.43	124.30	365.50	— 144.13
Over 24,000 lbs.	768.75	317.46	— 451.29	187.50	504.96	— 263.79
Omnibus Vehicles:						
Buses	$410.00	$138.82	—$254.78	$100.00	$238.82	—$171.18
Taxis, etc.	203.00	129.00	— 76.00	......	129.00	— 76.00

[1] The effect of Assembly No. 13 is presented in Table 38.

TABLE 37

Comparison of Estimated Present Payments and Estimated Payments with the Mileage Tax Per Vehicle Class

(*Amounts in Thousands of Dollars*)

Type of Vehicle	*Alloc. Share of Costs per Vehicle Class*	*Est. Present Payments per Vehicle Class*[1]	*Difference, Alloc. Share and Pres. Payments*	*Est. Payments with Mileage Tax per Class*	*Difference, Alloc. Share and Est. Payments*
Passenger Cars	$30,906	$37,875	+$6,969	$37,875	+$6,969
Trucks and Trailers:					
Under 3,000 lbs.	282	580	+ 298	580	+ 298
3,001-5,000 lbs.	3,399	3,973	+ 574	3,973	+ 574
5,001-8,000 lbs.	2,094	1,869	— 225	1,869	— 225
8,001-10,000 lbs.	1,688	1,190	— 498	1,602	— 86
10,001-12,000 lbs.	1,761	1,079	— 682	1,504	— 257
12,001-14,000 lbs.	2,053	1,141	— 912	1,641	— 412
14,001-16,000 lbs.	2,541	1,333	— 1,208	1,953	— 588
16,001-20,000 lbs.	5,252	2,635	— 2,617	3,916	— 1,336
20,001-24,000 lbs.	3,521	1,668	— 1,853	2,527	— 994
Over 24,000 lbs.	11,134	4,598	— 6,536	7,313	— 3,821
Omnibus Vehicles:					
Buses	2,451	930	— 1,521	1,528	— 923
Taxicabs, etc.	948	597	— 351	597	— 351
Total	$68,030	$59,468		$66,878	

[1] The effect of Assembly No. 13 is presented in Table 38.

TABLE 38

COMPARISON OF ESTIMATED PAYMENTS UNDER A. 13 WITH THE ALLOCATED SHARES OF HIGHWAY COSTS PER VEHICLE CLASS

Type of Vehicle	Allocated Share of Costs per Vehicle Class	Total Payments per Class if A. 13 Is Enacted	Difference, Allocated Share and Total Payments	Payments with Mileage Tax and A. 13 Increase	Difference, Allocated Share and Total Payments
Passenger Cars	$30,906	$37,875	+$6,969	$37,875	+$6,969
Trucks and Trailers:					
Under 3,000 lbs.	282	631	+349	631	+349
3,001— 5,000 lbs.	3,399	4,313	+914	4,313	+914
5,001— 8,000 lbs.	2,094	2,135	—41	2,135	—41
8,001—10,000 lbs.	1,688	1,372	—316	1,784	+96
10,001—12,000 lbs.	1,761	1,237	—524	1,662	—99
12,001—14,000 lbs.	2,053	1,280	—773	1,780	—273
14,001—16,000 lbs.	2,541	1,437	—1,104	2,057	—484
16,001—20,000 lbs.	5,252	2,876	—2,376	4,157	—1,095
20,001—24,000 lbs.	3,521	1,811	—1,710	2,670	—851
Over 24,000 lbs.	11,134	5,257	—5,877	7,972	—3,162
Omnibus Vehicles:					
Buses	2,451	930	—1,521	1,528	—923
Taxicabs, etc.	948	597	—351	597	—351
Total	$68,030	$61,752	......	$69,162	......

If A. 13 and the suggested mileage tax were both enacted, the situation would not change appreciably. All vehicle classes over 5,000 pounds would pay too little, with the exception of the 8,001-10,000 pounds class, the smallest weight group to which the mileage tax would apply. In this case, the overpayment would amount to only slightly over $6 per vehicle too much.

Enforcement of the Mileage Tax

The major criticism of the mileage tax by taxing authorities is that it is difficult to enforce. The *Commission* is of the opinion that, while there may be difficulties of administration, they can be overcome to such an extent that the fairness of the tax measure will not be impaired. It is suggested that the following could be used as the initial means of enforcement, and it is expected that as experience is gained better methods will be developed by the enforcing authority.

Each vehicle subject to the tax would be issued a metal tag or plate which would be larger than the registration tag. This tag would bear large numbers, easily visible, and would be required to be placed in a certain location on the right-hand side of the vehicle. A fee would be charged for the plate to defray the cost of its manufacture and the administration of the tax law.

At the time of registration, official travel record sheets for each month of the year would be issued with spaces for recording all mileage traveled each day in the State. These records would bear the vehicle's number and its registered gross weight; and would be in triplicate form, the original with two carbon copies. Such records would be required to be kept in the cab of the vehicle at all times. At the end of each month's operation, the original would be forwarded with the proper tax remittance to the State agency which administers the tax. The second copy would be retained by the vehicle operator.

The third copy would be a checking device. Since the record sheet would have spaces for the time, place, and speedometer reading at the beginning and ending of each trip within the State or at the point of entrance into or departure from the State, any vehicle on the highway would have the trip it was then making recorded, as taxicab drivers in many cities are required to do. Any motor vehicle inspector or State policeman could stop the vehicle and check the record. If the records are not in order, then the owner of the vehicle would be liable for penalty. The third copy could then be torn out and forwarded to the enforcement authority for proper action.

The registration plate would also be used as an enforcement measure. Spotting stations could be established at the places of entry or departure from the State and at strategic locations in the State. By use of hand tabulating machines the numbers of a large sample of the vehicles could be recorded each day and forwarded to the enforcing authority. By checking these tabulations against the official tax return, evasions could then be detected. If a vehicle were seen entering the State at a certain place and on a certain date, its record should show it.

If a vehicle is entering the State for the first time and is spotted, that information would be telephoned to the nearest State police station so that the owner would be required to obtain a tax tag, if he does not already have one, before going further.

The penalty for evasion should be fine and imprisonment or both. Without adequate penalty, the law would be unenforceable. It is suggested that the penalty prescribed in the Oregon mileage tax law might apply: a fine not less than $100 or more than $1,000, or imprisonment up to three months, or both.

Chapter VII

STATE VERSUS LOCAL TAXATION

The distance between the point at which taxes are levied and collected and the point at which they are spent can change the entire perspective of taxation within any State. There are certain factors which are inescapable in the development of a policy on this question:

> *First,* the allocation of responsibility for rendering the services of government—the level of government which renders the service must face the need for the tax revenue;
>
> *Second,* the allocation of taxing power—any local government which has service responsibility without adequate taxing power will inevitably look to the State or Federal Government for some form of financial aid;
>
> *Third,* the State-wide interest—regardless of direct responsibility for rendering service, if the State has a proper interest in maintaining a minimum State-wide standard of governmental service, it will be called upon to provide financial assistance to local government whenever local government renders the service and either cannot or should not be required to meet its entire cost, in view of the value of the service to the State as a whole. Education is a good example of this.

