

Committee Meeting

NJ
10
T235
1994

of

ASSEMBLY POLICY AND RULES COMMITTEE

ASSEMBLY BILL No. 1

(Decreases gross income tax rates 5% for taxable years 1994 and thereafter)

ASSEMBLY BILL No. 2

(Increases minimum income necessary to be subject to the gross income tax)

ASSEMBLY BILL No. 3

(Discontinues corporation business tax surtax as of January 1, 1994)

LOCATION: University Hall
New Jersey Institute
of Technology
Newark, New Jersey

DATE: February 2, 1994
4:15 p.m.

MEMBERS COMMITTEE PRESENT:

Assemblyman Paul DiGaetano, Chairman
Assemblyman Richard H. Bagger, Vice-Chairman
Assemblyman Alex DeCroce
Assemblyman George F. Geist
Assemblyman Christopher "Kip" Bateman



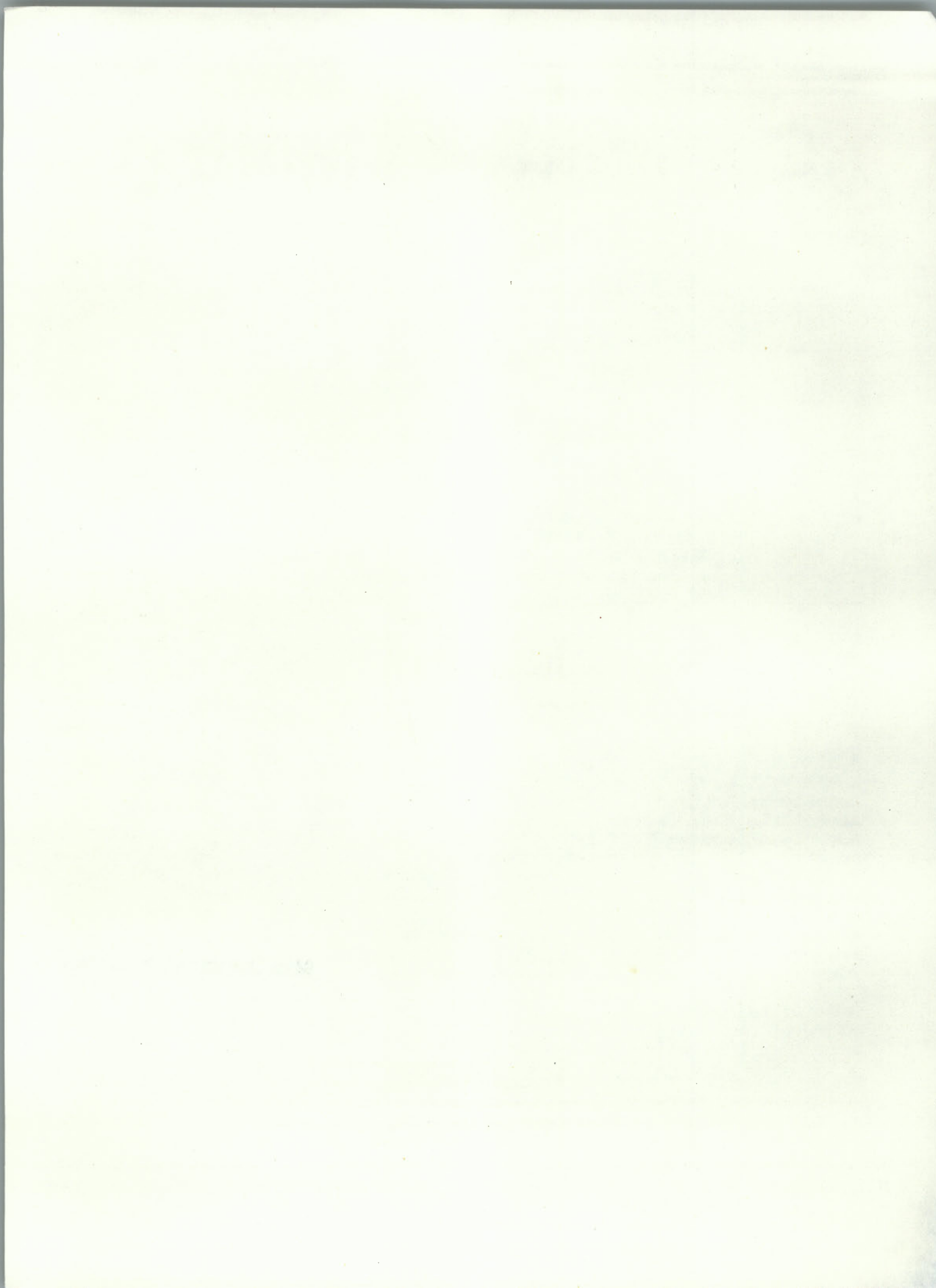
AND PRESENT:

