STATE OF NEW JERSEY

THIRD REPORT

OF

The Commission on State Tax Policy

The Taxation of New Jersey Railroads

TRENTON, NEW JERSEY

1948

The Commission on State Tax Policy wishes to acknowledge the generous assistance and co-operation that has made possible the preparation of the following report:

To Governor Alfred E. Driscoll for his wise counsel and advice on many aspects of both policy and method.

To the United States Inter-State Commerce Commission, Washington, D. C.—particularly to G. S. Douglas, Director, Bureau of Valuations—for extensive unpublished valuation data pertaining to New Jersey railroads.

To the State Department of Taxation and Finance particularly to Homer C. Zink, Commissioner, and to H. L. Fryer, A. G. Nicolaysen and to C. E. Barnes of the Engineering and Railroad Tax Bureau, for materials on railroad tax history, operating data, and guidance pertaining to many aspects of the problem.

To David I. Mackie, General Counsel, Delaware, Lackawanna, and Western Railroad; to P. D. Jonas, Controller, Delaware, Lackawanna and Western Railroad, and R. J. Littlefield, General Tax Agent, Pennsylvania Railroad, for their generous co-operation in providing much useful data.

STATE OF NEW JERSEY

THIRD REPORT

OF

The Commission on State Tax Policy

The Taxation of New Jersey Railroads

Submitted to the Governor and to the Legislature, February 16, 1948

TRENTON, NEW JERSEY

STATE OF NEW JERSEY

COMMISSION ON STATE TAX POLICY

[*Laws of 1945,* Ch. 157]

JOHN F. SLY, *Chairman*
Professor of Politics, Princeton University
Princeton

W. PAUL STILLMAN, *Vice-Chairman*
President, National State Bank
Newark

AMOS F. DIXON
Assemblyman, Sussex County
Stillwater

CHARLES R. ENGLISH
Mayor
Red Bank

JACOB S. GLICKENHAUS
Freeholder, Essex County
Newark

NORMAN F. S. RUSSELL
President, United States Pipe and Foundry Company
Burlington

CHARLES K. BARTON
Senator, Passaic County
Paterson

STAFF MEMBERS
Research Consultants

JAMES A. ARNOLD, JR.

WILLIAM MILLER

TABLE OF CONTENTS

TABLES

LETTER OF TRANSMITTAL

COMMISSION ON STATE TAX POLICY

20 Nassau Street, Princeton, New Jersey

February 22, 1948.

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

The *Commission on State Tax Policy* was directed by the 1946 Legislature to study and report on the "redistribution" of railroad tax revenues (J. R. No. 1, Laws of 1946). While that study was in progress, the people voted for a constitutional convention and the *Commission* deferred a report pending the results of the Convention's work. It now appears that the Convention in preparing and the people in adopting a new State Constitution, have effectively and definitely provided for a redistribution of railroad tax revenues. It therefore remains for this *Commission* to report solely on the type of new railroad tax law which is required by the new Constitution. In making this report the *Commission* has been particularly conscious of the letter and spirit of the new tax clause; namely, *that local railroad property taxed for local use shall have the same tax status as all other real estate which is taxed for the support of local government.*[1] The implications of this principle, approved by the people themselves, must be the ultimate frame of reference of any proposal for new railroad tax legislation.

The *Commission* has approached its task from the point of view expressed by the Constitutional Convention when, following acceptance of the new tax clause, it adopted a resolution on August 26, 1947, which stated as follows:

[1] The new tax clause reads as follows (Art. VIII, Sec. 1, par. 1): *Property shall be assessed for taxation under general laws and by uniform rules. All real property assessed and taxed locally or by the State for allotment and payment to taxing districts shall be assessed according to the same standard of value; and such real property shall be taxed at the general tax rate of the taxing district in which the property is situated, for the use of such taxing district.*

WHEREAS, This Constitutional Convention of 1947 has included within the proposed new State Constitution a tax clause which, if the Constitution is adopted by the people, will require certain property used for railroad purposes, principally stations, yards and terminals, known as second class railroad property, to be taxed at greatly increased rates over the present rate; and

WHEREAS, The effect of the present railroad tax law, as modified by the proposed new tax clause of the Constitution would be to raise the total of railroad taxes payable in New Jersey to a very substantial degree; and

WHEREAS, The State and its municipalities must be conscious of the limits to the capacity of railroads to pay taxes and at the same time to maintain their plant and equipment in a safe and efficient manner; now therefore

Be It Resolved: 1. The Governor and the Legislature are hereby memorialized to reconsider the entire railroad tax law in the interest of financial stability and efficient service of those public utilities. It is the sense of this Convention that, upon such reconsideration, the railroad tax which is for State use should be adjusted so that the application of local general property tax rates to second class railroad property will not impose a harmful and unfair total tax burden upon the railroad industry of this State.

2. The Secretary of this Convention is hereby directed to transmit a duly authenticated copy of this resolution to the Governor forthwith, and to each house of the Legislature at the opening of the next regular session.

The Constitutional Convention has thus raised again the old question of "How much in taxes can the railroads pay?" and the *Commission* has accordingly given extended consideration to this question. It has examined with great care the evidence of tax paying capacities offered by the railroads.[1] It has been in constant communication with the State Department of Taxation and Finance and has been supplied by the Department with all possible assistance. In addition, it has made independent investigations of many phases of the problem. The *Commission* has reviewed the operation of the Railroad Tax Law of 1941, and has made projections as to how that law would have operated had the new Constitution not been adopted. It has reconsidered the classifica-

[1] Pennsylvania Railroad, Office of General Tax Agent, "Material Showing the Burden of New Jersey Taxes on Railroads Within the State" (Philadelphia, November 29, 1947) marked "For Release in Newspapers on Thursday, January 22, 1948."

tion of railroad property adopted in 1884 and continued by the Act of 1941, which is described as follows:

Class I: The length and value of the main stem of each railroad, and the length of such main stem in each taxing district;

Class II: The value of the other real estate used for railroad purposes in each taxing district in this State, including the roadbed (other than main stem), tracks, buildings, water tanks, riparian rights, docks, wharves and piers, and all other real estate, except lands not used for railroad purposes;

Class III: The value of all the tangible personal property of each railroad;

Class IV: The value of the remaining property.

Classes I, III and IV above are commonly referred to as First Class property, while Class II is referred to as Second Class property. While Class I property was formerly taxable at the average State rate of the general property tax, and Class II property was formerly taxable at the local general property rate for the municipality in which it was situated, since 1941 all railroad property used for railroad purposes has been taxed at the rate of $3.00 per hundred dollars upon its true value. In addition, the 1941 law introduced a railroad franchise tax measured by earnings. These taxes have been State assessed and collected as a shared tax, with the proceeds of Class II property and one-half the franchise tax being returned to the municipalities and the proceeds of Classes I, III and IV property and one-half the franchise tax going into the State Treasury.

While this system of taxation and distribution can no longer continue under the new Constitution, the *Commission* has approached the problem of new legislation as a problem of transition, in which so far as possible the framework of the old act should provide the structure for the new. The *Commission* has considered several alternative systems of railroad taxation, some of which appear to have considerable theoretical merit. In any new system of railroad taxation, however, the effect upon the various railroads shows extreme differences. The *Commission* is, moreover, of the opinion that, for the time being, the new law should cause the least possible interrailroad adjustment in tax burden, but must nevertheless avoid the maximum and minimum "exceptions" that mar the present act. While the reasons and considerations which have prompted the *Commission* to make its recommendations are more fully set forth in the pages which follow, these are the major points considered:

1. The positive requirement of the tax clause of the new State Constitution;

2. The implied understanding of its effect by the Constitutional Convention, in its memorial to the Legislature, at the time of the adoption of the new tax clause;

3. Experience under the Railroad Tax Law of 1941 (as amended in 1942), and such objections as may have been made to its operation;

4. The economic condition of the railroad industry and its capacity to pay taxes, as compared with other taxpayers, as well as with the tax burden in other states;

5. The effect of any new railroad tax law on individual railroads as well as upon the total railroad tax burden;

6. The effect of a new law on State and municipal revenue anticipation.

* * *

Following an exhaustive examination of the problem, the first and controlling decision of the *Commission* is this:

> *In view of all of the circumstances, both the intention of the Constitutional Convention and the necessity of the case, indicate that the total railroad tax burden should not at this time be increased materially above $16 million—the sum which the railroad tax would have produced in 1948 had the Railroad Tax Law of 1941 remained in operation.*

In addition to this major decision, it was necessary to establish four additional principles before the main elements of a railroad tax plan were complete:

1. *The treatment of Class II railroad property:* The *Commission* recommends that this property should be treated exactly as all other property taxable for local purposes and at the local tax rates. Because of wide variations in the impact of such treatment upon individual railroads, the *Commission* also recommends that adjustments be made in the total railroad tax measure so as to spread the full transition from the present law over a four-year period.

2. *The treatment of Classes I, III and IV railroad property:* The *Commission* recommends that Class I and Class III property should receive substantially the same treatment as under the 1941 law except that the rates on such property be adjusted downward to keep the total tax within the limits raised by the old law. Recognizing that Class IV property as a measure of franchise value lost its significance with passage of the 1941 law and is now valued at the nominal rate of $1,000 for each railroad, the *Commission* recommends that it be dropped from the New Jersey railroad tax base.

3. *The amount and form of the railroad franchise tax:* The *Commission* recommends that the franchise tax be related directly to railroad earnings at rates adjusted to fit the new First Class tax rates, and that the various complicating exceptions to this principle contained in the 1941 law (as amended) be removed.

4. *The distribution of the railroad tax:* The *Commission* recommends that the tax proceeds of all Second Class property be returned to the municipalities for local purposes as required by the Constitution; and that the tax proceeds from all Classes I and III property and the franchise be retained by the State for State purposes.

With these principles established, the *Commission* unanimously recommends a railroad tax program which would apply under 1948 conditions as follows[1]:

To the Municipalities	
Class II railroad property at local rates—estimated, 1948	$12,108,000
To the State	
Classes I and III railroad property at $1.20 per $100 of assessed valuation	3,030,000
Franchise tax at 10 per cent of net railroad operating income of the preceding year allocable to New Jersey—estimated, 1948	1,030,000
Total State Share	$4,060,000
Total Railroad Tax (1948 level)	$16,168,000

[1] Estimates based upon 1947 property valuations taxable, 1947 railroad earnings, and anticipated 1948 tax rates.

The *Commission* also recommends that adjustments be made to allow a four-year transition period so as to smooth out excessive fluctuations in tax responsibilities among individual railroads due to the impact of the new tax clause. Without materially affecting the yield of the tax or its distribution, the application of such a transition under conditions expected in 1948 would appear as follows:

[ASSUMING 1948 LOCAL RATES AND 1947 ASSESSED VALUES AND RAILROAD EARNINGS]

(*Amounts in Thousands of Dollars*)

	Year 1 (1948)	*Year 2 (1949)*	*Year 3 (1950)*	*Year 4 (1951)*	*Year 5 (1952)*
To the Municipalities:					
Class II railroad property at local rates	$12,108	$12,108	$12,108	$12,108	$12,108
To the State:					
Classes I and III railroad property at changing rates[1]	5,176	4,797	4,292	3,660	3,030
Franchise tax at 10% of net railway operating income	1,030	1,030	1,030	1,030	1,030
Gross State tax	$6,206	$5,827	$5,322	$4,690	$4,060
Less changing percentages[2] of Class II property tax	2,180	1,816	1,211	605	None
Net State tax	$4,026	$4,011	$4,111	$4,085	$4,060
Total railroad tax	$16,134	$16,119	$16,219	$16,193	$16,168

1 Changing rates on classes I and III property	2.05%	1.90%	1.70%	1.45%	1.20%
2 Changing percentage of Class II tax deducted	18.00%	15.00%	10.00%	5.00%	None

The tax structure thus provided will bring the State's share of the total tax ($16 million) to $4 million in 1948. The Governor's budget had anticipated $6 million. The limitation imposed by the new tax clause and the present heavy, if not excessive, tax burden on the railroads have left the *Commission* no practical way within the present framework to increase permanently the State's share, except as increased railroad earnings may be reflected in the franchise tax. Within this limit, however, the Governor's budget requirement of $6.0 million as the State share for the fiscal year ending June 30, 1949 may be realized by adjusting the franchise tax payment date.

Estimates indicate that increased railroad earnings will cause the railroad franchise tax for 1949 to exceed that of 1948 upon which the estimates are based. (Estimates by the railroads indicate an increase of at least $1 million.) To assist the State in balancing the present budget, the *Commission* recommends changing the payment date of the railroad franchise tax for the year 1949 and subsequent years from December 1 to June 15. This would make *two* franchise tax payments available within the ensuing fiscal year; namely, a payment on December 1, 1948, and a payment on June 15, 1949. This would increase the State's share of the tax usable during the fiscal year beginning in July 1948 from $4 million to between $5.5 and $6 million, including the estimated increase in the franchise tax for 1949. In this manner the Governor's current budget estimate would be substantially realized. If anticipated increases in net railroad operating revenues are realized, they will be reflected in the franchise tax and thus maintain the State's share of future annual railroad tax payment in excess of $4 million.