In State finance these three principles have a very simple and direct effect of State taxation. Primary responsibility for certain costly services, such as municipal police and fire protection, schools, streets, welfare and health functions, is vested in the municipalities and school districts. Parts of these functions are carried on by the State and county government. But to the extent that the expense of the service is the responsibility of the municipality, it must either have the taxing power with which to meet that expense, or seek to make it up from grants by either the State or Federal Government. The States and the Federal Government are presumed to enjoy a superior taxing power and for that reason are frequently under pressure to exercise that taxing power for the aid of local governments. The local governments in turn justify their demands upon State and Federal Governments on the ground that their one main source of tax revenue is inadequate to the task of meeting all of the modern service demands at the local level, that is, that the real estate tax is no longer suitable as the sole support of local government.

This gap between service responsibility and taxing ability is only in part the cause of the growth of so-called State aid and Federal aid, a trend which can best be described as a growth of "central financing." Both the Federal Government and the States have long recognized their responsibility for an over-all minimum standard of service as to certain functions within their respective jurisdictions. Rather than render the service directly, however, they have sought to use their superior taxing power to raise tax moneys which they have in turn granted to other levels of government. In this way they have acknowledged or assumed responsibilities in such functions as education, welfare, roads, and health. These financial arrangements regarding either specific functions or general payments for support of governmental services to be rendered by another level of government, are commonly known as grants-in-aid.

Another form of financial arrangement for dividing State-local responsibility, which does not exist in the case of Federal-State-local relationships, is the so-called "shared tax." This type of arrangement is common among the States. It selects some specific tax which the State levies, assesses and collects, and allocates in advance some stated proportion of the yield to the local governments. The amount turned over fluctuates only with the yield of the tax. It is not identified with any particular local service responsibility, nor is the distribution among municipalities sought to be measured in any way by the relative needs among the municipalities. It is in these two respects that the shared tax differs from the grants-in-aid, even though it is sometimes hard to distinguish them from the viewpoint of fiscal results. In New Jersey two examples are the railroad tax and the inheritance tax.

Whether it be grants-in-aid or shared taxes, these are the basic questions of policy: *Should New Jersey seek to assure that money locally spent is so far as possible locally raised? Should New Jersey follow a policy of central financing? Should we seek to give effect to both methods?*

New Jersey today enjoys the distinction of having the lowest per capita State tax collection in the entire nation. This is due in good measure to prudent and economical management of the State Government. But it is due in equal measure to the conscious or unconscious application of the policy to a greater degree in this State than in other States, that money spent locally should be raised locally. The picture in State aid for schools is perhaps the most graphic illustration of this point: New Jersey stands first among all the States in its per pupil expenditure on free public education, but New Jersey stands forty-seventh among all the States in its State aid per pupil.

The difference is not a matter of educational policy at all. It is solely a matter of where and how the money to finance education is being raised. In New Jersey we have been raising relatively more from local sources than in other States, but we have not been spending less on education as compared with other States. Other examples could be developed.

State aid to local governments, nevertheless, looms large in the annual State budget. Governor Driscoll's budget for the fiscal year ending June 30, 1951, plainly shows the signficance of State aid upon State taxes:

Total resources for 1950-51	$166,936,536.00
Budget Part I—Current General State Operations	$79,829,791.00
Budget Part II—State Aid	65,545,724.00
Budget Part III—Capital	18,755,560.00
Total Budget for 1950-51	$164,131,075.00
Estimated balance, June 30, 1951	$2,805,461.00

Current operations of the State Government represent only 48 per cent of the above budget, while State aid represents 40 per cent of the total. The point is this:

If New Jersey is to continue with central financing as much as heretofore, let alone increasing it, the State tax burden must be recognized as part of the local service cost.

New Jersey also has several shared taxes, which are not formally credited to the State Government as State aid, but for which the State Government must take responsibility for levy and assessment, and in some cases for collection. These taxes include the railroad tax which is levied, assessed and collected by the State, but of which the State receives only some $4 million while the municipalities receive some $12 million, using the 1949 total railroad tax for illustration. Another shared tax is the inheritance and estate tax, out of which the county of residence of a deceased is paid 5 per cent of the amount of inheritance tax. Public utility gross receipts and franchise taxes are levied and assessed by the State but 100 per cent of them are paid directly to the various local governments. From the viewpoint of tax policy or State aid, shared taxes represent the same question of separate responsibility for taxation and spending on the one hand, and of recognizing the desparity between local service responsibility and fiscal capacity on the other.

State Aid and Local Taxes

The effect of State aid upon local spending policy and local tax burdens is a subject of much contention but little information. The *Commission* has undertaken numerous tests to determine whether or not a given amount of State aid can be traced through to a given reduction in the local real estate tax. There are so many factors which determine the result, both in this State and in other States, that no general conclusion seems to be warranted. In some cases, for example, State aid is not intended to reduce local taxes. It is intended, to the contrary, to induce a minimum level of local expenditure upon a service deemed vested with a State-wide interest. Vocational education is an example of this. State aid to equalize educational opportunity is likewise not intended primarily to reduce local tax rates, but rather to equalize fiscal capacity so as to enable local school districts to furnish at least a foundation program of public education. State aid for welfare, similarly, is not intended entirely to reduce local tax rates, but as much to recognize the State's responsibility for the relief of needy persons. These are familiar examples which lead to at least one justifiable conclusion.

> State aid may at least be said to hold down local tax rates in face of the need to maintain established minimum standards of governmental services in such categories as education, relief, roads and health. Reduction of local real estate taxes must be viewed as a separate problem, beyond the first purposes of State aid.

The effect of State aid on local spending policy is likewise a question of much dispute. The least that can be said is that there does not seem to be any State aid program in effect at the present time which would stimulate unnecessary local spending. There is too large a part of the total expenditure to be made up from local tax resources to encourage any loose use of State grants.

Local Tax Resources

The crux of the current problem of State-local fiscal relationships lies in the adequacy of local taxing power. So long as local governments can complain that the real estate tax no longer can support their proper service needs they will continue to look to the State for one form or another of financial assistance. The appeal can take the form of "relief of real estate," more aid for schools, and a variety of other persuasive causes. The result can only be a great increase in central financing, with a corresponding compromise with local responsibility. Spokesmen for the municipalities themselves have asserted their fear that home rule can mean nothing to them so long as they are fiscally dependent upon other levels of government to meet their service needs. The issue is plain:

More central financing versus more home rule financing?

Neither side of the issue makes an entirely acceptable case. Central financing has its advantages in simplicity of tax relationship for the taxpayer. It permits the use of broader State taxing power in recognition of the State's interest in soundly financed local governments. It implies a minimum of compliance costs in the filing of returns and in the meeting of administrative requirements. But it could also mean a more generous use of tax moneys at the local level when the pain of raising them is not entirely felt at the local level.

Home rule financing, on the other hand, presents the opportunity for testing the adage that money locally spent and locally raised is by and large more wisely spent. The price of such a promise of more careful use of the tax dollar must be recognized as a more complicated life for the taxpayer. It may well mean that the crossing of our many municipal boundaries will each time result in the possibility of another or different tax. This possibility can be greatly minimized by intelligent use of State standardization, but it cannot be eliminated.

The *Commission* has weighed the various arguments pro and con and has concluded that conditions vary so widely among the different municipalities of the State, and the opportunities for further reliance upon the real estate tax itself are so extreme in some municipalities and so small in other municipalities, that the uniform treatment which central financing implies can only result in unnecessary taxation and undesirable separation of responsibility for spending, from responsibility for taxing. The *Commission* accordingly suggests:

If more tax moneys are absolutely necessary to support municipal services, and the real estate tax is inadequate for that purpose, it is preferable for municipalities to resort to their own taxing authority rather than to look to the State for grants of any kind.