Assemblyman Anthony Impreveduto, District 32
Assemblyman Louis A. Romano, District 33
Assemblyman Jackie R. Mattison, District 29

New Jersey State Library

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

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



House Copy

O.L.S Copy

Public Copy

For Official House Use

```

*****
*                               *
* BILL NO. A-1                 *
*                               *
* Date of Intro. 1/27/94      *
*                               *
* Ref. APR                     *
*                               *
*****

```

```

-----
NOTE TO      Notify OLS if you require changes in this document.
SPONSOR      A revised copy for introduction will be prepared on
              the legislative computer system.
              Hand-written changes will not appear in the printed
              bill.
-----

```

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

Decreases gross income tax rates 5% for taxable years 1994 and thereafter.

PRIME Sponsor *Haylan*

CO-Sponsors *John G. ...*

Marc ...

Steve ...

Thomas ...

Melvin ...

Joe ...

Alan M. Augustine

Same as _____ 92/93

_____ 94/95

Suggested allocation: \$2-T&E; \$3-Note to §§1&2

Alan ...

John ...

Scott Garrett

Frank LoBiondo

Harold Colburn

Walter Kavanaugh

Robert Shinn

Patrick Rome

Frank Catania

David Wolfe

Monroe ...

Rose Heck

Verbal Request

...

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

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

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

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

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

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

If the taxable income is:	The tax is:
Not over \$20,000.00.....	2% of taxable income
Over \$20,000.00 but not over \$50,000.00.....	\$400.00 plus 2.5% of the excess over \$20,000.00
Over \$50,000.00 but not over \$70,000.00.....	\$1,150.00 plus 3.5% of the excess over \$50,000.00
Over \$70,000.00 but not over \$80,000.00.....	\$1,850.00 plus 5.0% of the excess over \$70,000.00
Over \$80,000.00 but not over \$150,000.00.....	\$2,350.00 plus 6.5% of the excess over \$80,000.00
Over \$150,000.00.....	\$6,900.00 plus 7.0% of the excess over \$150,000.00

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

Matter underlined thus is new matter.

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

<u>If the taxable income is:</u>	<u>The tax is:</u>
Not over \$20,000.00.....	1.900% of taxable income
<u>Over \$20,000.00 but not</u> <u>over \$50,000.00.....</u>	<u>\$380.00 plus 2.375% of the</u> <u>excess over \$20,000.00</u>
<u>Over \$50,000.00 but not</u> <u>over \$70,000.00.....</u>	<u>\$1,092.50 plus 3.325% of the</u> <u>excess over \$50,000.00</u>
<u>Over \$70,000.00 but not</u> <u>over \$80,000.00.....</u>	<u>\$1,757.50 plus 4.750% of the</u> <u>excess over \$70,000.00</u>
<u>Over \$80,000.00 but not</u> <u>over \$150,000.00.....</u>	<u>\$2,232.50 plus 6.175% of the</u> <u>excess over \$80,000.00</u>
<u>Over \$150,000.00</u>	<u>\$6,555.00 plus 6.650% of the</u> <u>excess over \$150,000.00</u>

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

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

<u>If the taxable income is:</u>	<u>The tax is:</u>
Not over \$20,000.00.....	2% of taxable income
<u>Over \$20,000.00 but not</u> <u>over \$35,000.00.....</u>	<u>\$400.00 plus 2.5% of the</u> <u>excess over \$20,000.00</u>
<u>Over \$35,000.00 but not</u> <u>over \$40,000.00.....</u>	<u>\$775.00 plus 5.0% of the</u> <u>excess over \$35,000.00</u>
<u>Over \$40,000.00 but not</u> <u>over \$75,000.00.....</u>	<u>\$1,025.00 plus 6.5% of the</u> <u>excess over \$40,000.00</u>
<u>Over \$75,000.00.....</u>	<u>\$3,300.00 plus 7.0% of the</u> <u>excess over \$75,000.00</u>

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

<u>If the taxable income is:</u>	<u>The tax is:</u>
Not over \$20,000.00.....	1.900% of taxable income

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

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

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

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

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

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

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

STATEMENT

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

Decreases gross income tax rates 5% for taxable years 1994 and thereafter.

House Copy

OLS Copy

Public Copy

For Official House Use

 * BILL NO. A-2 *
 * Date of Intro. 1/27/94 *
 * Ref. APR *

.....
 . NOTE TO . Notify OLS if you require changes in this document.
 . A revised copy for introduction will be prepared on
 . the legislative computer system.
 . SPONSOR . Hand-written changes will not appear in the printed
 . bill.