The *Commission* wishes to assure the Governor and the Legislature that it is ready to give any assistance that may be desired in solving this difficult problem. It has done everything possible to develop a solution that would be fair to the State, to the municipalities, to the railroads and to nonrailroad property owners. The reasons for its decisions and the supporting data are found in the following report.

COMMISSION ON STATE TAX POLICY

JOHN F. SLY, *Chairman*
W. PAUL STILLMAN, *Vice-Chairman*
CHARLES K. BARTON
AMOS F. DIXON
CHARLES R. ENGLISH
JACOB S. GLICKENHAUS
NORMAN F. S. RUSSELL

THE TAXATION OF RAILROADS IN NEW JERSEY

PART I

TOTAL RAILROAD TAX BURDEN

In establishing the new railroad tax law, in accordance with the memorial adopted by the Constitutional Convention, the first point of inquiry is: What should be the total tax burden? While it has been common to consider this question from the viewpoint of the *aggregate* payments for State and local use by all railroads, it must be kept in mind that it is *individual* railroads that are assessed and that any result demonstrated for railroads as a group may fail entirely to represent the situation of any individual road. For the purpose of preliminary examination, however, the *Commission* sought to answer two questions:

1. Are railroads taxed more heavily in New Jersey than in comparable states?

2. Are railroads taxed more heavily than other comparable taxpayers in New Jersey?

The railroads themselves have compiled impressive statistics to demonstrate that they are more heavily taxed in New Jersey than in any other state in the Union. This material is a matter of public record.[1] The *Commission* has sought to test the conclusions offered by the railroads, and has in particular sought to determine whether alternative methods of attributing railroad earnings to this State would change the result of an interstate comparison.

The 1941 tax law allocated net railway operating income to New Jersey in the proportion that all track miles over which each railroad operates in this State bear to the total number of all track miles over which the railroad operates everywhere. In presenting their data, the railroads have used this same all track miles allocation formula to distribute their earnings within and without the State, on the assumption that a measure that is fair for

[1] Pennsylvania Railroad, Office of General Tax Agent, "Material Showing the Burden of New Jersey Taxes on Railroads Within the State" (Philadelphia, November 29, 1947) marked "For Release in Newspapers on Thursday, January 22, 1948."

taxes is also fair for income. The *Commission* has tested these conclusions by applying two other possible factors; namely, (1) the proportion of total I.C.C. valuations of railroad property located within New Jersey to the total I.C.C. valuation of railroad property everywhere for each railroad, and (2) the proportion of tons of revenue freight of each railroad originated and terminated in New Jersey to the total tons of revenue freight originated and terminated everywhere.

The result of these alternative allocations of income is shown in Table I. It appears that allocations according to either the I.C.C. valuations or revenue tons of freight originated and terminated within the State would apportion a larger share of total net railway operating income to New Jersey. However, as the factor most favorable to New Jersey, the I.C.C. valuations would result in allocating total income of only $13.6 million to New Jersey for nine Class I railroads as compared with $9.2 million allocable under the statutory all track miles formula.

Computations shown in Table II indicate that the total New Jersey railroad franchise tax in 1947 for the nine principal railroad taxpayers would have been increased by only $264,000 through application of the tonnage factor and by $952,000 if income had been allocated by the I.C.C. valuation factor. Thus, even by use of the allocation factor most favorable to New Jersey, the total New Jersey tax would not be substantially increased, and it would be open to serious technical objection based upon the manner in which I.C.C. valuations are made.

The relative level of taxation among taxpayers and among states may be conveniently measured by comparing taxes assessed and net railway operating income in each case. This comparison is not intended as a direct measure of tax burden since railroad taxes are, by definition, deducted from gross operating revenues in the determination of net railway operating income. As a direct measure of tax burden, taxes have been related to net railway operating income before taxes.

Computations by the *Commission* indicate that 1947 taxes in New Jersey represent an average of 220 per cent of net railway operating income allocated to the State by eleven Class I railroads as compared with an average of 75 per cent for all states served by the eleven railroads and 64 per cent for all of the states other than New Jersey. Similar computations based upon net railway operating income allocated to the states according to I.C.C. valua-

TABLE I

NET RAILWAY OPERATING REVENUES ALLOCABLE TO NEW JERSEY BY ELEVEN CLASS I RAILROADS—BY THREE METHODS—1947

(Amounts in Thousands of Dollars)

Railroad	*Total Net Ry. Oper. Income—1947*	*By Track Mile[1]*		*By Tonnage Handled[2]*		*By I. C. C. Valuation[3]*	
		Per Cent	*Amount*	*Per Cent*	*Amount*	*Per Cent*	*Amount*
Central R. R. of N. J.	$3,154	67.05	$2,115	75.9	$2,394	74.7	$2,356
Erie R. R.	11,528	8.85	1,020	11.8	1,360	18.7	2,156
Delaware, Lackawanna & Western R. R.	8,322	26.83	2,233	17.3	1,440	43.7	3,637
Lehigh Valley R. R.	4,280	16.41	702	21.1	903	29.1	1,245
Pennsylvania R. R.	32,311	5.93	1,916	6.7	2,165	9.1	2,940
New York Central R. R.	24,520	0.74	181	2.0	490	2.0	490
Penn-Reading S. S. Lines	d245[4]	100.0	0	100.0	0	100.0	0
Reading R. R.	11,952	5.88	703	7.4	884	4.7	562
New York, Susquehanna & Western R. R.	d2,209[4]	47.66	0	100.0	0	100.0	0
Lehigh and New England R. R.	496	14.50	217	0.1	1	8.6	129
Lehigh and Hudson River R. R.	227	56.67	129	91.2	207	57.4	130
Total—11 Class I R.R.s	$95,336	9.4	$9,216	10.1	$9,844	12.9	$13,645

[1] Miles of all track—present allocation. N. J. Department of Taxation and Finance, Engineering and Railroad Tax Bureau.

[2] Freight tonnage originated and terminated within the State relative to tonnage originated and terminated everywhere. U. S. Interstate Commerce Commission. Tabulations by N. J. Department of Taxation and Finance, Engineering and Railroad Tax Bureau.

[3] U. S. Interstate Commerce Commission, Bureau of Valuation, valuations of land, rights and road (cost of reproduction less depreciation) as of January 1, 1946.

[4] Deficits reported by two railroads not allocated.

TABLE II

NEW JERSEY RAILROAD FRANCHISE TAX FOR NINE CLASS I RAILROADS—1947

Actual and with Allocation by I. C. C. Valuations and Tonnage Originated and Terminated
(Thousands of Dollars)

Railroad	Franchise Tax 1947: Actual	Franchise Tax 1947: I. C. C. Allocation	Franchise Tax 1947: Tonnage Allocation	Change: I. C. C. Allocation	Change: Tonnage Allocation
Pennsylvania R. R.	$455	$698	$514	+ $243	+ $59
Penn-Reading S. S. Lines	4	4	4	0	0
Central R. R. of N. J.	183	203	207	+ 20	+ 24
Reading R. R.	143	115	266	— 28	+ 123
Erie R. R.	170	359	226	+ 189	+ 56
Delaware, Lackawanna & Western R. R.	388	632	250	+ 244	— 138
New York, Susquehanna & Western R. R.	4	4	4	0	0
Lehigh Valley R. R.	294	522	378	+ 228	+ 84
New York Central R. R.	33	89	89	+ 56	+ 56
Total—9 Class I R.R.s	$1,674	$2,626	$1,938	+ $952	+ $264

Source: Computed from railroad franchise tax data supplied by New Jersey State Department of Taxation and Finance, Engineering and Railroad Tax Bureau.

tions show that State and local taxes assessed in New Jersey averaged about 135 per cent of income for eleven Class I railroads as compared with an average of 67.2 per cent in states other than New Jersey (see Table III).

The railroads have presented data to show that the effective rate of their State and local taxes upon I.C.C. valuations of railroad property exceeds that in any other comparable state.[1] These results were obtained by comparing total taxes for 1945 with total valuations in selected states. In an effort to appraise the impact of 1947 New Jersey and other State and local taxes upon Class I railroads operating in New Jersey, the *Commission* compared them with net railway operating income before deductions for taxes. As shown in Table III, total State and local taxes for the eleven Class I railroads in all states which they serve averaged 43 per cent of their net railway operating income before deduction of such taxes. In contrast to this 43 per cent average, the ratio for New Jersey was 114 per cent when income was allocated according to track miles and almost 74 per cent when the I.C.C. allocation factor was used.

Also as shown in Table III, total State and local taxes represent 41 per cent of net railway operating income reported for 1947 before deduction of Federal taxes (exclusive of payroll taxes) as well as all State and local taxes. Excluding Federal payroll taxes because they are, in effect, part of labor costs, this means that State and local taxes claimed 41 per cent of all railway operating revenues available for taxes, for fixed charges and for profits. However, assuming allocation of income according to all track miles, New Jersey State and local taxes claimed 100 per cent of the total. Application of the I.C.C. allocation factor indicates that New Jersey taxes claimed 66 per cent of the total amount available. On the average and almost without exception for individual railroads, the impact of New Jersey taxes appeared heavier than in any of the other states by these two measures.

For purposes of comparison among the states served by the eleven Class I railroads, it was necessary to include all State and local taxes. Local property taxes assessed upon any non-railroad property owned by a railroad were thus included in the

---

1 Pennsylvania Railroad, Office of General Tax Agent, "Material Showing the Burden of New Jersey Taxes on Railroads Within the State" (Philadelphia, November 29, 1947) marked "For Release in Newspapers on Thursday, January 22, 1948", pp. 19-21; also Associated Railroads of New Jersey, "Letter to the Delegates to the Constitutional Convention of 1947" (August 19, 1947), Table III.

TABLE III

Eleven Class I Railroads Operating in New Jersey

State and Local Taxes Assessed as Per Cent of Net Railway Operating Income—1947 By State and By Railroad

State	Central R. R. of N. J.	Del., Lack. & West.	Erie R. R.	Lehigh & Hudson River	Lehigh & New England	Lehigh Valley	New York Central	New York Susqu. & West. R. R.	Penna. R. R. Co.	Penn-Reading S. S. Lines	Reading Co.	Total 11 Cl. I RRs.
A. State and Local Taxes as Per Cent of Net Railway Operating Income Allocated According to All Track Miles												
New Jersey[1]	129.4%	102.5%	144.4%	46.5%	20.7%	225.5%	540.3%	Deficit	250.1%	Deficit	68.2%	219.7%
New York	....	42.3	54.7	27.6	1.7	61.8	200.0	....	295.5	....	....	127.7
Pennsylvania	14.1	3.4	5.3	....	11.2	5.9	18.5	....	46.0	....	20.1	26.5
Ohio	....	....	35.2	....	....	....	47.8	....	65.9	....	....	53.6
Illinois	....	....	26.2	....	....	....	54.7	....	100.7	....	....	69.8
All Other[2]	....	....	34.8	....	....	....	81.0	....	82.6	....	10.5	79.3
Total	91.5%	47.2%	44.4%	38.3%	11.8%	62.9%	107.2%	Deficit	83.6%	Deficit	22.9%	75.1%
B. State and Local Taxes as Per Cent of Net Railway Operating Income Allocated According to I. C. C. Valuations												
New Jersey[1]	116.2%	62.2%	68.5%	46.2%	34.9%	123.7%	199.6%	Deficit	163.4%	Deficit	86.3%	134.7%
New York	....	66.2	50.5	29.3	5.6	85.2	138.3	....	131.5	....	....	107.7
Pennsylvania	19.4	3.5	7.0	....	9.8	6.3	25.1	....	40.9	....	19.9	26.0
Ohio	....	....	42.7	....	....	....	57.1	....	93.5	....	....	69.2
Illinois	....	....	65.4	....	....	....	63.4	....	115.2	....	....	84.7
All Other[2]	....	29.2	43.0	....	....	75.0	107.5	....	115.8	....	9.6	107.0
Total	91.5%	47.2%	44.4%	38.3%	11.8%	62.9%	107.2%	Deficit	83.6%	Deficit	22.9%	75.1%
C. State and Local Taxes as Per Cent of Net Railway Operating Income—Before State and Local Taxes—Allocated According to All Track Miles												
New Jersey[1]	66.1%	70.1%	100.5%	33.7%	18.5%	141.4%	260.1%	4,383.3%	141.0%	Deficit	55.5%	114.0%
New York	....	28.9	38.0	19.9	1.5	38.8	96.5	....	166.6	....	....	73.7
Pennsylvania	7.2	2.3	3.7	....	10.0	3.7	8.9	42.9	25.9	....	16.4	38.3
Ohio	....	....	24.5	....	....	....	23.1	....	37.1	....	....	29.4
Illinois	....	....	18.2	....	....	....	36.4	....	56.7	....	....	36.8
All Other[2]	....	....	....	....	....	....	38.4	....	47.7	....	8.6	42.0
Total	46.7%	32.3%	30.9%	27.7%	10.6%	39.5%	51.7%	2,046.2%	47.1%	Deficit	18.6%	43.4%