To follow such a policy, it would be necessary for the State to delegate taxing power to the municipalities which would enable them effectively to balance their budgets from sources other than the real estate tax but also suitable for local administration.

Optional Local Taxing Powers

There are two ways to carry out the policy of enabling municipalities to finance their services from sources other than the real estate tax. One is to grant optional local taxing power somewhat in the manner already used in certain States as New York, Pennsylvania, and California; the other is to grant optional local taxing power by way of a tax supplement or overlay upon some established tax which may otherwise be used for State purposes. In either case the competitive situation among municipalities may be expected to limit the use of the device to the larger cities. Since the State does not now levy any tax suitable for permissive local supplement or overlay, the first alternative is the only one presently available.

Special City Taxes in New Jersey

The first modest attempt on the part of New Jersey to give municipalities broader taxing powers was the passage of enabling legislation in 1945 (C. 156, L. 1945) permitting certain cities having a population in excess of 50,000 and bordering on the Atlantic Ocean to impose sales taxes for the next three succeeding years. The legislation was said to be necessary because of the fluctuation in the number of visitors in such summer resorts and in consequence of the damage wrought by the hurricane in 1944 and the continued beach erosion. The original act was held unconstitutional as special legislation. An enabling act of broader application was passed in 1947, Chapter 71, permitting cities of the fourth class (seaside or summer resort cities bordering on the Atlantic Ocean) to enact a limited type of sales tax on luxuries when approved by the people of the municipality at a referendum. The constitutionality of this second act has been upheld by the courts.[1]

Atlantic City is the only municipality which has to date taken advantage of the 1947 legislation. On May 14, 1947, the city passed a luxury tax ordinance (No. 14) which was submitted to a referendum and approved by the people on June 3 of that year. The ordinance, which closely follows the enabling legislation, provides that all vendors selling taxable goods at retail or making taxable charges, must collect a tax from the purchasers. The following sales, transactions and charges are taxable:

1) Sales of alcoholic beverages and beer
2) Sales of tobacco products
3) Charges for rooms by hotels, inns or rooming or boarding houses
4) Charges for hiring of rolling chairs, beach chairs or cabanas
5) Cover, minimum, entertainment or similar charges made by restaurants, cafes, bars, hotels or similar establishments
6) Sale or grant of tickets, licenses or permits for admission to any feature moving picture, exhibition for show, pier, exhibition or place of amusements.

Sales must be made in the ordinary course of business other than for resale to be taxable. Sales which are exempt include isolated transactions not in the regular course of business; sales by State use industry; inter-governmental agency sales; sales to or by the State or political subdivisions thereof; sales which the State is prohibited from taxing under the constitution; and sales or charges by churches or charitable associations. The rate of tax is as follows:

Sales of \$0.01 to \$0.12, no tax
Sales of .13 to .25, the tax is .01
Sales of .26 to .50, the tax is .02
Sales of .51 to 1.12, the tax is .03
Sales in excess of 1.12, add tax on fractions in schedule above.

[1] *Karins* vs. *Board of Com'rs of Atlantic City,* 137 N. J. L. 349, 60 A. 2d 246 (1948).

Cigarettes selling at .13 per pack or over are taxed at .02 per pack. Other tobacco products are taxed as provided in the above schedule.

Revenue from the tax goes into the general fund and may be used for general municipal purposes. The city is realizing about $1.5 million per year in revenue from the tax.

Year			*Yield*
1949	Tobacco products	$242,803.20	
	Other taxable sales or charges	1,199,695.21	$1,445,325.94
	Penalties	2,827.53	
1948	Tobacco products	$257,140.08	
	Other taxable sales or charges	1,298,212.79	$1,558,887.59
	Penalties	3,534.72	
June to Dec. 1947	Tobacco products	$191,643.86	
	Other taxable sales or charges	880,417.05	$1,072,970.80
	Penalties	909.89	

The only other New Jersey municipality which imposes a special city tax is the City of Trenton which, under the "license for revenue" power of the Home Rule Act (Rev. Stat. 40:52–2) passed a license tax in December, 1947 (Ord. No. 505) based on total annual gross receipts. It is generally known as the Trenton Gross Annual Sales Tax. The tax is a much more modest one than that in Atlantic City. It yielded $163,668 in 1949 and $157,662 in 1948. It was enacted for the purpose of providing for the increased pay of firemen and policemen, but the revenue goes into the general fund.

The ordinance provides that any person engaging in the sale of personal property at wholesale or retail must be licensed. Exemptions include persons, firms or corporations subject to licensing or regulation under some other city ordinance, holders of licenses issued under the alcoholic beverage law, R. S. 33:1–1 et seq., traction, gas, light and other corporations taxed under Chapter 5, Laws of 1940, except as to sales of appliances used for consumption of gas or electric and held for resale. Wholesale and retail sales include those made by a jobber but does not include sales by any person of the products or articles of his own growth or manufacture, unless the grower or manufacturer conducts a retail or wholesale activity as such. The rate of the tax is graduated from $5 per annum on gross receipts of less than $10,000 to $1,000 per annum on gross receipts of $999,999. For each additional million dollars or major fraction thereof, an additional $1,000 is levied.

Special City Taxes in Other States

New York

The first permissive taxes enacted by New York State were those granted to New York City to relieve its serious financial condition during the depression years. In 1934 the Legislature granted to cities with a population of 1,000,000 or more the authority to adopt local laws imposing in any such city certain specified types of taxes. (Ch. 873, Laws of 1934.) Under its power to enact special taxes, New York City adopted a retail sales and use tax, a gross receipts tax, and a tax on public utility gross income. Today the following special taxes are in force in the city, the yields of which are given in Table 39:

A 2% retail sales and use tax;

A gross receipts tax of 1/5 of 1% (2/5 of 1% on financial business);

A 1% tax on public utility gross income;

A 3% tax on conduit companies' gross income;

A general occupancy tax graduated from $1 to $6 on basis of rental value (in the case of vending machines, tax is 10 cents to $1 depending on coin necessary to operate the machine);

A 5% tax on occupancy of hotel rooms;

A 5% pari-mutuel pools tax; and

A 2% gross premiums tax upon foreign insurance companies.

Prior to 1947, the only special tax that other cities could use to supplement real property collections, was the 1% tax on the gross income of public utilities. Every city but one in the State has levied the tax.

In 1947 and 1948, following the adoption of a New General Local Assistance Plan, the Legislature granted broad taxing powers to local governments. The legislation allowed all counties, and cities having populations in excess of 25,000 to levy certain specified taxes. Under the 1947 law, counties could only use the proceeds from special permissive taxes for educational purposes, but the 1948 amendment eliminated that restriction.

TABLE 39

YIELD FROM SPECIAL NEW YORK CITY TAXES

	Receipts for Fiscal Years				Fiscal Year—1948-1949	
Special City Taxes:	*1944-45*	*1945-46*	*1946-47*	*1947-48*	*1948-49*[1]	*Fiscal Year 1949-1950 Estimated Receipts*
Sales	$40,698,567	$46,457,453	$103,779,714	$129,283,407	$137,272,373	$128,000,000
Compensating Use	210,921	162,659	261,913	764,002	935,236	800,000
Utility	8,079,225	6,569,667	7,019,156	9,392,251	8,603,398	7,200,000
Conduit	459,001	454,649	465,957	490,222	297,485	490,000
General Business and Financial	12,919,246	13,642,470	27,966,178	37,206,919	64,109,538	61,000,000
Pari-Mutuel Pools	....	5,185,937	14,512,559	11,952,267	11,677,799	11,300,000
Hotel Rooms	....	....	3,109,536	4,573,455	4,537,556	4,200,000
Occupancy	520,057	630,721	390,818	394,426	748,608	600,000

[1] Figures for fiscal year 1948-49 from Commerce Clearing House Tax Systems, p. 312.
Source: New York City Budgets.

Counties are now authorized to levy the following taxes:

2% tax on retail sales and use;

3% tax on restaurant meals if the charge is $1 or more;

3% tax on utility bills;

An annual tax on privilege of selling alcoholic beverages at retail not in excess of 25% of the annual State license fees;

5% tax on admissions;

$25 per annum tax for each coin-operated amusement device;

$5 per annum tax on the use of passenger cars weighing not more than 3,500 pounds and $10 on passenger cars in excess of that weight and on all commercial vehicles;

Gross receipts tax on businesses or professions at rates of 3/10 of 1%, 3/5 of 1% on gross income of financial business; and

5% tax on occupancy of hotel rooms.

Cities of over 25,000 are permitted to levy these taxes to the extent of the rate not used by the counties.

Few local governments have taken advantage of these permissive taxes—only two counties and five cities have used them. Erie County was the first taxing jurisdiction to enter the field with a 1% retail sales and use tax effective on July 1, 1947; Monroe County followed with a general business gross receipts tax of 3/10 of 1% (3/5 of 1% on gross income of financial business). A 2% retail sales and use tax was adopted by Syracuse in 1948, and by Poughkeepsie in 1949 but the Syracuse tax has been reduced to 1%. Troy has been levying a 3% tax on utility bills since January, 1949, and since February of that year Binghamton has been levying the 5% tax on admissions, the 5% tax on hotel occupancy, the motor vehicle use tax of $5 on passenger cars and $10 on trucks and the 3% consumers' utility tax. A 2% sales and use tax will become effective in Newburgh on April 1 of this year.

The Erie County sales and use tax yields about $6½ million per year, and the general business gross receipts tax of Monroe County yielded $4½ million in 1948 and $4¼ million in 1949. The 3 per cent utility tax levied by Troy brought in $69,264.19 in revenue for the first nine months it has been in operation. Poughkeepsie has collected $654,326.04 from its retail sales and use tax from March, 1949, through February, 1950. Troy has received the following revenue from its special taxes for the eleven month period from February through December, 1949:

Auto Use Tax—$108,837.25.
Admission and Dues Tax—$82,919.09.
Hotel Occupancy—$30,202.94.
Utility Tax—$123,065.06.

Pennsylvania

In 1947 Pennsylvania granted the broadest taxing authority to local governments of any State in the country. At that session of the Legislature many Pennsylvania municipalities were clamoring for additional State aid. Many interested groups of citizens and organizations of taxpayers, however, sold the Legislature the idea that it was more economical and democratic for local units to raise money locally to pay for its services. This idea had the backing of Governor Duff who had been a local official and it was largely through his backing that the legislation was passed.

Under Public Act No. 481 [1] all local jurisdictions other than rural townships, and the City of Philadelphia, which already had broad taxing power under the Sterling Act of 1932, were given almost a free hand in taxation. Act 481 extended to these local taxing districts the authority to impose taxes upon "any and all subjects of taxation" not already levied upon by the State; taxes could be levied on persons, transactions, occupations, privileges, subjects and personal property within the limits of the political subdivisions. Jurisdictions were prohibited from taxing gross receipts from utility services, and no unit could impose taxes in excess of the amount which could be raised by that jurisdiction by the enactment of a real estate tax at the maximum millage permitted by law.

Along with the broad permissive tax law, the Legislature passed: 1) the temporary tax in school districts of the first class (Philadelphia and Pittsburgh) on certain classes of personal property for the years 1948 and 1949 with rates of one to four mills, as fixed by the Board of Education; 2) the temporary mercantile license tax in school districts of the first class (Philadelphia and Pittsburgh) at a rate of ½ a mill on each dollar of value of annual gross business transacted by wholesalers and brokers and 1 mill on retailers, restaurants, and places of amusement; 3) an annual per capita tax beginning in 1948 in the Pittsburgh school

[1] 53 Pa. Stats., § 2015.1 et seq. (Purdon, Supp., 1947).

district. The tax is levied on each resident or inhabitant of the district over 21 years of age at a rate of not less than $1 nor more than $5 as fixed by the Board of Education.

As of November 15, 1949 some 1,067 taxes had been levied under the permissive enabling legislation—66 by cities, 271 by boroughs, 20 by townships and 710 by school districts. Amusement taxes had been imposed by 184 jurisdictions, income taxes by 185, per capita taxes by 288, severance (or related privileges) by 181, mercantile or business privilege taxes by 39.[1]

Most of the large municipalities levied broad-based taxes such as those on amusements, mercantile business and income. Whenever a city in which many non-residents work levied a wage or earned income tax, surroundnig communities usually followed with a similar levy, as 481 gives the place of residence priority over the place of occupation in the collection of an income tax.

Pittsburgh special taxes include:

Pittsburgh Mercantile License Tax
School District of Pittsburgh Mercantile License Tax
Pittsburgh Personal Property Tax (Intangibles)
Pittsburgh Amusement Tax
School District of Pittsburgh Per Capita Tax
School District of Pittsburgh Personal Property Tax

In Scranton under the 1947 legislation, an income and wage tax was levied by both the city and school districts. Under an amendment of 1949, the school district can no longer levy such a tax.

Philadelphia special taxes authorized by the 1932 Sterling legislation and other legislation include:

Philadelphia Income Tax (wage and net profits tax)
Philadelphia Amusement Tax
Philadelphia Documentary Stamp Tax
Philadelphia School District General Business Tax
Philadelphia Sound Reproduction License Ordinance
Philadelphia Automobile Parking Tax Ordinance
Philadelphia Insurance Tax
Philadelphia Sales Tax (expired)
School District of Philadelphia Personal Property Tax

[1] Pa. Dept. of Int. Affairs, Bureau of Mun. Affairs, *Taxes Levied Under Act 481* (Harrisburg, Nov. 15, 1949). Public Act No. 481 was held to be constitutional by the Pennsylvania Supreme Court in *English et al.* vs. *School District of Robinson Township,* 358 Pa. 45, 55 Atl. 2d 803 (1947).

It soon became apparent that the Legislature had gone too far in its "tax anything" law, and experience thereunder is summarized by Richard C. Spalding in his article "Pennsylvania Amends Permissive Local Tax Law" in the National Tax Journal of September, 1949, pp. 273-4.

> It is in the smaller communities where the real abuses have occurred under the act. One example is the multiple taxes on natural resources that have been levied in a number of places. As of May 16, 1949, there had been 187 taxes levied on coal, most of them based on the number of tons mined. Other taxes are based on the number of tons of coal washed, processed, hauled, loaded, and dumped. As a result, the same ton of coal has been taxed three or four times—in some cases at as much as 35 cents a ton. This places the coal operators in taxing communities at a competitive disadvantage with nontaxing communities and with other States. In other cases, timber, limestone, oil, natural gas, sand, and gravel have been taxed.
>
> One small school district has levied a per capita tax of $20. Another school district has levied a mercantile tax of 4 mills on retailers, whereas the usual rate has not been over 2 mills. A borough has levied a tax of $300 on amusement machines. Interestingly enough, no municipality has levied a retail sales tax, though the authority is clearly present. The unpopularity of this tax in Pennsylvania, together with the fear of loss of retail business to other communities, has prevented its adoption.