D. State and Local Taxes as Per Cent of Net Railway Operating Income—Before State and Local Taxes—Allocated According to I. C. C. Valuations

New Jersey[1]	59.3%	42.6%	47.7%	33.3%	31.3%	77.6%	96.3%	2,023.1%	92.0%	Deficit	70.3%	73.6%
New York	....	45.3	35.2	21.3	5.0	53.4	66.7	....	74.1	....	....	59.7
Pennsylvania	9.9	2.4	4.9	....	8.7	3.9	12.1	....	23.0	....	16.2	16.9
Ohio	....	....	29.8	....	....	....	27.6	....	52.6	....	....	37.8
Illinois	....	....	45.6	....	....	....	30.6	....	64.9	....	....	44.1
All Other[2]	....	19.4	29.9	....	....	42.9	51.9	....	65.2	....	7.8	56.3
Total	46.7%	32.3%	30.9%	27.7%	10.6%	39.5%	51.7%	2,046.2%	47.1%	Deficit	18.6%	43.4%

E. State and Local Taxes as Per Cent of Net Railway Operating Income—Before State, Local and Federal Taxes—Allocated According to All Track Miles

New Jersey[1]	65.9%	65.5%	86.1%	22.0%	12.0%	141.1%	310.5%	115.4%	130.7%	Deficit	41.3%	100.5%
New York	....	27.1	32.7	13.0	1.0	38.8	108.9	....	153.0	....	....	73.8
Pennsylvania	7.2	2.2	3.2	....	6.4	3.7	10.1	1.2	23.9	....	12.1	14.8
Ohio	....	....	21.0	....	....	....	26.0	....	34.2	....	....	29.0
Illinois	....	....	15.4	....	....	....	29.9	....	52.4	....	....	37.7
All Other[2]	....	....	21.0	....	....	....	44.2	....	42.6	....	5.8	42.4
Total	46.6%	30.2%	26.6%	18.0%	6.7%	39.5%	58.5%	55.6%	43.3%	Deficit	13.8%	41.0%

F. State and Local Taxes as Per Cent of Net Railway Operating Income—Before State, Local and Federal Taxes—Allocated According to I. C. C. Valuations

New Jersey[1]	59.2%	39.9%	41.0%	21.7%	20.2%	77.6%	108.9%	55.0%	84.7%	Deficit	51.9%	65.8%
New York	....	42.4	30.2	13.8	3.2	53.4	75.4	....	68.2	....	....	60.8
Pennsylvania	9.9	2.3	4.2	....	5.6	3.9	13.7	....	21.2	....	11.9	14.6
Ohio	....	....	25.6	....	....	....	31.2	....	48.5	....	....	37.6
Illinois	....	....	39.2	....	....	....	34.6	....	59.7	....	....	45.4
All Other[2]	....	23.3	25.7	....	....	42.9	58.6	....	60.1	....	5.8	57.3
Total	46.6%	30.2%	26.6%	18.0%	6.7%	39.5%	58.5%	55.6%	43.3%	Deficit	13.8%	41.0%

1 New Jersey taxes reported by railroads differ from tax assessments reported by New Jersey Department of Taxation and Finance because they include local taxes on nonrailroad property. In total, New Jersey taxes reported for the 11 railroads exceed railroad tax assessments by $539,000. Assessments as reported by the railroads were used for purposes of uniformity as among the several states.

2 Includes taxes on off-line offices in various states.

Source: Computed from data compiled by New Jersey State Department of Taxation and Finance, Engineering and Railroad Tax Bureau, and Associated Railroads of New Jersey.

TABLE IV

ELEVEN CLASS I RAILROADS OPERATING IN NEW JERSEY

Relationship of Taxes Assessed by State of New Jersey to Net Railway Operating Income Before Federal and State Taxes Allocated to New Jersey on Basis of Track Miles—1947

(Amounts in Thousands of Dollars)

Item	Central R. R. of N. J.	Del., Lack. & West.	Erie R. R.	Lehigh & Hudson River	Lehigh & New England	Lehigh Valley	New York Central	New York, Susq. & West. R. R.	Penna. R. R. Co.	Penn-Reading S. S. Lines	Reading Co.	Total 11 Cl. I RRs.
Net Railway Operating Income ..	$3,154	$8,322	$11,528	$227	$1,496	$4,280	$24,520	$235	$32,311	Def.$2,209	$11,952	$95,816
Railway Tax Accruals:												
Federal Payroll Taxes	2,624	3,373	6,264	94	249	3,052	31,985	190	39,958	474	5,036	93,300
Federal Income Taxes	10	746	2,677	167	952	......	Cr. 6,072	Cr. 14	4,911	321	5,154	8,852
All Other Taxes	3,029	3,935	5,065	88	179	2,543	26,522	257	25,101	423	2,783	69,925
Total Tax Accruals	$5,663	$8,054	$14,006	$349	$1,380	$5,596	$52,436	$433	$69,970	$1,218	$12,972	$172,077
Net Railway Operating Income Before Taxes Other Than Payroll Taxes	$6,193	$13,003	$19,270	$482	$2,628	$6,823	$44,970	$478	$62,323	Def.$1,464	$19,889	$174,593
Taxes Assessed by State of New Jersey	2,680	2,247	1,477	60	45	1,540	784	259	4,559	408	479	14,539
A Allocation According to All Track Miles												
Per Cent of Track Miles in New Jersey (1946)	67.0462%	26.8316%	8.8452%	56.6744%	14.5043%	16.4070%	0.7448%	47.6550%	5.9331%	100.0000%	5.8780%	......
Income Before Taxes (Other Than Payroll) Allocated to New Jersey by Track Miles	$4,152	$3,489	$1,704	$273	$381	$1,119	$335	$228	$3,698	Def.$1,464	$1,169	$15,084
New Jersey Taxes as Per Cent of Income Before Taxes	64.55%	64.42%	86.67%	21.97%	11.77%	137.54%	234.11%	113.97%	123.30%	Deficit	40.98%	[1] 96.39%
B Allocation According to I. C. C. Valuations												
Per Cent of I. C. C. Valuations in New Jersey (1946)	74.7%	43.7%	18.7%	57.4%	8.6%	29.1%	2.0%	100.0%	9.1%	100.0%	4.7%	......
Income Before Taxes (Other Than Payroll) Allocated to New Jersey by I. C. C. Valuations..	$4,626	$5,682	$3,602	$277	$226	$1,986	$899	$478	$5,671	Def.$1,464	$935	$22,919
New Jersey Taxes as Per Cent of Income Before Taxes	57.9%	39.6%	41.0%	21.7%	19.8%	77.5%	87.2%	54.3%	80.4%	Deficit	51.3%	[1] 63.4%

[1] Average percentage of taxes to income includes deficit reported by Pennsylvania-Reading Railroad. Exclusion of this deficit would cause the percentage to become 87.9% (all track mile allocation) and 59.6% (I. C. C. allocation).

Source: Income data: Monthly reports to U. S. Interstate Commerce Commission as reported by Moody's Investors Service and Tabulated by New Jersey State Department of Taxation and Finance, Engineering and Railroad Tax Bureau. Allocations: see Table I.

comparisons shown in Table III. Railroad taxes assessed by the State upon railroad property and franchise alone in New Jersey for 1947 averaged 96 per cent of net railway operating income before Federal (excluding payroll) and State taxes allocated to New Jersey according to track miles. Even after allocation of income according to I.C.C. valuations, the 1947 New Jersey railroad tax averaged 63 per cent of the total. See Table IV. The conclusion is clear. Even with the allocation factor most favorable to this State (the I.C.C. valuation method), the percentage of allocated net operating income taken in total State and local taxes is greater than that taken in other comparable states. These data have been important factors in the *Commission's* determination of a fair total tax burden. In other words, *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.*

Comparison With Other Taxpayers

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 remains, however, to consider whether the railroads are taxed more heavily than other taxpayers within this State. This type of comparison is complicated by contentions as to the relative assessment ratio of railroad property and nonrailroad property. The railroads have contended that their property is assessed by the State at 100 per cent and more of true value, while the various municipal assessors are assessing real estate at fractions of true value running as low as 20 per cent. While differences of this kind certainly exist, the State Railroad Tax Bureau has always taken the position that it has made its valuations and assessments on land values with due regard for the assessable value of comparable land assessed by the local assessors.

There are also other factors that may weigh on the side of the railroads. Railroad property and nonrailroad property have different characteristics which affect the valuations, but which are almost impossible to measure. Nonrailroad property owners are free to find that kind of property which is the most economical to use for their purpose. They are likewise free to abandon property upon which the taxes have become excessive for the use which they desire. In the case of commercial properties, moreover, the price of the product or the rental fixed can usually be adjusted so as to pass on the costs of taxation. Railroads as a public utility are not ordinarily free to select the land over which they will operate nor to abandon unprofitable operations; and the character of their service and the elements of costs which they must meet are to a large extent fixed by government regulation. Any comparison of tax burdens based upon assessments and rates must, therefore, make considerable allowances for the restrictive conditions which are an integral part of public utility ownership.

Table V is illustrative of the comparison of effective tax rates on nonrailroad and railroad property. They do not consider the extent to which nonrailroad property may be undervalued nor the peculiar qualities of railroad property that affect real estate values. Nevertheless, Table V indicates that even when the "low" years of 1941, 1946 and 1947 are included, the railroads have paid on a fourteen-year average at an effective rate almost as high as nonrailroad property. It also indicates the manner in

TABLE V

VALUATIONS TAXABLE, TAXES ASSESSED, AND AVERAGE TAX RATES FOR RAILROAD AND NONRAILROAD PROPERTY IN NEW JERSEY—1934-1947

(*Millions of Dollars*)

	Nonrailroad Property			*Railroad Property*		
Year	*Net Valuation Taxable*	*General Property Tax*	*Average Rate Per $100*	*Value of Railroad Property*	*All Railroad Tax*	*Average Rate Per $100*
1934	$5,608	$222	$3.96	$478.8	$19.2	$4.00
1935	5,627	224	3.99	469.4	19.3	4.10
1936	5,515	229	4.15	453.4	19.4	4.28
1937	5,569	234	4.20	447.9	19.4	4.32
1938	5,470	247	4.52	441.6	20.4	4.61
1939	5,421	250	4.62	400.5	18.7	4.68
1940	5,312	250	4.71	372.1	18.3	4.92
Seven Year Totals	$38,522	$1,656	$4.30	$3,063.7	$134.6	$4.39
1941	$5,269	$253	$4.80	$367.2	$15.0	$4.10
1942	5,279	251	4.74	406.7	18.4	4.53
1943	5,405	250	4.63	415.7	23.9	5.75
1944	5,437	256	4.72	421.6	21.8	5.18
1945	5,440	258	4.74	433.7	20.5	4.72
1946	5,177	267	5.15	436.2	16.7	3.84
1947	5,335	298	5.58	441.0	15.0	3.41
Seven Year Totals	$37,342	$1,833	$4.91	$2,922.1	$131.4	$4.50
Fourteen Year Totals	$75,864	$3,489	$4.60	$5,985.8	$266.0	$4.44

Source: Computed from New Jersey County Abstracts of Ratables and from railroad tax assessments reported by the New Jersey State Department of Taxation and Finance.

which total railroad taxes under the 1941 law have fluctuated with ability of the railroads to pay as measured by railroad earnings. Under wartime conditions in 1943, railroad taxes reached a total of almost $24 million to represent effective taxation upon railroad property at 5.75 per cent as compared with an average rate of 4.63 per cent upon nonrailroad property. It was only in years of reduced railroad earnings (1941, 1946 and 1947) that total railroad taxes dropped enough to represent effective tax rates upon railroad property materially below the average rates applied to nonrailroad property.

In the judgment of the *Commission,* this indicates that on a comparative basis with nonrailway property owners, the railroads have been carrying more than their share of the tax burden, and that the current reduced yield of the railroad tax represents a timely adjustment consistent with the principle that railroad taxes should be permitted to fluctuate downward—as well as upward—with railroad earnings.

Future Tax Burden of the Railroads

Reduced to its essentials, the basic issue before the *Commission* concerns the level at which New Jersey railroads should be taxed in the future. Aside from abstract comparisons of past tax burdens as among the states and as between railroads and other taxpayers,[1] it is thus necessary to examine the more fundamental question: Do railroads have the capacity to pay taxes at as great a rate as in the past?

This question is difficult to answer, and a complete answer would require an examination of all other elements of operating cost over which railroads have varying degrees of control as well as the ratio of operating costs to operating revenues. Railroad operating ratios show an unfavorable trend during the past three years. While the average had been running about 75 per cent or less for more than twenty years, the ratio of operating expenses to operating revenues rose to 84.47 per cent in 1945, 87.79 per cent in 1946 and has been estimated at 83.08 per cent for 1947. Whether wages and other costs of operation will again outdistance increases in rates cannot be predicted, but this relationship lies at the root of future taxpaying capacity of the railroads.[2] The *Commission* is in no position to pass upon these collateral matters, but it must be admitted that a complete answer to the taxpaying capacity of the railroads might include a study of the excessive costs other than taxation. In this connection, however, it must also be admitted that improved taxpaying capacity is contingent upon improved ratios of railroad rates to costs, as well as upon increased efficiency, and extensive changes are not likely to be realized over any short period of time.

As a matter of State policy, reduction of railroad taxes became an accepted principle in 1941. Table VI shows that over the years New Jersey has recognized the need to lessen its fixed reliance upon the railroad tax. Table VII shows the over-all effect in this direction of the Law of 1941 and the amendment of 1942, as compared with the prior railroad tax law under which Second Class property was taxed at the local rate and Classes I, III and IV property at the average State rate. Railroad taxes were reduced

1 On this subject, see the monographic report, Board of Investigation and Research (Transportation Act of 1940), Carrier Transportation, printed as House Doc. No. 160, 79th Cong., 1st sess. (Washington: 1945).

2 These ratios have been computed from Interstate Commerce Commission data for Class I railways in the eastern district (excluding Pocahontas region), as compiled and reported in "Material Showing the Burden of New Jersey Taxes on Railroads Within the State," *op. cit. supra*, page 83.

TABLE VI

TOTAL RAILROAD TAXES IN NEW JERSEY (1934-1947)

(Millions of Dollars)

Year	Total Railroad Tax	For State Use			For Local Use		
		Total	Property[1]	One-Half Franchise	Total	Property[2]	One-Half Franchise
1934	$19.2	$10.5	$10.5	...	$8.7	$8.7	...
1935	19.3	10.3	10.3	...	9.0	9.0	...
1936	19.4	10.5	10.5	...	8.9	8.9	...
1937	19.4	10.5	10.5	...	8.8	8.8	...
1938	20.4	11.1	11.1	...	9.3	9.3	...
1939	18.7	9.8	9.8	...	9.0	9.0	...
1940	18.3	9.2	9.2	...	9.1	9.1	...
Total for 7 Years	$134.6	$71.8	$71.8	...	$62.8	$62.8	...
1941	$15.0	$7.8	$5.7	$2.0	$7.3	$5.3	$2.0
1942	18.4	10.0	6.9	3.1	8.4	5.3	3.1
1943	23.9	12.7	7.0	5.7	11.2	5.5	5.7
1944	21.8	11.7	7.1	4.6	10.1	5.5	4.6
1945	20.5	11.2	7.4	3.7	9.3	5.6	3.7
1946	16.7	9.3	7.5	1.8	7.4	5.6	1.8
1947	15.0	8.5	7.6	0.9	6.5	5.6	0.9
Total for 7 Years	$131.4	$71.1	$49.2	$21.9	$60.3	$38.4	$21.9
14 Year Average	$19.0	$10.2	...	...	$8.8	...	...

[1]Classes I, III, and IV.

[2] Class II.

Source: 1934-1940 taxes from New Jersey State Tax Department, *Thirteenth Annual Report* for fiscal year ending June 30, 1944, and calendar year ending December 31, 1943, page 19. Amounts shown reflect changes resulting from appeals. 1941-1947 taxes obtained from State Department of Taxation and Finance, Engineering and Railroad Tax Bureau.

TABLE VII

ESTIMATED RAILROAD TAXES IN NEW JERSEY UNDER THREE TAX LAWS
FOR SEVEN YEARS (1941-1947)

(Thousands of Dollars)

	Seven-Year Totals	*1947*	*1946*	*1945*	*1944*	*1943*	*1942*	*1941*
Total Tax								
A. Old Property Tax ...	$151,386	$25,415	$23,212	$21,614	$21,529	$20,916	$20,377	$18,322
B. Laws of 1941[1]	131,833	13,372	15,444	20,808	22,032	26,546	18,703	14,927
C. Amendment of 1942 ..	131,425	15,029	16,744	20,476	21,831	23,895	18,407	15,043
Taxes for State Use								
A. Old Property Tax ...	$80,668	$13,903	$12,733	$11,572	$11,240	$10,940	$10,918	$9,361
B. Laws of 1941[1]	71,352	7,646	8,650	11,347	11,806	14,048	10,155	7,700
C. Amendment of 1942 ..	71,148	8,474	9,300	11,180	11,705	12,722	10,007	7,759
Taxes for Local Use								
A. Old Property Tax ...	$70,718	$11,512	$10,479	$10,042	$10,289	$9,976	$9,459	$8,961
B. Laws of 1941[1]	60,481	5,726	6,794	9,462	10,226	12,498	8,548	7,226
C. Amendment of 1942 ..	60,277	6,555	7,444	9,295	10,126	11,173	8,400	7,284

[1] Does not include franchise tax for unclassified railroads.

in 1941 from a total of $18 million to $15 million in the face of large accumulations of delinquent taxes and interest owed in substantial part by bankrupt railroads.

It was only the intervention of the most costly war in history that enabled the railroads to pay current taxes as they fell due, and to pay accumulated delinquent taxes and interest over the seven years since the 1941 law was enacted. Railroads as a group actually paid in the period 1941-1947 a total amount, on account of current and delinquent taxes, which was 145 per cent of the current taxes assessed during that period, with some individual roads greatly exceeding this ratio of payments to current assessments. Table VIII indicates that total receipts from railroads during the seven years (1941-1947) amounted to $191 million as compared with $110 million collected during the preceding seven years (1934-1940) when collections represented only 82 per cent of the taxes assessed.

The size of current and delinquent tax payments by the railroads over the past seven years has tended to obscure two significant facts of railroad taxation. The first is that the capacity to pay during this period was largely fortuitous and the actual payments represent an abnormal yield never again likely to be equalled. The average annual railroad tax assessment of $18,775,000 over the past seven years (1941-1947) is an inadequate guide by which to determine future tax requirements, and the average tax (current and delinquent) payment of $27,286,000 does not constitute any realistic standard at all.

The *Commission* feels that the economic condition of the railroads as a group, or at least those railroads which serve New Jersey, and the comparative tax burden imposed in other states, would normally warrant a reduction in the railroad tax imposed in this State. A reduction cannot be recommended, however, at a time when all other property owners are being required to increase their contributions to the cost of government, and at a time when the State is faced with the need for additional new revenue. By the same token, it is a much better time, when the revenue structure is being revised, to take advantage of the opportunity to adjust State finances to declining railroad tax revenues.

Many indefinite factors determine the capacity of the various railroads of New Jersey to pay taxes. A tax law cannot be written for either a bankrupt railroad or the most prosperous railroad. The most that can be expected of the new tax law is that it will fit

TABLE VIII

NEW JERSEY RAILROAD TAXES ASSESSED AND COLLECTED (CURRENT, DELINQUENT AND INTEREST) BY RAILROAD

(Thousands of Dollars)

	Seven Years (1934-1940)			*Seven Years (1941-1947)*		
Railroad System	*Taxes Assessed*	*Payments Made*	*Payments as Per Cent of Assessment*	*Taxes Assessed*	*Payments Made*	*Payments as Per Cent of Assessment*
Pennsylvania R. R.	$35,218	$35,067	99.5	$42,796	$42,086	98.3
Delaware, Lackawanna & Western R. R.	22,131	16,464	74.4	20,039	35,043	174.9
Central R. R. of N. J.	27,152	17,651	65.0	23,373	39,627	169.5
Lehigh Valley R. R.	12,913	10,237	79.3	12,871	23,906	185.7
Erie R. R.	14,173	10,354	73.1	12,078	22,283	184.5
Reading R. R.	3,937	4,020	102.1	4,552	4,898	107.6
New York Central R. R.	7,895	6,079	77.0	5,942	12,152	204.5
Hudson & Manhattan R. R.	2,676	2,676	100.0	2,697	2,697	100.0
New York, Susquehanna & Western R. R.	2,180	1,130	52.0	2,210	3,402	154.0
Penn.-Reading S. S. Lines	4,168[1]	4,168[1]	100.0	3,018	3,018	100.0
Unclassified	2,144	2,155	100.5	1,848	1,890	102.2
Total—All Railroads	$134,587	$110,001	81.7	$131,425	$191,002[2]	145.3

[1] Penn-Reading not formed until 1935.

[2] Composed of $60.3 million in delinquent taxes and interest and $130.7 millions in current payments.

Source: Compiled from records in the office of the New Jersey State Comptroller.

in a general way the required merits of equity and fairness in the distribution of the tax burden; that it will fulfill the letter and spirit of the new tax clause, and that it will carry out the established policy of giving due regard to the peculiar conditions of the railroad industry in applying the property tax. *At all events, it is necessary to avoid the unhappy experience of New Jersey in the matter of railroad taxation during the depression years 1932—through 1940.*

The *Commission* has examined considerable evidence of the economic position of the railroads and of their expected financial position in the foreseeable future. Is is no more possible to predict the trend in railroad economics than it is to predict the turning point in the business cycle. Railroad taxpaying capacity is largely dependent upon general economic conditions. Two special factors are noticeable: The first is that the ratio of operating expenses to operating revenues has been steadily rising in the railroad industry during the past few years prior to 1947; and the second is that changes in fuels and in the character of our industrial economy and the direct effect of competition have caused a continuing diversion of traffic from the railroads to other forms of transportation, some of which enjoy competitive advantages of lower taxation and even of government subsidy. Persuasive data are available in support of the significance of these factors. While some of the data may be subject to varying interpretations, the *Commission* is convinced, at least, that all of the data thoroughly support the position that the economic condition of the railroads would not justify any increase in railroad taxation in New Jersey at this time, particularly in view of the public interest in the continued development of a healthy and efficient transportation system to serve the State.

The Commission accordingly recommends that the total amount of railroad tax which the new law should be designed to produce should be the same as that which would have been produced had the 1941 law remained in effect during this year—namely, about $16,100,000.

PART II

THE SECOND-CLASS PROPERTY TAX

The distribution of a total railroad tax of whatever amount, here recommended at $16,100,000, is primarily determined by the decision of the Constitutional Convention—as adopted in the new State Constitution—that all real property taxed by the State for allotment and payment to local taxing districts shall be assessed according to the same standard of value and taxed at the local general property rate of the taxing district in which it is situated, for distribution to such taxing district. While this requirement leaves the Legislature free to select the classes of properties which shall be taxable for local use and those which shall be taxable for State use, unless the Legislature should change the present classification of railroad property, the constitutional requirement can be met only by applying local general property rates to Class II property.

The *Commission* estimates that the aggregate local tax on Class II property in 1948 will amount to about $12,100,000. This represents an increase of approximately $5 million over the amount that would have been available to municipalities from the second class tax at the flat $3.00 rate plus the local share of the railroad franchise tax had the 1941 law remained in effect this year. The increased local revenue will be most important in Hudson County, where railroad property represents 15 per cent of the net valuation upon which county taxes are apportioned, and particularly in Weehawken where it amounts to as much as 38.7 per cent of all ratables. The redistribution of railroad tax revenues effectuated under the new tax clause will also be significant in some 42 municipalities and several counties where Second Class railroad property is 2 per cent or more of total valuation taxable. See Table IX.