To correct these abuses a number of proposals for amendment were placed before the 1949 Legislature, including those of the Tax Study Committee of the Joint State Government Commission and the Local Government Commission. Mr. Spalding on page 274 of his article reports the position of various groups:

> As the Legislature opened its session, some groups were ready to resist any but minor changes in the act, some were seeking exemptions, and others were demanding outright repeal. Organizations of local officials representing the cities, boroughs, and first-class townships were generally satisfied with the act, though ready to accept corrective amendments. School directors' and teachers' organizations regarded the act with some distaste, preferring increased State subsidies to greater local taxing power. Coal operators and the United Mine Workers were seeking the exemption of natural resources from taxation. (The United

Mine Workers also called for the substitution of a State-wide tax on fuel oil.) The retailers wished either a rigid rate limitation on mercantile taxes or the clear authorization of a gross receipts tax on all business so as to spread the burden of the tax. Both the A. F. of L. and the C. I.O. were calling for repeal of the act because of their dissatisfaction with wage and income taxes. The Commissioners of Allegheny County (where Pittsburgh is located) wanted their county included in the act. This move eventually failed.

Act No. 246, Laws of 1949, amended the 1947 local enabling act and removed many of its inequities and abuses. The previous exemption of gross receipts from utility services was broadened to include services rendered by a public utility and the over-all limitation of the 1947 legislation on the amount of taxes which may be collected by local units (equal to the maximum millage allowed by law) has been made more definite. Under the new legislation municipalities are limited to the amount which a 10 mill property tax would produce; school districts are limited to the amount which a 15 mill property tax would produce.

New exemptions prevent (1) the taxation of income of non-residents by school districts on the theory that non-residents receive no direct benefits from school facilities. This restriction will affect some 138 school districts which have levied wage or income taxes as of November 15, 1949.

(2) taxes on manufactured goods, on farm products produced and on natural resources and on any privilege, act, or transaction related to the business of manufacturing, the production or processing of natural resources or farm goods.

(3) taxes on personal property subject to taxation by counties, except in cities of the second class (Pittsburgh).

The amendment also imposes rate limitation on specific taxes. These taxes and the maximum rates are as follows:

1. Per capita taxes $10.
2. Mercantile taxes 1.5 mills on retailers and 1 mill on wholesalers, except in City of Pittsburgh where the limit is 2 mills on retailers and 1 mill on wholesalers.
3. Wages, salaries, commissions and other earned income—1%.
4. Retail sales—2%.
5. Sales involving transfer of title to real property—1%.
6. Amusement taxes—10%.

California

The need for additional revenue which has plagued all American cities in the last few decades was aggravated in California by a great influx of population into the State since the early 1930's. The great tide of immigration brought with it the need for expanded municipal services of all kinds—additional schools, playgrounds, streets, fire and police protection, etc. The property tax, already inadequate before this new problem arose, seemed incapable of taking care of the increased revenue needs. California cities had broad untapped authority "to license, for the purpose of revenue and regulation, all and every kind of business authorized by law and transacted and carried on in a city." (Article III, Sec. 862.12, Chap. VII, Act 5233, During, p. 1986). Under this authority, cities looked to the sales tax as the way out of their financial difficulties.

San Bernardino was the first city to turn to the sales tax for additional revenue. The enactment of a 1 per cent sales tax by San Bernardino for the year 1945 was made palatable by the fact that the people of the State were already accustomed to a State sales tax; moreover, the State levy had been reduced from 3% to 2½% in 1943, thereby making the local levy in part a re-enactment of the earlier State rate. At the same time the city passed a 3 cent amusement tax and increased all business licenses by 100%. The revenue from the sales tax was $490,000 in 1945 and equalled the revenue obtained from the general property tax for the same period. In the same year, similar sales taxes were levied by Colton, Redlands and Santa Barbara. Administration of these taxes was facilitated by the fact that merchants had already set up accounting methods for the existing State levy.

The next major adoption was the 1/2 of 1% sales tax by Los Angeles in 1946. Today 190 local jurisdictions levy sales taxes but 57 of these are within the corporate limits of Los Angeles and San Diego. According to a report published by the Bureau of Governmental Research of the University of California "Administration of Municipal Sales Taxes in California," p. 8:

> The aggregate population of the taxing cities represents over 80 per cent of all people living within California cities and approximately 60 per cent of the total population of the State. In addition, large numbers of rural dwellers regularly contribute to city sales tax collections by making purchases within taxing jurisdictions.

> In 69 cities in which the sales tax was collected during the entire fiscal year 1947-1948, revenue amounted to approximately $20,000,000, accounting for slightly more than 10 per cent of the total locally-collected municipal revenue in those cities. Such a source of income will not be lightly cast aside by city governments, nor does there seem to be any inclination to do so on the part of citizen groups. Five cities (Berkeley, Huntington Park, Lynwood, Santa Barbara, and Tulare) have defeated proposals to repeal sales taxes through special elections. One city, Calipatria, repealed its tax in March, 1947, but readopted it in July of the following year.

In most instances, the sales tax has been adopted by the local legislative body without submission to popular vote. The successful operation of the tax has removed most major opposition. By and large the rate is 1/2 of 1% but in some places it is 1%. The cost of administering the tax is low in most cases and the revenue yield varies widely, but it accounts for at least 10% of locally collected revenues in more than 60% of the municipalities reporting an entire year's experience.[1]

* * * * * * *

Conclusions

The experience in other states in which local jurisdictions have been granted increased power to raise money to meet local costs clearly shows that it is impossible to judge which of the more popular taxes a municipality might choose if given optional taxing powers. In California, cities have shown a marked preference for the retail sales tax although there are many other taxes which might be imposed. Pennsylvania jurisdictions, on the other hand, have the power to impose retail sales taxes but not a single jurisdiction has resorted to the tax. It is also difficult to predict how many of our municipalities would resort to special taxes if given this power—Atlantic City is the only fourth-class city bordering on the Atlantic Ocean which has taken advantage of the 1947 enabling legislation authorizing special sales taxes. In New York, moreover, counties and cities have been reluctant to adopt special taxes, preferring instead to increase the levy on real estate, which has been protected in the past by a 2 per cent tax limit.

In general, however, there is no indication that municipalities in states granting optional municipal taxing powers are fundamentally dissatisfied with their increased taxing power. It must

[1] Administration of Municipal Sales Taxes in California, p. 26.

be recognized that broadened taxing powers for municipalities create many problems locally—problems involving overlapping taxes in adjoining jurisdictions, but these problems are being solved.

Optional local taxing power for New Jersey municipalities might be important as possible or partial solutions to:

1) The removal of the hazards of tax lightning from the field of business personalty. If business personalty were to be exempted from the general property tax, optional local taxing powers might be used to replace the resulting loss of revenue;

2) The undue burden upon real estate—again to replace the loss of revenue through new tax bases;

3) Placing local governments (counties and municipalities) in a position to finance themselves from bases other than property.

Although the experience of Pennsylvania, New York, and to a lesser extent, California is of short duration, the *Commission* restates its belief that:

> If more tax moneys are absolutely necessary to support municipal services, and the real estate tax is inadequate for that purpose, it is preferable for municipalities to resort to their own taxing authority rather than to look to the State for grants of any kind.
>
> To follow such a policy, it would be necessary for the State to delegate taxing powers to the municipalities which would enable them effectively to balance their budgets from sources other than the real estate tax but also suitable for local administration.