The principle of local sharing of the railroad tax had its origin in 1873 (Chapter 450 of the Laws of 1873). That law introduced the definition of main stem as roadbed and track not exceeding 100 feet in width, and provided that main stem, rolling stock and equipment should be taxed at the rate of ½ of 1 per cent on its cost, while real estate outside the main stem should be taxed at the rate of ½ of 1 per cent for State use plus a local use rate of

TABLE IX

General Property and Second-Class Railroad Property Valuations and General Property Tax Rates in New Jersey—1947

By Counties and by Municipalities Where Second-Class Railroad Property Is 2 Per Cent or more of Total Valuation

County and Municipalities	Net Valuation on Which County Taxes are Apportioned	2nd Class Railroad Property	2nd Class Railroad Property as Per Cent of Net Valuation	Per Cent Distribution of 2nd Class Railroad Property	1947 General Property Tax Rate Per $100 Valuation
State Total	$5,451,441,829	$188,527,405	3.46%	100.0%	....
Atlantic County	*132,880,007*	*869,884*	*0.65*	*0.46*	....
Bergen County	*485,448,320*	*3,218,665*	*0.66*	*1.71*	....
Edgewater	22,977,281	1,626.013	7.08	0.86	$3.35
Lyndhurst	13,903,129	523,754	3.77	0.28	6.52
Ridgefield	6,833,158	358,040	5.24	0.19	5.49
Burlington County	*62,050,209*	*161,075*	*0.26*	*0.08*	....
New Hanover	96,759	2,983	3.08	....	1.60
Camden County	*253,833,491*	*3,277,652*	*1.29*	*1.74*	....
Camden	137,020,658	3,077,420	2.25	1.63	5.40
Cape May County	*53,369,247*	*237,689*	*0.45*	*0.13*	....
Dennis	777,739	17,499	2.25	0.01	4.85
Cumberland County	*55,081,538*	*238,210*	*0.43*	*0.13*	....
Essex County	*1,384,873,561*	*12,593,800*	*0.91*	*6.68*	....
Gloucester County	*57,411,413*	*239,298*	*0.42*	*0.13*	....
Newfield	425,992	17,082	4.01	0.01	7.76
Westfield	2,958,682	85,127	2.88	0.05	4.86
Hudson County	*979,994,410*	*147,264,319*	*15.03*	*78.11*	....
Harrison	30,554,505	970,155	3.18	0.51	4.376
Hoboken	76,644,581	8,652,981	11.29	4.59	5.445
Jersey City	463,857,301	112,752,633	24.31	59.81	7.727
Kearny	82,023,807	3,042,349	3.71	1.61	4.460
Secaucus	7,281,863	978,458	13.44	0.52	6.268
Weehawken	31,317,849	12,130,474	38.73	6.43	3.860
West New York	43,096,412	6,489,752	15.06	3.44	6.107
Hunterdon County	*35,374,652*	*216,031*	*0.61*	*0.11*	....
Bloomsbury	463,676	9,996	2.16	....	4.84
Hampton	526,929	18,224	3.46	0.01	4.80
Lambertville	2,280,555	45,025	1.97	0.02	5.71
Mercer County	*253,240,966*	*2,975,641*	*1.18*	*1.58*	....
West Windsor	5,284,169	326,334	6.18	0.17	2.10
Middlesex County	*218,992,859*	*7,363,997*	*3.36*	*3.91*	....
Dunellen	4,668,566	99,861	2.14	0.05	6.92
Madison	2,337,920	102,110	4.37	0.05	6.60
Metuchen	6,351,215	268,924	4.23	0.14	7.41
Perth Amboy	49,648,449	2,180,495	4.39	1.16	6.32
Plainsboro	1,412,039	30,408	2.15	0.02	3.26
South Amboy	5,659,613	1,577,159	27.87	0.84	5.18
South Brunswick	2,924,287	274,848	9.40	0.15	4.52
Spotswood	1,262,227	129,908	10.29	0.07	6.63
Woodbridge	20,955,387	1,679,352	8.01	0.89	6.12

TABLE IX—(Continued)

GENERAL PROPERTY AND SECOND-CLASS RAILROAD PROPERTY VALUATIONS AND GENERAL PROPERTY TAX RATES IN NEW JERSEY—1947

By Counties and by Municipalities Where Second-Class Railroad Property Is 2 Per Cent or more of Total Valuation

County and Municipalities	*Net Valuation on Which County Taxes are Apportioned*	*2nd Class Railroad Property*	*2nd Class Railroad Property as Per Cent of Net Valuation*	*Per Cent Distribution of 2nd Class Railroad Property*	*1947 General Property Tax Rate Per $100 Valuation*
Monmouth County	*$185,707,042*	*$754,153*	*0.41%*	*0.40%*	....
Farmingdale	480,538	12,933	2.69	0.01	$5.506
Morris County	*129,546,503*	*785,271*	*0.61*	*0.42*	....
Denville	3,714,715	95,285	2.57	0.05	6.34
Roxbury	3,763,232	202,361	5.38	0.11	5.20
Ocean County	*50,116,992*	*215,334*	*0.43*	*0.11*	....
Bay Head	2,069,929	102,979	4.98	0.05	4.47
South Toms River ...	327,270	8,548	2.61	....	5.76
Passaic County	*398,186,324*	*1,379,487*	*0.35*	*0.73*	....
Salem County	*50,098,947*	*67,385*	*0.13*	*0.04*	....
Somerset County	*72,638,924*	*699,377*	*0.96*	*0.37*	....
Bernardsville	4,024,526	88,926	2.21	0.05	7.56
Montgomery	1,856,351	43,526	2.34	0.02	4.06
Manville	4,303,024	94,537	2.20	0.05	5.36
Sussex County	*31,143,087*	*81,023*	*0.26*	*0.04*	....
Union County	*520,016,537*	*5,112,915*	*0.98*	*2.71*	....
Cranford	21,544,460	450,510	2.09	0.24	4.53
Elizabeth	136,722,179	2,902,489	2.12	1.54	4.88
Rahway	25,604,050	591,450	2.31	0.31	4.97
Warren County	*41,436,800*	*776,199*	*1.87*	*0.41*	....
Lopatcong	1,339,002	44,621	3.33	0.02	4.63
Phillipsburg	15,715,342	625,467	3.98	0.33	4.98

Source: **New Jersey County Abstracts of Ratables, 1947.**

1 per cent, for a total of 1½ per cent on real estate outside of main stem. Following the constitutional amendment of 1875, which required all properties to be assessed according to true value, the State was faced with the problem of adapting its tax law not unlike our present situation.

In 1884, the present division of railroad property into four separate classes was adopted (Laws of 1884, ch. 101) as part of a legislative plan which is still the basis of the modern system of classification of railroad property in this State. Classes I, II, III and IV property were taxed at the rate of one-half of 1 per cent annually upon the true value instead of cost as in 1873 (in conformity with the Constitutional Amendment of 1875) Class II property was to be taxed in addition at the local rate, but not in excess of 1 per cent of true value, which in effect made no change in principle as in the 1873 law. The revenue was divided in the same manner as in 1873. The 1884 legislation was repealed and re-enacted in a revised form as the Laws of 1888, Chapter 208, which remained the basic law for railroad taxation in this State until the enactment of the Railroad Tax Act of 1941.

These provisions, however, grew increasingly unsatisfactory: "The rise of local tax burdens," writes Professor Lutz, "during the closing years of the nineteenth century produced dissatisfaction with the restriction imposed by the above system of tax rates upon the revenue which the municipalities received from railroad property. It was urged that the expansion of railroad terminal facilities caused the cities to lose, both in ratables and in revenues, from the transfer of property formerly taxable at the full local rate into a category in which it was taxable only at a limited rate. That is, as the railroads bought more land for terminal use, this land could not thereafter be taxed at a rate higher than 1½ per cent. Excited critics of the existing scheme even went so far as to assert that Jersey City had been ruined and that the city would have been better off had the railroads never come there."[1]

The whole subject of railroad tax rates was considered by the Griggs Commission of 1897. The Commission was unable to resolve the then current question of the relative tax burden on railroad property as compared with other property, but concluded that the widely varying basis of local assessment, and the variation in local tax rates, as compared with the uniform valuation

[1] Harley L. Lutz, *The Taxation of Railroads in New Jersey* (Princeton Survey of New Jersey Finance: 1940), p. 32, citing report of the *Commission* appointed by Governor Griggs to investigate the subject of taxation (1897), p. 60.

and rate of taxation of railroad property, made comparison impractical. But even assuming equality of taxation, the 1897 Commission criticized the limitation of the local share of railroad revenue and recommended that the municipalities be given the yield of the state tax on Class II property.

This proposal was accepted by the Legislature,[1] and it resulted at the time in an increase of somewhat more than $200,000 in the local share of the tax. But complaints concerning the taxes assessed on railroad property continued unabated after the change in 1897. In 1905 these complaints finally resulted in an increase of the rate of Class II property to the local general property rate, and in an increase of First Class property to the average State rate.

In connection with the transition to the average State rate, it also provided that an amount equal to ½ of 1 per cent of the assessed value of First Class property should be retained in the general State fund—with the obvious purpose of protecting the general State revenue at its former level. The remainder of revenue produced by the average state rate was to be paid into the common school fund to be distributed to the local school districts. This provision assured state-wide popularity for the rate increase in the belief that by this means all general property taxpayers in the State would benefit through a reduction in the local school tax.

This was the origin of the third early principle of railroad taxation—that is the earmarking of all amounts of first class revenue in excess of an amount equal to ½ of 1 per cent of its assessed valuation, for educational purposes. But the hope of substantial support for local school districts through use of railroad tax revenues was soon dissipated as a result of legislative policy of establishing prior claims on this revenue. These prior claims were for State educational activities such as the state normal schools,[2] vocational education,[3] and teachers' pension fund.[4] The effect of these diversions from the original purpose has been to reduce the amount available for local schools so that in 1943, the peak year in the history of the railroad tax yield in New Jersey, nothing was left for direct distribution to the local school districts, a result

[1] *Laws of* 1897, ch. 69.
[2] *Laws of* 1909, ch. 65.
[3] *Laws of* 1913, ch. 294.
[4] *Laws of* 1914, ch. 268

which was principally attributable to an increase in the requirements of the teachers' pension and annuity fund.

The *Commission* concludes:

Each of the basic principles of our present railroad tax distribution had its origin in the exigencies of the moment. There was neither plan nor purpose of a long-range character in the development of the present interests in railroad tax distribution, interests which over the years have necessarily assumed a vested character. One characteristic of the growth of the past, however, points the way to the development for the future; that is, the State has over the years successively retired from the use of railroad tax revenues to support general state purposes and has gradually extended the local share of the railroad property tax. This is the effect of the tax clause in the new State Constitution and is the trend which marks modern railroad tax distribution in other states.

Future Adjustments in Class II Tax

The *Commission's* estimate of an aggregate Class II tax of $12,100,000 in 1948 is based upon the assessed valuation of Class II property for the tax year 1947, and upon local tax rates so far as known which will be in effect for 1948. There are several conditions under which the Second Class tax payable by the railroads may be either increased or decreased. These include:

1. *Changes in the Local General Property Tax Rate:* Increased budget requirements in future years will, of course, tend to increase the local tax rates. This tendency may be offset, however, by the acquisition of new nonrailroad ratables and by substantial increases in State aid to municipalities, such as those contemplated in Governor Driscoll's recent Budget Message.

2. *Changes in the Assessed Valuation of Railroad Property:* Under the old constitution (prior to 1947), State authorities were required to assess railroad property according to true value. So long as the railroads were not assessed in excess of true value, they found it impossible to achieve a reduction in their assessed valuation even where it was known that local assessors were following the practice of assessing at something less than true value.[1] Under the new State Constitution all property taxable for local purposes must be assessed "according to the same standard of value." This may give a new opportunity to railroads and to all other taxpayers who have unsuccessfully claimed discrimination in the past to compel the assessor to reduce their assessment in accordance with the general level of assessments in the taxing district. Any such reduction in railroad assessment, whether voluntarily undertaken by assessing authorities or compelled by the courts would have the effect of reducing not only the Second Class property tax in total but the total railroad tax as well.

---

[1] At least three large attempts to prove, by the introduction of a mass of evidence, that nonrailroad "property throughout the States was systematically, or intentionally, undervalued" as compared with railroad property, have failed in the courts: *Central R. R. Co.* v. *Thayer-Martin,* 114 N. J. L. 69 (Sup. Ct., 1934); *Central R. R. of N. J.* v. *State Tax Dept.,* 112 N. J. L. 5 (1933); *Lehigh Valley R. R.* v. *Martin,* 19 Fed. Supp. 63 (D. N. J. 1936), affimd. 100 Fed. (2d) 1939 (C. C. A. 3rd, 1938) Cert. den. 59 Sup Ct. 592 (1939).

3. *Abandonment of Real Estate no Longer Needed for Railroad Purposes:* Sale of real estate to nonrailroad taxpayers may offer certain railroads the opportunity for substantial reduction in their Second Class property tax. As Governor Driscoll stated in his First Annual Message:

> As an integral part of the program, it is anticipated that substantial and valuable real estate presently occupied by the railroads along the Hudson River and elsewhere may be released for more constructive use, and improved either by private enterprise or through the co-operation of the Port Authority. Preliminary study indicates the feasibility of this program.

The *Commission* believes, on the basis of its studies, that it is thoroughly sound to require railroads to stand in the same position as home owners and local industry under the local property tax, and also to permit them to gain the full benefit of any reduction in their Second Class tax which may be achieved in the manner indicated. This is both the letter and the spirit of the new State constitutional provision and of the memorial to the Governor and the Legislature adopted by the Constitutional Convention on the subject of railroad taxation.

"Credit" Alternatives

A justifiable concern that rising local tax rates might place them in the position of having to bear an excessive railroad property tax has resulted in a plea by railroad representatives for some security against this eventuality. They have zealously and ably argued for what they call a credit against the State tax. This would operate by determining each year what the Second Class tax would be at local rates and deducting from that amount the Second Class tax at the former flat $3.00 rate. The difference would be deductible from the State's share of the railroad tax. Application of this proposal for individual railroads for the year 1947 is shown in Table X.

The *Commission* gave serious consideration to this proposal. It offered the advantage of providing for distribution of local railroad property tax (Class II) at the full local general property tax rate while, at the same time, preserving the 1941-1942 railroad tax formula. In addition to maintaining the total railroad tax at the former level, it would also maintain the former distribution of the total tax as among individual railroads. Although the proposal was attractive because it represented the least possible change in railroad tax practice and results, the *Commission* does not recommend its acceptance as the basis for any long-range railroad tax formula for these reasons:

1. The proposed credit plan would have given the railroads a preferred position over all other property taxpayers by "freezing" the local property tax upon Class II railroad property within an over-all tax measure defined in the 1941 law. This would mean that railroad taxpayers would be virtually immune from the effects of rising local general property tax rates at a time when all other taxpayers are being asked to increase their payments. The *Commission* concluded that this would violate the spirit if not the letter of the Constitutional provision requiring Class II property to be treated as all other general property taxable for local purposes is treated.

2. The proposal was essentially the same as the so-called "Murray Amendment" to the tax clause which was offered in the Constitutional Convention. This amendment would have required the State to pay to each municipality the difference between its actual yield from the flat $3.00 tax rate on Class II property and the amount that would have

TABLE X

RAILROAD TAXES IN NEW JERSEY—SELECTED RAILROADS—COMPUTATION OF TAXES FOR YEAR 1947 UNDER LAWS OF 1941 AFTER AMENDMENT TO ALLOW "CREDIT" FOR CLASS II TAX IN EXCESS OF $3 PER $100 OF VALUATION

Railroad	*Second-Class Property Tax at Local Rates*[1] *(1)*	*Second-Class Property Tax at 3% Rate (2)*	*Excess of Column (1) Over Column (2) (3)*	*Franchise Tax (4)*	*Tax on Classes 1, 3 & 4 Property (5)*	*Total of Columns 4 & 5 (6)*	*Tax for State Use (Col. 6 Minus Col. 3) (7)*	*Total Tax Liability (Col. 1 Plus Col. 7) (8)*
Delaware, Lackawanna & Western R. R.	$2,144,192	$933,969	$1,210,223	$388,035	$925,388	$1,313,423	$103,200	$2,247,392
Erie R. R.	1,517,359	690,075	827,284	169,704	617,512	787,216	none	1,517,359[2]
Lehigh Valley R. R.	1,293,958	533,719	760,239	294,276	711,751	1,006,027	245,788	1,539,746
Pennsylvania R. R.	3,597,405	1,576,305	2,021,100	455,126	2,527,893	2,983,019	961,919	4,559,324
Penn-Reading S. S. Lines	161,822	76,465	85,357	4,000	327,708	331,708	246,351	408,173
Jersey Central R. R.	2,806,905	1,165,675	1,641,230	182,593	1,331,800	1,514,393	none	2,806,905[2]
Reading R. R.	177,341	77,009	100,332	143,381	258,745	402,126	301,794	479,135
New York Central R. R.	769,453	453,631	315,822	33,251	297,220	330,471	14,649	784,102
Lehigh and New England R. R.	none	none	none	24,462	20,385	44,847	44,847	44,847
New Jersey and New York R. R.	3,000	1,627	1,373	4,000	11,610	15,610	14,237	17,237
Lehigh and Hudson River R. R.	3,575	2,470	1,105	4,000	53,550	57,550	56,445	60,020
New York, Susquehanna & Western R. R.	88,783	66,237	22,546	4,000	189,124	193,124	170,578	259,361
Total	$12,563,793	$5,577,182	$6,986,611	$1,706,828	$7,272,686	$8,979,514	$2,159,808	$14,723,601

[1] 1947 local tax rates unadjusted for inclusion of Class II railroad property in local tax ratables.

[2] Represents Second Class property tax at local rates. The total tax payable by these companies for the year 1947 under the present act is as follows: Erie—$1,477,291; Jersey Central—$2,680,068.

Source: Associated Railroads of New Jersey.

been yielded had the municipality been permitted to tax such property at the full local rate. The amendment was rejected in the Constitutional Convention.

3. The proposal would have created a situation in which the State could possibly receive nothing in railroad tax, despite the fact that some $186 million in assessed value of main stem (Class I) and $66 million of rolling stock and other personal property (Class III) is not taxed for local use at all—in effect the proposal would in some years have resulted in an exemption of these properties. The total exemption could, of course, have been ameliorated by limiting the credit to something less than 100 per cent, but this would have been an expedient which would fail to overcome the objections to the proposal as a permanent part of the railroad tax law.

4. The proposal would have removed most, if not all, of the tax advantages expected to accrue to any railroad which might abandon excess Second Class property as contemplated by the Governor's Annual Message for an integrated transportation program.

5. In its operation, the crediting proposal would have worked most unequally as among the railroads, and would have created the unhealthy situation of placing the railroads in the position as taxpayers where they would be relatively unconcerned with the amount of the assessment placed on their Class II property.

The *Commission* believes that the concern of the railroads over rising local tax rates is both sincere and justifiable. But it is impossible to write a tax law for all time, or to provide for every eventuality which might give security to the taxpayer. All that can be expected is that the railroad tax law, like other tax provisions, will from time to time be reviewed by the Governor and the Legislature and as inequities develop they may be corrected. Within these limitations, the *Commission* feels that any changes in the law which have the effect of creating barriers to future equitable adjustment must be avoided. The object of any change must be equal tax treatment for all railroad taxpayers under a uniform and clearly defined tax formula. While the *Commission* has recommended a four-year transition formula based on a modest application of the credit principle, it does so only as a temporary device to avoid abrupt and excessive treatment under the new tax clause of the Constitution.

Effect of New Constitution on "Pooling" of Class II Tax

The new tax clause (Article VIII, Section 1, Par. 1) requires, in effect, that Class II property as defined by law shall be taxed "at the general tax rate of the taxing district in which the property is situated, *for the use of such taxing district*" (italics added). This means that it will no longer be possible to pool the Class II tax receipts and distribute them among the municipalities in proportion to the location of Class II valuations. The significance of this change lies in the distribution as among municipalities of any Class II railroad tax delinquency.

The yield of the Class II tax was, until 1941, paid to the respective municipalities in which such railroad property was located. Each municipality was thus affected by railroad tax delinquencies depending upon whether or not the particular railroads having property within its jurisdiction were tax delinquent. For example, prior to 1941, the Central Railroad of New Jersey owed the largest amount of unpaid Second Class tax ($13.5 million, not including interest penalties) and the effect of this delinquency had to be borne solely by the municipalities in which property of that railroad was located, principally Jersey City, where 78 per cent of all Second Class property owned by the Jersey Central has its situs.

As a result of the 1941 legislation, the Second Class tax of all railroads in the State was paid into a single pool. The amount in this pool was in turn distributed to the various municipalities in proportion to the assessed valuation of Second Class property in each municipality, regardless of whether or not a particular railroad located therein had actually paid the tax assessed upon it. Thus, after the enactment of the railroad tax law of 1941, the failure of any railroad to pay its Second Class property tax came to have state-wide rather than local significance, and the effect of tax delinquency of any railroad was no longer borne solely by the municipalities in which its property was located. The enactment of the 1941 legislation was to this extent a very substantial benefit to Jersey City and the other municipalities in Hudson County, since the Central Railroad of New Jersey has been in receivership for over ten years. Under the new Constitution, this pooling of Class II tax revenue is no longer feasible, for the reason that the Class II tax must be "for the use of such taxing district" in which the property is situated.

TABLE XI

DISTRIBUTION OF RAILROAD TAXES BY RAILROAD AND BY TAX—1947

(Amounts in Thousands of Dollars)

Railroad System	*Total R. R. Tax*	*Property Tax* *Total*	*Property Tax* *State*	*Property Tax* *Local*	*Fran-chise Tax*	*Per Cent Distribution* *Prop Taxes* *State*	*Per Cent Distribution* *Prop Taxes* *Local*	*Per Cent Distribution* *Fran-chise Taxes*
New York Central R. R.	$784	$751	$297	$454	$33	37.9	57.9	4.2
Erie R. R.	1,477	1,308	618	690	170	41.8	46.7	11.5
New Jersey and New York R. R.	17	13	11	2	4	67.2	9.3	23.4
Total Erie R. R. Group	1,494	1,321	629	692	174	42.1	46.3	11.6
Delaware, Lackawanna & Western R. R.	2,247	1,859	925	934	388	41.2	41.6	17.3
Central R. R. of N. J.	2,680	2,497	1,332	1,166	183	49.7	43.5	6.8
Mount Hope Mineral R. R.	4	2	2	...	2	44.8	0.7	55.2
Wharton and Northern R. R. ..	12	6	5	...	7	44.2	1.2	34.5
Total Central R. R. of N. J. Group	2,696	2,505	1,339	1,166	191	49.7	43.2	7.1
Lehigh Valley R. R.	1,540	1,245	712	534	294	46.2	34.7	19.1
Pennsylvania R. R.	4,559	4,104	2,528	1,576	455	55.4	34.6	10.0
Penna. and Atlantic R. R.	20	16	15	1	4	74.8	5.6	19.6
Union Transportation Co.	10	6	6	...	4	57.2	2.6	40.2
Total Penna. R. R. Group..	4,590	4,127	2,549	1,578	463	55.5	34.4	10.1
New York, Susquehanna & Western R. R.	259	255	189	66	4	72.9	25.5	1.5
Reading R. R.	479	336	259	77	143	54.0	16.1	29.9
Hudson and Manhattan R. R. ...	301	256	205	51	44	68.3	17.0	14.8
Penn.-Reading S. S. Lines	408	404	328	76	4	80.3	18.7	1.0
Lehigh and Hudson R. R.	60	56	54	2	4	89.2	4.1	6.7
Lehigh and New England R. R..	45	20	20	...	24	45.1	0.4	54.5
Sub-Total	$14,904	$13,136	$7,506	$5,630	$1,768	50.4	37.8	11.9
All Other Unclassified	126	94	69	25	31	54.9	20.0	25.0
Total—All Roads	$15,029	$13,230	$7,575	$5,655	$1,799	50.4	37.6	12.0

Source: New Jersey State Department of Taxation and Finance, Engineering and Railroad Tax Bureau.

The franchise tax imposed as part of the railroad tax law of 1941, was apportioned one-half to the State and one-half to the municipalities. The State share was earmarked for the same educational uses as the First Class property tax. The municipal share was distributed among the various municipalities in proportion to the value of the Second Class property located in each. Here again the franchise tax collections were pooled so that profitable and nonprofitable operations were both reflected in the single pool regardless of where individual railroads operate. In the distribution of the amount in this pool to the various municipalities on the basis of Second Class ratables, the municipalities of Hudson County again benefited by being relieved of the full impact of any decline in railroad earnings upon local railroad taxes which are more significant to them than they are to other municipalities and further by gaining the benefit of such franchise tax yield as might be provided by profitable railroads, such as the Reading, having little or no property in Jersey City. This step was taken in 1941 neither as a special concession to Jersey City nor because the presence of Second Class property justified an apportionment of the franchise tax based on earnings. It was taken simply out of a desire to avoid harming the municipalities in Hudson County in the over-all tax adjustment. This has been a key factor in recent railroad taxation. Under the *Commission's* current proposal, the entire franchise would go to the State Treasury, in recognition of the substantial increase in Second Class tax that will be received by the municipalities.

PART III

RAILROAD TAX FOR STATE USE

The previously stated recommendation of your *Commission* to provide a tax structure which combines ad valorem property and income measures to yield approximately $16 million in 1948, when fitted to the constitutional principle that property taxed for local use should bear the general local property tax rate, leaves approximately $4 million in tax revenues for State use to be assessed for the calendar year 1948. The various considerations in support of this conclusion have already been stated, but it is well to notice in this connection that the result can be achieved only by reducing the present rates of taxation on franchise and on Classes I, III and IV property. As shown in Table XI, railroad property taxes assessed for State use totaled $7.6 million in 1947 and the total franchise tax for State and local use totaled $1.8 million. In 1948 the franchise tax is expected to increase by about $1 million to bring the yield under the 1941 tax formula to $16 million when the State's share would be almost $9 million.

The *Commission* has considered many combinations of property tax and franchise tax which would in general yield the required amount in total from all railroads during 1948, and would also be in accord with the principle of permitting railroad taxes to decline in periods of poor earnings and to rise in periods of better earnings. The *Commission* has sought, in arriving at its conclusion, to find that combination of property and franchise (income) tax which would overcome any distortions which may have arisen in the past seven years of operation of the 1941 law (as amended in 1942), and which would so far as practicable cause the least possible redistribution of the total tax burden as among the various railroads. These purposes require a review of the manner in which the 1941 franchise tax has operated.

Operation of 1941 Franchise Tax

In addition to the property tax, the 1941 legislation introduced a franchise tax related to earnings. Under the 1941 legislation the franchise tax was computed by capitalizing net railway operating income of the preceding year at 3 per cent, deducting therefrom the assessed valuation of all railroad property of the taxpayer and taxing the remainder at a flat rate of 3 per cent. The law as amended in 1942 provides both a "ceiling" and a "floor" with respect to the operation of the general franchise tax formula and also provides for a flat deduction of $200,000 from the unallocated net railway operating income for each railroad system. The "ceiling" provision limits the franchise tax to a maximum amount equal to 3.6 per cent of the assessed valuation of the railroad property of the taxpayer, or, stated another way, the amount of the franchise tax may not exceed 120 per cent[1] of the amount of the taxpayer's railroad property tax. The "floor" provision establishes a minimum franchise tax of either 30 per cent[1] of net railway operating income or $4,000, whichever is greater.