To follow such a policy it would be necessary:

1) To authorize counties and municipalities to levy, assess and collect such taxes as are suitable for local administration—for example, a consumers' sales tax, luxury taxes, or gross business tax; or

2) To authorize counties and municipalities to levy supplementary rates upon such State tax as may otherwise be selected for State purposes. This would mean State administration with a return to the municipality of the yield from the supplemental rate.

Since the State does not now levy any tax suitable for permissive local supplement or overlay the first alternative is the only one presently available.

Chapter VIII

THE TAX OUTLOOK

Trends Among the States

A national economic environment which is keyed to a continued cheap dollar means to State Government, as it does to the housewife, a continuation of relatively high prices, high wages and a cost of everything the government buys commensurate with the general price level. States which have had taxes that respond to changes in the value of a dollar, such as the income tax and sales tax, have accumulated surpluses during the war years and are in a better position to meet their current financial requirements, than are States which have relied upon capital taxes in one form or another. Throughout the Nation, however, the conflicting pressures for more services and less taxes have resulted in more and more States turning to special tax study commissions for some way out of the dilemma. Some twenty-seven States have also inaugurated State administrative reorganization studies largely in the hope of saving enough money to solve their financial problems. It is unlikely that either type of commission can recommend anything which would overcome the economic and political forces which have pushed State after State into a condition of tax crisis.

In Connecticut a consumer sales tax was adopted, and a special tax study commission was unable to find any way to be rid of it. In California an interim committee on State and local taxation found little to do because the State and local governments had already ventured into new revenue sources. In Indiana a tax study commission reporting last year recommended the real estate tax to be placed in order, that cities be enabled to enact a tax supplement on top of the State's gross income tax and that motor vehicle taxation be revised. In Illinois a revenue laws commission issued a monumental report in 1949 recommending full value assessments, a county assessment supervisor and a consideration of the classified property tax although the commission believed it would be unconstitutional in that State. The commission further recommended change in the corporate franchise tax to a net income measure at 1 per cent and the inclusion of banks. It also recommended changes in the tax rate limits in effect in that State, increased financial aid to local government, revision of the State inheritance tax, and of the retail sales tax, together with the addition of a series of occupation taxes based on gross receipts. In the conservative State of New Hampshire a special tax study commission recommended both a sales tax and an income tax as a way out of that State's financial problems. In Pennsylvania a tax study committee reporting in 1949 recommended consolidation of various corporate taxes, the repeal of the soft drinks tax and the imposition of new taxes on investment income at 4 per cent (in lieu of the old corporate loans tax) and on unincorporated business and financial activity at 1½ per cent. Numerous amendments to Act No. 481, the State's local tax enabling statute, were also recommended. In Utah an earlier report of 1946 recommended various constitutional amendments on the basis of which the committee hoped to recommend stabilization and equalization of the property tax, modernization of the personal income and corporate franchise tax laws and a shifting of the cost of welfare to sales tax revenues and Federal aid.

These State tax reports are only a sample of the many that have been issued in recent years, and should show beyond a doubt that New Jersey is not alone in its tax dilemmas. No one wants new or additional taxes and change, therefore, comes slowly even if it is only to raise the same amount of taxes more fairly and equitably.

Expenditures and Taxes

The tax outlook is determined almost entirely by the expenditure outlook, except for such economic factors as changes in the value of the dollar. The expenditure trend will depend upon current and anticipated needs of State and local government. It will depend secondarily upon the financial position of the State Government and the extent to which existing revenue sources can continue to support the existing and planned expenditure programs. For example, debt service in 1950 was $1,930,000 but for 1951 this figure rises to $4,610,000. Additional revenue is thus required without any additional commitments. In general, however, *the big question mark in the financial position of the State is the continuation of the present policy of transferring highway user revenues to help balance general purpose expenditures.*

Table 40 shows the distribution of expenditures among the various levels of government from 1945 through 1949. These do not include pension payments, unemployment compensation, or expenditures of municipal utilities and municipal outlays for bor-

TABLE 40

TOTAL EXPENDITURES OF STATE AND LOCAL GOVERNMENT IN NEW JERSEY—1945-49[1]

(in millions)

	Total Expenditures					*Percentage Distribution*				
	1945[2]	*1946*[2]	*1947*[2]	*1948*[2]	*1949*[2]	*1945*	*1946*	*1947*	*1948*	*1949*
State Total	$71.5	$76.2	$105.6	$123.9	$127.9	16.4%	16.8%	20.0%	21.0%	20.5%
Counties	89.1	88.4	88.0	97.6	105.3[3]	20.5	19.4	16.7	16.5	16.8
Municipalities	162.2	173.7	204.4	225.4	235.3[3]	37.3	38.2	38.7	38.2	37.6
School Districts	112.2	116.3	130.1	143.3	157.0	25.8	25.6	24.6	24.3	25.1
Total	$435.0	$454.6	$528.1	$590.2	$625.4	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Excludes unemployment and temporary disability benefits, expenditures of municipal utilities and local outlays from borrowed funds.

[2] Year ending June 30th for State and School Districts, calendar year for Counties and Municipalities.

[3] County and Municipal expenditures for 1949 are based on budget estimates.

Source: Fiscal Reports of the Division of Taxation and Finance 1945-47 (published), 1948-49 (unpublished).
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TABLE 41

Expenditures of New Jersey State and Local Government, by Object—1945-49

(Dollar Amounts Are in Millions)

Year and Item	*Salaries & Wages*	*Pension Contributions*[1]	*Debt Service*	*Payments to Individuals*[2]	*Capital Outlay*	*All Other*	*Total*
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State	$29.1	$9.2	$12.9	.....	$3.4	$16.9	$71.5
Local	172.2	1.0	64.8	$16.3	.....	109.2	363.5
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Percentage	*46.3*	*2.3*	*17.9*	*3.7*	*0.8*	*29.0*	*100.0*
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Percentage	*47.5*	*2.5*	*14.3*	*3.9*	*2.6*	*29.2*	*100.0*
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> **The State spends about 20 per cent of the total while local governments spend 80 per cent. The largest single spending agency is municipal government which spends about 38 per cent of the total. The school districts spend just under one-fourth of the total and the county governments spend about 16 cents of every tax dollar.**

Table 41 shows where the money goes. Almost half of the total spent is for salaries and wages. As the general price and wage levels go so will this item follow. The item "payments to individuals," now low, could throw all spending patterns out of line if there were a substantial increase in relief expenditures. Capital outlay is more controllable but it too is likely to hold at least its present level, if only to make up for work deferred because of war conditions and an unfavorable construction market. Over all—

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district. The tax is levied on each resident or inhabitant of the district over 21 years of age at a rate of not less than $1 nor more than $5 as fixed by the Board of Education.

As of November 15, 1949 some 1,067 taxes had been levied under the permissive enabling legislation—66 by cities, 271 by boroughs, 20 by townships and 710 by school districts. Amusement taxes had been imposed by 184 jurisdictions, income taxes by 185, per capita taxes by 288, severance (or related privileges) by 181, mercantile or business privilege taxes by 39.[1]

Most of the large municipalities levied broad-based taxes such as those on amusements, mercantile business and income. Whenever a city in which many non-residents work levied a wage or earned income tax, surroundnig communities usually followed with a similar levy, as 481 gives the place of residence priority over the place of occupation in the collection of an income tax.

Pittsburgh special taxes include:

Pittsburgh Mercantile License Tax
School District of Pittsburgh Mercantile License Tax
Pittsburgh Personal Property Tax (Intangibles)
Pittsburgh Amusement Tax
School District of Pittsburgh Per Capita Tax
School District of Pittsburgh Personal Property Tax

In Scranton under the 1947 legislation, an income and wage tax was levied by both the city and school districts. Under an amendment of 1949, the school district can no longer levy such a tax.

Philadelphia special taxes authorized by the 1932 Sterling legislation and other legislation include:

Philadelphia Income Tax (wage and net profits tax)
Philadelphia Amusement Tax
Philadelphia Documentary Stamp Tax
Philadelphia School District General Business Tax
Philadelphia Sound Reproduction License Ordinance
Philadelphia Automobile Parking Tax Ordinance
Philadelphia Insurance Tax
Philadelphia Sales Tax (expired)
School District of Philadelphia Personal Property Tax

[1] Pa. Dept. of Int. Affairs, Bureau of Mun. Affairs, *Taxes Levied Under Act 481* (Harrisburg, Nov. 15, 1949). Public Act No. 481 was held to be constitutional by the Pennsylvania Supreme Court in *English et al.* vs. *School District of Robinson Township,* 358 Pa. 45, 55 Atl. 2d 803 (1947).

It soon became apparent that the Legislature had gone too far in its "tax anything" law, and experience thereunder is summarized by Richard C. Spalding in his article "Pennsylvania Amends Permissive Local Tax Law" in the National Tax Journal of September, 1949, pp. 273-4.

> It is in the smaller communities where the real abuses have occurred under the act. One example is the multiple taxes on natural resources that have been levied in a number of places. As of May 16, 1949, there had been 187 taxes levied on coal, most of them based on the number of tons mined. Other taxes are based on the number of tons of coal washed, processed, hauled, loaded, and dumped. As a result, the same ton of coal has been taxed three or four times—in some cases at as much as 35 cents a ton. This places the coal operators in taxing communities at a competitive disadvantage with nontaxing communities and with other States. In other cases, timber, limestone, oil, natural gas, sand, and gravel have been taxed.
>
> One small school district has levied a per capita tax of $20. Another school district has levied a mercantile tax of 4 mills on retailers, whereas the usual rate has not been over 2 mills. A borough has levied a tax of $300 on amusement machines. Interestingly enough, no municipality has levied a retail sales tax, though the authority is clearly present. The unpopularity of this tax in Pennsylvania, together with the fear of loss of retail business to other communities, has prevented its adoption.

To correct these abuses a number of proposals for amendment were placed before the 1949 Legislature, including those of the Tax Study Committee of the Joint State Government Commission and the Local Government Commission. Mr. Spalding on page 274 of his article reports the position of various groups:

> As the Legislature opened its session, some groups were ready to resist any but minor changes in the act, some were seeking exemptions, and others were demanding outright repeal. Organizations of local officials representing the cities, boroughs, and first-class townships were generally satisfied with the act, though ready to accept corrective amendments. School directors' and teachers' organizations regarded the act with some distaste, preferring increased State subsidies to greater local taxing power. Coal operators and the United Mine Workers were seeking the exemption of natural resources from taxation. (The United

Mine Workers also called for the substitution of a State-wide tax on fuel oil.) The retailers wished either a rigid rate limitation on mercantile taxes or the clear authorization of a gross receipts tax on all business so as to spread the burden of the tax. Both the A. F. of L. and the C. I.O. were calling for repeal of the act because of their dissatisfaction with wage and income taxes. The Commissioners of Allegheny County (where Pittsburgh is located) wanted their county included in the act. This move eventually failed.

Act No. 246, Laws of 1949, amended the 1947 local enabling act and removed many of its inequities and abuses. The previous exemption of gross receipts from utility services was broadened to include services rendered by a public utility and the over-all limitation of the 1947 legislation on the amount of taxes which may be collected by local units (equal to the maximum millage allowed by law) has been made more definite. Under the new legislation municipalities are limited to the amount which a 10 mill property tax would produce; school districts are limited to the amount which a 15 mill property tax would produce.

New exemptions prevent (1) the taxation of income of non-residents by school districts on the theory that non-residents receive no direct benefits from school facilities. This restriction will affect some 138 school districts which have levied wage or income taxes as of November 15, 1949.

(2) taxes on manufactured goods, on farm products produced and on natural resources and on any privilege, act, or transaction related to the business of manufacturing, the production or processing of natural resources or farm goods.

(3) taxes on personal property subject to taxation by counties, except in cities of the second class (Pittsburgh).

The amendment also imposes rate limitation on specific taxes. These taxes and the maximum rates are as follows:

1. Per capita taxes $10.
2. Mercantile taxes 1.5 mills on retailers and 1 mill on wholesalers, except in City of Pittsburgh where the limit is 2 mills on retailers and 1 mill on wholesalers.
3. Wages, salaries, commissions and other earned income—1%.
4. Retail sales—2%.
5. Sales involving transfer of title to real property—1%.
6. Amusement taxes—10%.

California

The need for additional revenue which has plagued all American cities in the last few decades was aggravated in California by a great influx of population into the State since the early 1930's. The great tide of immigration brought with it the need for expanded municipal services of all kinds—additional schools, playgrounds, streets, fire and police protection, etc. The property tax, already inadequate before this new problem arose, seemed incapable of taking care of the increased revenue needs. California cities had broad untapped authority "to license, for the purpose of revenue and regulation, all and every kind of business authorized by law and transacted and carried on in a city." (Article III, Sec. 862.12, Chap. VII, Act 5233, During, p. 1986). Under this authority, cities looked to the sales tax as the way out of their financial difficulties.

San Bernardino was the first city to turn to the sales tax for additional revenue. The enactment of a 1 per cent sales tax by San Bernardino for the year 1945 was made palatable by the fact that the people of the State were already accustomed to a State sales tax; moreover, the State levy had been reduced from 3% to 2½% in 1943, thereby making the local levy in part a re-enactment of the earlier State rate. At the same time the city passed a 3 cent amusement tax and increased all business licenses by 100%. The revenue from the sales tax was $490,000 in 1945 and equalled the revenue obtained from the general property tax for the same period. In the same year, similar sales taxes were levied by Colton, Redlands and Santa Barbara. Administration of these taxes was facilitated by the fact that merchants had already set up accounting methods for the existing State levy.

The next major adoption was the 1/2 of 1% sales tax by Los Angeles in 1946. Today 190 local jurisdictions levy sales taxes but 57 of these are within the corporate limits of Los Angeles and San Diego. According to a report published by the Bureau of Governmental Research of the University of California "Administration of Municipal Sales Taxes in California," p. 8:

> The aggregate population of the taxing cities represents over 80 per cent of all people living within California cities and approximately 60 per cent of the total population of the State. In addition, large numbers of rural dwellers regularly contribute to city sales tax collections by making purchases within taxing jurisdictions.

In 69 cities in which the sales tax was collected during the entire fiscal year 1947-1948, revenue amounted to approximately $20,000,000, accounting for slightly more than 10 per cent of the total locally-collected municipal revenue in those cities. Such a source of income will not be lightly cast aside by city governments, nor does there seem to be any inclination to do so on the part of citizen groups. Five cities (Berkeley, Huntington Park, Lynwood, Santa Barbara, and Tulare) have defeated proposals to repeal sales taxes through special elections. One city, Calipatria, repealed its tax in March, 1947, but readopted it in July of the following year.