The flat deduction of $200,000 from net railway operating income before allocation resulted in some reduction from the franchise tax base for all railroads but was more significant for smaller roads situated largely within New Jersey. As shown in Table XII, application of the "ceiling" prevented four of the ten major railroad taxpayers from paying as much in taxes as they otherwise would have paid during the period 1941-1947. The Reading Railroad was taxed at the "ceiling" rates in six of the seven years. Also shown in Table XII, all of the ten major New Jersey railroads except the Reading paid the minimum franchise tax in 1946 and even in the peak year of 1943 three of them paid the minimum. In 1947 each of the ten railroads paid franchise taxes under the minimum provision.

The amount of the franchise tax thus varies, within the limits permitted by the ceiling and the floor, according to railroad earnings, provided assessed valuations of property remain constant. Since the franchise tax is measured by the excess of the franchise base (capitalized income) over the total valuation of property assessed to the taxpayer, any increase in assessed valuations must have the effect of transferring a larger part of the total tax to

[1] For electrically operated railroads deriving at least 75 per cent of their revenues from passenger traffic, these percentages are reduced one-half (Laws, 1942, ch. 169, Sec. 15).

property for a given amount of net railway operating income. For example, in 1941, the first year of operation of the current tax formula, the total railroad tax assessed amounted to $15 million which included $11.0 million in property tax and $4.0 million in franchise tax. In 1946, the total railroad tax assessed was $16.7 million, or $1.7 million more than in 1941, but the franchise tax was actually only $3.6 million, or $0.4 million less than in 1941. The reason for this result was that assessed valuations were increased between 1941 and 1946 so that the railroad property tax rose from $11.0 million to $13.1 million, and this same increase in assessed valuations resulted in a smaller excess of the franchise base over the assessed valuations in 1946 as compared with 1941. This is a characteristic of the tax formula which, although necessitated as a transitional device in 1941, has caused the franchise tax to operate unevenly among the railroads.

TABLE XII

EFFECTIVE FRANCHISE TAX MEASURES FOR TEN MAJOR RAILROADS IN NEW JERSEY

(1941-1946)

M—Maximum Franchise Tax: 120 per cent of property tax (60 per cent for Hudson and Manhattan).

N—Normal Franchise Tax: 3 per cent of Excess of Franchise base.

CM—Minimum Franchise Tax: 30 per cent of net railway operating income (15 per cent for Hudson and Manhattan).

4—Minimum Franchise Tax: $4,000 fixed amount.

Railroad System	*1941*	*1942*	*1943*	*1944*	*1945*	*1946*	*1947*
Pennsylvania	N	N	M	N	N	CM	CM
Pennsylvania-Reading	4	4	4	N	CM	4	4
Central of New Jersey	CM	N	M	CM	CM	CM	CM
Reading	M	M	M	M	M	M	CM
Erie	CM	CM	CM	CM	CM	CM	CM
Delaware, Lackawanna & Western	CM	N	N	N	N	CM	CM
N. Y., Susq. and Western	CM	CM	N	N	N	CM	4
Lehigh Valley	CM	N	N	N	N	CM	CM
New York Central	CM	CM	CM	CM	CM	CM	CM
Hudson and Manhattan	M	CM	M	M	M	CM	CM

As shown in Table VII, estimates made by the Commission indicate that railroad taxes which would have been assessed during the past seven years (1941-1947) under the old property tax law ($151.4 million) would have exceeded those which would have been assessed under the Law of 1941 ($131.8 million) or those actually assessed under the Law as amended in 1942 ($131.4 million).

Two important causes for this result are increasing valuations of railroad property and local property tax rate increases since

1943. Without the 1941 and 1942 changes in the tax laws, railroad property taxes would probably have increased steadily from $18.3 million in 1941 to about $25.4 million in 1947, assuming that railroad property valuations taxable were unaffected by the 1941 law. Moreover, the earnings base of the railroad franchise tax was materially reduced during the war years by application of the Federal income and excess profits taxes as a reduction from net railway operating income. The effects of the 1942 amendments were to increase the minimum tax and to establish a maximum tax. While these changes prevented the total tax from going as high during the war years as it would have under the 1941 act, they also prevented it from declining as much in 1946 and 1947 as it otherwise would have done.

From the viewpoint of railroad operations, an effective way of examining the burden of the New Jersey tax is to determine the proportion of the revenue dollar reasonably attributable to New Jersey operations which is taken by the New Jersey tax. As indicated in Table XIII, the franchise tax alone for ten railroad systems (accounting for 98 per cent of all railroad franchise taxes assessed) was equivalent to 4.04 per cent of gross operating revenues during the past 7 years. This 7 year average rate for the ten railroads, however, includes wide variations from year to year and as among railroads. For example, the annual average varied from a high of 7.17 per cent in 1943 to a low of 1.16 per cent in 1947. Similarly, the 7 year average rate varies from a high of 5.96 per cent for the Reading Railroad to a low of 0.52 per cent for the Pennsylvania Reading Seashore Lines. From the point of view of equality as among the various railroads, therefore, it may be observed that the franchise tax alone takes a greatly varying percentage of the gross railroad revenue dollar in New Jersey.

Total railroad taxes, both property and franchise, show similar variations in the per cent of gross operating revenues which they represent. As shown in Table XIV, total railroad taxes in New Jersey for the ten major railroad systems amounted to $14.8 million in 1947 and $16.5 million in 1946. These taxes averaged 9.85 per cent of gross operating revenue (of the preceding year) allocated to New Jersey in 1947 and 9.87 per cent in 1946, but the effective rate ranged from a high of about 17 per cent for the New York Central to a low of less than 4 per cent for the Pennsylvania Reading Seashore Lines.

TABLE XIII

EFFECTIVE RATE OF NEW JERSEY RAILROAD FRANCHISE TAX UPON GROSS OPERATING REVENUES[1] OF TEN MAJOR RAILROADS ALLOCATED TO THE STATE (1941-1947)

(Rates in Per Cent)

Railroad System	*7-Year Average*	*1947*	*1946*	*1945*	*1944*	*1943*	*1942*	*1941*
Total—Ten Railroads	4.04%	1.16%	2.15%	3.99%	4.94%	7.17%	4.95%	3.83%
1. Pennsylvania R. R.	4.97	.95	2.79	4.22	6.53	8.72	5.75	6.76
2. Delaware, Lackawanna and Western R. R.	5.30	2.09	2.29	7.32	6.37	7.93	6.48	3.78
3. Central R. R. of N. J.	2.77	.59	1.15	2.12	2.38	7.49	3.88	0.97
4. Lehigh Valley R. R.	5.14	2.68	0.16	6.21	7.39	7.93	6.29	4.22
5. Erie R. R.	3.79	1.54	3.60	3.67	3.73	5.58	4.83	3.78
6. Reading R. R.	5.96	2.39	6.20	5.69	5.76	6.44	8.32	8.57
7. New York Central R. R.	2.99	.72	2.30	2.75	3.75	4.56	3.83	3.55
8. Hudson and Manhattan R. R.	2.92	1.03	2.85	3.19	3.16	3.58	3.23	3.45
9. New York, Susquehanna and Western R. R.	3.71	.20	2.71	3.87	6.87	5.72	3.72	2.25
10. Penn.-Reading S. S. Lines	.52	.04	0.04	0.53	2.28	0.04	0.05	0.06

[1] Railway operating revenue of preceding year allocated to New Jersey according to all track miles.

Source: Computed from U. S. Interstate Commerce Commission data compiled by N. J. Dept. of Taxation and Finance, Engineering and Railroad Tax Bureau.

TABLE XIV

Total New Jersey Railroad Tax as Per Cent of Gross Operating Revenues Allocated[1] to the State for Ten Major Railroads (1945-1947)

(Amounts in Thousands of Dollars)

Railroad System	Total Property and Franchise Tax			Total Tax as Per Cent of Gross Operating Revenue		
	1945	*1946*	*1947*	*1945*	*1946*	*1947*
Total—Ten Railroads	$20,160	$16,470	$14,799	10.95%	9.87%	9.85%
1. Pennsylvania R. R.	6,438	5,540	4,590	10.77	9.98	9.41
2. Delaware, Lackawanna and Western R. R.	3,458	2,313	2,247	15.80	11.70	12.05
3. Central R. R. of N. J.	3,356	2,898	2,696	8.27	7.86	8.28
4. Lehigh Valley R. R.	2,251	1,281	1,540	13.95	9.95	14.01
5. Erie R. R.	1,816	1,747	1,494	13.22	14.24	13.21
6. Reading R. R.	706	731	479	10.44	11.37	8.03
7. New York Central R. R.	896	856	784	16.86	17.53	17.07
8. Hudson and Manhattan R. R.	414	401	301	8.50	8.35	6.93
9. New York, Susquehanna and Western R. R.	345	300	259	12.79	14.15	13.14
10. Penn.-Reading S. S. Lines	478	404	408	3.87	3.57	3.69

[1] Railway operating revenue of preceding year allocated to New Jersey according to all track miles.

Source: Computed from U. S. Interstate Commerce Commission data compiled by N. J. Dept. of Taxation and Finance, Engineering and Railroad Tax Bureau.

Variations Among Individual Railroads

The *Commission* has concluded from its examination of the operation of the 1941 tax that any new law must of necessity cause some change in the relative position of individual railroads despite the fact that the total tax to be raised may not be greater than what would have been raised under the 1941 law as amended in 1942. To the extent that the franchise tax has in the past operated unevenly, this is an appropriate time to adjust the tax so as to cause it to apply equally to all railroads.

One further factor has been introduced by the new tax clause. While the general rule is applied that all Class II railroad property must be taxed at the local rate, the effect of this rule upon the various railroads differs considerably, depending upon the proportion of Second Class property which the individual railroad owns as compared with the total property it uses for railroad purposes. The railroads which own Second Class property in high tax rate municipalities, moreover, must of necessity feel a greater influence of the new tax clause than those which own Second Class property in lower tax rate municipalities. Table XV shows that the percentage of Second Class property to total property for the twelve railroads in New Jersey varies from 60 per cent for the New York Central to less than 1 per cent for the Lehigh and New England.

The State Tax

The *Commission* has sought to achieve a reasonable balance between the First Class property tax and the franchise (income) tax so as not to give undue emphasis to the unavoidable difference in Second Class property holdings among the railroads. Taking all factors into consideration, the *Commission* recommends the following plan for the State's share of the railroad tax:

1. An *ad valorem* property tax at the rate of $1.20 per hundred dollars of assessed valuation on Classes I and III railroad property.

2. A franchise (income) tax measured by net railway operating income allocated to New Jersey according to all track miles at the rate of 10 per cent.

While the total tax to be paid by the railroads in the calendar year 1948 is indicated as $4 million, the *Commission* further recommends that the due date of the franchise tax for the calendar

TABLE XV

DISTRIBUTION OF RAILROAD PROPERTY VALUATIONS BY RAILROAD AND BY CLASS OF PROPERTY—1947

(Amounts in Thousands of Dollars)

Railroad System	*Property Valuations Taxable*				*Per Cent Distribution*		
	Class I	*Class II*	*Class III*	*Total*	*Class I*	*Class II*	*Class III*
New York Central R. R.	$6,614	$15,121	$3,292	$25,027	26.4	60.4	13.2
Erie R. R.	16,032	23,002	4,551	43,585	36.8	52.8	10.4
New Jersey and New York R. R.	261	53	122	435	59.8	12.2	27.9
Total Erie R. R. Group	16,292	23,056	4,673	44,021	37.0	52.4	10.6
Delaware, Lackawanna and Western R. R.	26,226	31,132	4,619	61,978	42.3	50.2	7.5
Central Railroad Co. of New Jersey	32,224	38,856	12,168	83,248	38.7	46.7	14.6
Mount Hope Mineral R. R.	55	1	....	55	98.4	1.6	0
Wharton and Northern R. R.	152	5	26	183	83.0	2.8	14.2
Total Central R. R. Co. of New Jersey	32,430	38,862	12,194	83,486	38.8	46.5	14.6
Lehigh Valley R. R.	17,948	17,791	5,776	41,515	43.2	42.9	13.9
Pennsylvania R. R.	56,395	52,543	27,867	136,806	41.2	38.4	20.4
Pennsylvania and Atlantic R. R.	509	38	....	547	93.0	7.0	0
Union Transportation Co.	187	9	3	198	94.4	4.3	1.3
Total Pennsylvania R. R. Group	57,091	52,590	27,869	137,551	41.5	38.2	20.3
New York, Susquehanna and Western R. R.	4,746	2,208	1,558	8,511	55.8	25.9	18.3
Reading R. R.	5,782	2,567	2,841	11,191	51.7	22.9	25.4
Hudson and Manhattan R. R.	5,603	1,700	1,241	8,544	65.6	19.9	14.5
Penn-Reading R. R.	10,050	2,549	873	13,471	74.6	18.9	6.5
Lehigh and Hudson River R. R.	1,530	82	254	1,866	82.0	4.4	13.6
Lehigh and New England R. R.	594	5	80	679	87.5	0.8	11.7
Sub-Total	$184,906	$187,663	$65,270	$437,839	42.2	42.9	14.9
All Other Unclassified R. R.	1,733	839	558	3,129	55.4	26.8	17.8
Total, All Roads	$186,639	$188,502	$65,828	$440,969	42.3	42.7	14.9

Source: New Jersey State Department of Taxation and Finance, Engineering and Railroad Tax Bureau.

year 1949 and each year thereafter be advanced from December 1 to June 15. This will cause two franchise tax payments to fall in the State fiscal year ending June 30, 1949, with the result that something in excess of $5 million will be available toward balancing the budget for that period. The railroads estimate that increased railroad earnings will cause the franchise tax for 1949 to be $1 million more than that for 1948. If these anticipations are realized, the amount of railroad taxes available for State use in 1949 will total $6 million.