In most instances, the sales tax has been adopted by the local legislative body without submission to popular vote. The successful operation of the tax has removed most major opposition. By and large the rate is 1/2 of 1% but in some places it is 1%. The cost of administering the tax is low in most cases and the revenue yield varies widely, but it accounts for at least 10% of locally collected revenues in more than 60% of the municipalities reporting an entire year's experience.[1]

* * * * * * *

Conclusions

The experience in other states in which local jurisdictions have been granted increased power to raise money to meet local costs clearly shows that it is impossible to judge which of the more popular taxes a municipality might choose if given optional taxing powers. In California, cities have shown a marked preference for the retail sales tax although there are many other taxes which might be imposed. Pennsylvania jurisdictions, on the other hand, have the power to impose retail sales taxes but not a single jurisdiction has resorted to the tax. It is also difficult to predict how many of our municipalities would resort to special taxes if given this power—Atlantic City is the only fourth-class city bordering on the Atlantic Ocean which has taken advantage of the 1947 enabling legislation authorizing special sales taxes. In New York, moreover, counties and cities have been reluctant to adopt special taxes, preferring instead to increase the levy on real estate, which has been protected in the past by a 2 per cent tax limit.

In general, however, there is no indication that municipalities in states granting optional municipal taxing powers are fundamentally dissatisfied with their increased taxing power. It must

[1] Administration of Municipal Sales Taxes in California, p. 26.

be recognized that broadened taxing powers for municipalities create many problems locally—problems involving overlapping taxes in adjoining jurisdictions, but these problems are being solved.

Optional local taxing power for New Jersey municipalities might be important as possible or partial solutions to:

1) The removal of the hazards of tax lightning from the field of business personalty. If business personalty were to be exempted from the general property tax, optional local taxing powers might be used to replace the resulting loss of revenue;

2) The undue burden upon real estate—again to replace the loss of revenue through new tax bases;

3) Placing local governments (counties and municipalities) in a position to finance themselves from bases other than property.

Although the experience of Pennsylvania, New York, and to a lesser extent, California is of short duration, the *Commission* restates its belief that:

> **If more tax moneys are absolutely necessary to support municipal services, and the real estate tax is inadequate for that purpose, it is preferable for municipalities to resort to their own taxing authority rather than to look to the State for grants of any kind.**
>
> **To follow such a policy, it would be necessary for the State to delegate taxing powers to the municipalities which would enable them effectively to balance their budgets from sources other than the real estate tax but also suitable for local administration.**

To follow such a policy it would be necessary:

1) To authorize counties and municipalities to levy, assess and collect such taxes as are suitable for local administration—for example, a consumers' sales tax, luxury taxes, or gross business tax; or

2) To authorize counties and municipalities to levy supplementary rates upon such State tax as may otherwise be selected for State purposes. This would mean State administration with a return to the municipality of the yield from the supplemental rate.

Since the State does not now levy any tax suitable for permissive local supplement or overlay the first alternative is the only one presently available.

CHAPTER VIII

THE TAX OUTLOOK

Trends Among the States

A national economic environment which is keyed to a continued cheap dollar means to State Government, as it does to the housewife, a continuation of relatively high prices, high wages and a cost of everything the government buys commensurate with the general price level. States which have had taxes that respond to changes in the value of a dollar, such as the income tax and sales tax, have accumulated surpluses during the war years and are in a better position to meet their current financial requirements, than are States which have relied upon capital taxes in one form or another. Throughout the Nation, however, the conflicting pressures for more services and less taxes have resulted in more and more States turning to special tax study commissions for some way out of the dilemma. Some twenty-seven States have also inaugurated State administrative reorganization studies largely in the hope of saving enough money to solve their financial problems. It is unlikely that either type of commission can recommend anything which would overcome the economic and political forces which have pushed State after State into a condition of tax crisis.

In Connecticut a consumer sales tax was adopted, and a special tax study commission was unable to find any way to be rid of it. In California an interim committee on State and local taxation found little to do because the State and local governments had already ventured into new revenue sources. In Indiana a tax study commission reporting last year recommended the real estate tax to be placed in order, that cities be enabled to enact a tax supplement on top of the State's gross income tax and that motor vehicle taxation be revised. In Illinois a revenue laws commission issued a monumental report in 1949 recommending full value assessments, a county assessment supervisor and a consideration of the classified property tax although the commission believed it would be unconstitutional in that State. The commission further recommended change in the corporate franchise tax to a net income measure at 1 per cent and the inclusion of banks. It also recommended changes in the tax rate limits in effect in that State, increased financial aid to local government, revision of the State inheritance tax, and of the retail sales tax, together with the addition of a series of occupation taxes based on gross receipts. In the conservative State of New Hampshire a special tax study commission recommended both a sales tax and an income tax as a way out of that State's financial problems. In Pennsylvania a tax study committee reporting in 1949 recommended consolidation of various corporate taxes, the repeal of the soft drinks tax and the imposition of new taxes on investment income at 4 per cent (in lieu of the old corporate loans tax) and on unincorporated business and financial activity at 1½ per cent. Numerous amendments to Act No. 481, the State's local tax enabling statute, were also recommended. In Utah an earlier report of 1946 recommended various constitutional amendments on the basis of which the committee hoped to recommend stabilization and equalization of the property tax, modernization of the personal income and corporate franchise tax laws and a shifting of the cost of welfare to sales tax revenues and Federal aid.

These State tax reports are only a sample of the many that have been issued in recent years, and should show beyond a doubt that New Jersey is not alone in its tax dilemmas. No one wants new or additional taxes and change, therefore, comes slowly even if it is only to raise the same amount of taxes more fairly and equitably.

Expenditures and Taxes

The tax outlook is determined almost entirely by the expenditure outlook, except for such economic factors as changes in the value of the dollar. The expenditure trend will depend upon current and anticipated needs of State and local government. It will depend secondarily upon the financial position of the State Government and the extent to which existing revenue sources can continue to support the existing and planned expenditure programs. For example, debt service in 1950 was $1,930,000 but for 1951 this figure rises to $4,610,000. Additional revenue is thus required without any additional commitments. In general, however, *the big question mark in the financial position of the State is the continuation of the present policy of transferring highway user revenues to help balance general purpose expenditures.*

Table 40 shows the distribution of expenditures among the various levels of government from 1945 through 1949. These do not include pension payments, unemployment compensation, or expenditures of municipal utilities and municipal outlays for bor-

TABLE 40

TOTAL EXPENDITURES OF STATE AND LOCAL GOVERNMENT IN NEW JERSEY—1945-49[1]

(in millions)

	Total Expenditures					*Percentage Distribution*				
	1945[2]	*1946*[2]	*1947*[2]	*1948*[2]	*1949*[2]	*1945*	*1946*	*1947*	*1948*	*1949*
State Total	$71.5	$76.2	$105.6	$123.9	$127.9	16.4%	16.8%	20.0%	21.0%	20.5%
Counties	89.1	88.4	88.0	97.6	105.3[3]	20.5	19.4	16.7	16.5	16.8
Municipalities	162.2	173.7	204.4	225.4	235.3[3]	37.3	38.2	38.7	38.2	37.6
School Districts	112.2	116.3	130.1	143.3	157.0	25.8	25.6	24.6	24.3	25.1
Total	$435.0	$454.6	$528.1	$590.2	$625.4	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Excludes unemployment and temporary disability benefits, expenditures of municipal utilities and local outlays from borrowed funds.

[2] Year ending June 30th for State and School Districts, calendar year for Counties and Municipalities.

[3] County and Municipal expenditures for 1949 are based on budget estimates.

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