Transition Period

One of the great difficulties in preparing railroad tax legislation has been the unevenness with which changes of rates or changes in base effect the individual roads. This unevenness is largely due to two conditions:

1. A large number of exceptions, exemptions, credits and special provisions contained in the railroad tax laws; and

2. The extreme ratios which exist among the individual roads in their holdings of First and Second Class railroad property.

The *Commission* has accordingly rejected all proposals which would tend toward special treatment within the railroad tax act, and is recommending a law which, for the first time since 1941, will treat all railroads alike. This means that any subsequent changes in the railroad tax structure can be made without imposing erratic burdens on any one road and that any adjustments in rates or base that may subsequently be made by the Legislature will fall with the same impact on each railroad.

The heavy shift in tax incidence to Second Class railroad property necessitated by the tax clause of the new Constitution emphasized this question of uneven treatment. Obviously those railroads with the most Second Class property in proportion to First Class property would bear a heavier burden of taxes in the adjustment to the new constitutional provision. If the new tax clause were strictly and immediately applied without internal adjustment in the tax structure it would cause very substantial but unevenly distributed tax increases. For example, with the tax clause fully applied in 1947 with no adjustments or provisions for a transition period, the Central Railroad of New Jersey would have its over-all taxes increased 60 per cent and the Erie Railroad about 56 per cent. On the contrary the Reading Railroad would have shown a tax increase of 16 per cent, the New York, Susquehanna and Western Railroad a tax increase of only 8 per cent[1].

---

[1] Associated Railroads of New Jersey, "Letter to the Delegates to the Constitutional Convention of 1947" (August 19, 1947), Table 1.

TABLE XVI

Component Parts of Estimated Railroad Tax in New Jersey (1948) by Railroads—with and without Local Tax Credit

(Amounts in Thousands of Dollars)

Railroad	Local Tax Class II Property Local Rates (1)	Net R. R. Op. Income at 10% (2)	With Credit for Local Tax—1st Year (1948): State Property Tax at 2.05% Class I (3)	State Property Tax at 2.05% Class III (4)	Local Tax Credit— 18% Col. 1 (5)	State Tax Col. 2 + 3 + 4 — 5 (6)	Total Tax Col. 1 + 6 (7)	Without Credit for Local Tax—5th Year: State Property Tax at 1.2% Class I (8)	State Property Tax at 1.2% Class II (9)	State Tax Col. 2 + 8 + 9 (10)	Total Tax Col. 1 + 10 (11)
Central R. R. of N. J.	$2,566	$211	$661	$249	$462	$659	$3,225	$387	$146	$744	$3,310
Erie R. R.	1,410	103	329	93	254	271	1,681	192	55	350	1,760
Delaware, Lackawanna & Western R. R.	2,071	221	538	95	373	481	2,552	315	55	591	2,662
Lehigh Valley R. R.	1,197	68	368	118	216	338	1,535	215	69	352	1,549
Pennsylvania R. R.	3,367	192	1,156	571	606	1,313	4,680	677	334	1,203	4,570
New York Central R. R.	897	18	136	67	158	63	942	79	40	137	1,016
Penn.-Reading S. S. Lines	169	...	206	18	30	194	363	121	10	131	300
Reading R. R.	179	70	119	58	32	215	394	69	34	173	352
New York, Susquehanna & Western R. R.	91	...	97	32	16	113	204	57	19	76	167
Lehigh & New England R. R.	...	22	12	2	...	36	36	7	1	30	30
Lehigh & Hudson River Ry.	4	13	31	5	1	48	52	18	3	34	38
Hudson & Manhattan R. R.	116	46	115	25	21	165	281	67	15	128	244
All Other Railroads	58	66	59	15	10	130	188	35	8	109	167
Total	$12,108	$1,030	$3,826	$1,349	$2,179	$4,026	$16,134	$2,240	$790	$4,060	$16,168

Recommendations of the *Commission* are based upon a uniform tax measure which, when applied to all railroads alike, will produce approximately the same total tax as would have resulted under the Laws of 1941 without the Constitutional change. However, application of such a uniform tax measure would cause large tax savings for some roads and large tax increases for other roads. For example, the New York Central Railroad would have its taxes increased by 26 per cent while the Reading Railroad would receive a tax reduction of 49 per cent. While this is an unavoidable feature of a uniform tax measure applied under the new tax clause in an environment of varied tax exceptions, and its effect was pointed out during the debates in the Constitutional Convention of last summer, the *Commission* was unanimously of the opinion that a transition period permitting the railroads four years to adjust themselves to the new plan would greatly ease what otherwise might become a difficult situation for some of the roads. The proposal for a transition period in no way affects the over-all yield of the tax nor the distribution of the tax. It does, however, adjust the impact of the new tax clause and the new tax measure as among the railroads during the next four years and in the fifth year their full impact will be in effect.

The method by which the proposed transition is to be undertaken is shown in Table XVII. In brief a credit of 18 per cent in determining the State share of the tax is suggested on the total of the second class tax. This is for the first year of transition only, and the credit will be progressively reduced each year until the end of the fourth year when it will vanish entirely. To avoid a loss in revenue during the transition period the rate on Classes I and III railroad property will start at $2.05 per $100 of valuation and be progressively reduced until it is stabilized in the fifth year at $1.20 per $100 of valuation. This provision will permit the railroads with heavy holdings of Second Class property some leeway in adjusting themselves to the new burdens. It will be noted from Table XVII that the smaller roads with little Second Class property will on the whole show substantial savings under the new tax program even with the transition arrangement. The *Commission* strongly recommends this provision as in the best interests of the transportation systems of New Jersey and as assurance that the tax clause of the new Constitution will be effectively and smoothly applied to all railroads without exception under a uniform tax measure.

TABLE XVII

Estimated Total New Jersey Taxes During Transition Period Compared with Estimated 1948 Taxes Under 1941 Law—by Railroads

Railroads	Laws 1941-1942 1948 Tax	Year 1 Class I 2.05 Loc. Cr. 18%	Year 2 Class I 1.90 Loc. Cr. 15%	Year 3 Class I 1.70 Loc. Cr. 10%	Year 4 Class I 1.45 Loc. Cr. 5%	Year 5 Class I 1.20 Loc. Cr. 0%	Per Cent Change From Laws 1941-1942 Year 1	Year 2	Year 3	Year 4	Year 5
Central R. R. of N. J.	$3,091,609	$3,225,953	$3,236,356	$3,275,893	$3,293,234	$3,310,575	+ 4.3%	+ 4.7%	+ 6.0%	+ 6.5%	+ 7.1%
Delaware, Lackawanna and Western R. R.	2,506,521	2,551,563	2,567,424	2,609,282	2,635,718	2,662,154	+ 1.8	+ 2.4	+ 4.1	+ 5.2	+ 6.2
Erie R. R.	1,608,190	1,681,002	1,692,441	1,721,798	1,740,862	1,759,927	+ 4.5	+ 5.2	+ 7.1	+ 8.2	+ 9.4
Lehigh and Hudson River R. R.	60,594	52,566	50,005	46,628	42,359	38,090	— 13.2	— 17.5	— 23.0	—30.1	—37.1
Lehigh and New England R. R.	44,897	35,759	34,759	33,428	31,761	30,093	— 20.4	— 22.6	— 25.5	—29.3	—33.0
Lehigh Valley R. R.	1,441,011	1,536,451	1,536,782	1,549,195	1,549,746	1,550,298	+ 6.6	+ 6.6	+ 7.5	+ 7.5	+ 7.6
New York Central R. R.	805,192	942,087	953,596	977,730	996,912	1,016,094	+ 17.0	+ 18.4	+ 21.4	+23.8	+26.2
New York, Susquehanna & Western R. R.	259,361	204,141	197,427	189,390	178,200	167,011	— 21.3	— 23.9	— 27.0	—31.3	—35.6
Pennsylvania R. R.	4,676,832	4,680,527	4,655,149	4,654,984	4,612,688	4,570,391	+ 0.1	— 0.5	— 0.5	— 1.4	— 2.3
Penn.-Reading Seashore Lines	408,173	362,185	350,860	337,446	318,571	299,696	— 11.3	— 14.0	— 17.3	—22.0	—26.6
Reading R. R.	690,811	393,644	386,072	377,763	365,143	352,522	— 43.0	— 44.1	— 45.3	—47.1	—49.0
Total—11 Class I Companies	$15,593,141	$15,665,876	$15,660,871	$15,773,537	$15,765,194	$15,756,851	+ 0.5%	+ 0.4%	+ 1.2%	+ 1.1%	+ 1.0%
Hoboken Manufacturers R. R.	$24,835	$34,824	$35,145	$35,832	$36,368	$36,903	+ 40.2	+ 41.5	+ 44.3	+46.4	+48.6
Pennsylvania & Atlantic R. R.	20,435	12,632	11,951	11,069	9,931	8,795	— 38.2	— 41.5	— 45.8	—51.4	—57.0
Union Transportation Company	9,947	5,967	5,694	5,334	4,879	4,424	— 40.0	— 42.8	— 46.4	—51.0	—55.5
Mount Hope Mineral R. R.	3,722	3,544	3,464	3,358	3,225	3,091	— 4.8	— 6.9	— 9.8	—13.4	—17.0
Wharton and Northern R. R.	9,507	19,666	19,409	19,068	18,639	18,210	+106.9	+104.2	+100.6	+96.1	+91.5
New Jersey and New York R. R.	17,093	10,357	9,876	9,266	8,464	7,663	— 39.4	— 42.2	— 45.8	—50.5	—55.3
Baltimore and Ohio R. R.	10,788	4,639	4,299	3,847	3,281	2,715	— 57.0	— 60.2	— 64.3	—69.6	—74.8
Staten Island Rapid Transit Ry. Co.	24,685	15,478	14,654	13,589	12,216	10,842	— 37.3	— 40.6	— 45.0	—50.5	—56.1
East Jersey R. R. and Terminal Co.	8,438	10,433	10,455	10,533	10,569	10,605	+ 23.6	+ 23.9	+ 24.8	+25.3	+25.7
Ferro Monte R. R.	216	62	60	59	55	53	— 71.3	— 72.2	— 72.7	—74.5	—75.5
Hudson and Manhattan R. R.	304,725	281,051	274,262	266,368	255,053	243,737	— 7.8	— 10.0	— 12.6	—16.3	—20.0
Hudson R. R. and T. Co.	3,295	1,003	930	832	709	587	— 69.6	— 71.8	— 74.8	—78.5	—82.2
Lucaston R. R.	1,146	460	450	439	422	405	— 59.9	— 61.0	— 61.7	—62.7	—64.7
Morristown and Erie R. R.	11,403	10,822	10,585	10,291	9,895	9,499	— 5.1	— 7.2	— 9.8	—13.2	—16.7
New York, Ontario & Western R. R.	1,653	513	476	426	363	301	— 69.0	— 71.2	— 74.4	—78.0	—81.8
Rahway Valley Company	11,170	12,729	12,484	12,178	11,771	11,364	+ 14.0	+ 11.8	+ 9.0	+ 5.4	+ 1.7
Raritan River R. R.	30,533	44,330	43,871	43,388	42,624	41,859	+ 45.2	+ 43.7	+ 42.1	+39.6	+37.1
Total—17 Companies	$493,591	$468,510	$458,065	$445,877	$428,464	$411,053	— 5.1%	— 7.2%	— 9.7%	—13.2%	—16.7%
Total for State	$16,086,732	$16,134,386	$16,118,936	$16,219,414	$16,193,658	$16,167,904	+ 0.3%	+ 0.2%	+ 0.8%	+ 0.7%	+ 0.5%