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

Increases minimum income necessary to be subject to the gross income tax.

PRIME Sponsor David M. Wolfe *Hartman*
 CO-Sponsors John Hoffner *Zeder*
John Hoffner Steve Minskubals *ARNONE*¹²
Thomas Imb *Caranagher*
Steve Croden *LT*
Joe Cappolano *Ernie F. Dvor*
Alan M. Augustine
 Same as _____ 92/93
 _____ 94/95

Suggested allocation:
John Rooney
Alan Colusso

Maureen Ogden
 Gary Stuhlthager
 Nick Felice
 Carol Murphy
 George Geist
 Scott Garrett
 Frank LaBianco

Harold Colburn
 Walter Kavanaugh
 Robert Shinn
 Patrick Roma
 Frank Cetariva
~~David White~~
 Monroe Kustbader
 Rose Heck

Verbal Requests
BT

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

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

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

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

(cf: P.L.1990, c.61, s.14)

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

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

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

Matter underlined thus is new matter.

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

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

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

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

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

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

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

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

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

STATEMENT

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

Increases minimum income necessary to be subject to the gross income tax.

House Copy

OLS Copy

Public Copy

For Official House Use

 * BILL NO. A-3 *
 * Date of Intro. 1/27/94 *
 * Ref. APR *

.....
 * NOTE TO * Notify OLS if you require changes in this document. *
 * A revised copy for introduction will be prepared on *
 * the legislative computer system. *
 * SPONSOR * Hand-written changes will not appear in the printed *
 * bill. *

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

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

PRIME Sponsor Ward Stas Cook Haytaian
 CO-Sponsors John C. D'Amico John Zuber
John Hoff James Smith Reed
Miles Stas Arnold
James Arnold
Melvin Cottrell John Ernest S. Cross
Alan M. Augustine

Same as _____ 92/93
 _____ 94/95
 Suggested allocation: §1-T&E + note to §§C.54:10A-5.1, 54:10A-5.2

Paul Russo AR Albino
John Rooney Charlotte Daniels

Maureen Ogden Scott Garrett
 Gary Stuhlitzger Frank LoBiondo
 Nels Felice Harold Colburn
 Carol Murphy Walter Karanavage
 George Geist Robert Shinn
 Patrick Rome Rose Heck
 Frank Catania Verbal Requests
 David Wolfe
 Monroe Lustbader

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

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

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

2. This act shall take effect immediately.

STATEMENT

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

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

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



New Jersey State Legislature

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

COMMITTEE NOTICE

TO: MEMBERS OF THE ASSEMBLY POLICY AND RULES
COMMITTEE

FROM: ASSEMBLYMAN PAUL DIGAETANO, CHAIRMAN

SUBJECT: **COMMITTEE MEETING - February 2, 1994**

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

The Assembly Policy and Rules Committee will meet on **Wednesday,
February 2, 1994 at 4:00 PM at New Jersey Institute of Technology, in
University Hall, Room 210, Newark, New Jersey.**

The following bills will be considered:

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

Issued 01/28/94

Assistive listening devices available upon 24 hours prior notice
to the committee aide(s) listed above

TABLE OF CONTENTS

	<u>Page</u>
Saul K. Fenster, Ph.D. President New Jersey Institute of Technology	2
Assemblyman Garabed "Chuck" Haytaian Speaker of the General Assembly	3
William F. Faherty, Jr. President New Jersey State Chamber of Commerce	13
William R. Healey Assistant Vice President Government Relations New Jersey State Chamber of Commerce	13
Charles Costenbader, Esq. Chairman Cost of Government Committee New Jersey State Chamber of Commerce	17
John K. Walsh, Jr. Commerce and Industry Association of New Jersey	29
Horace DePodwin, Ph.D. Former Dean, now Professor Emeritus Graduate School of Management Rutgers, The State University	34
Samuel Perelli State Chairman United Taxpayers of New Jersey	43
Michael C. Lefanto Certified Public Accountant	47
Dana Joel Director New Jersey Citizens for a Sound Economy	57

TABLE OF CONTENTS (continued)

APPENDIX:

	<u>Page</u>
Testimony submitted by the New Jersey State Chamber of Commerce	1x
Statement submitted by Michael C. Lefanto	18x
Statement submitted by Dana Joel	21x
Statement submitted by John K. Walsh, Jr.	23x

mjz: 1-61

* * * * *

ASSEMBLYMAN PAUL DiGAETANO (Chairman): Ladies and gentlemen, I wonder if I may have your attention. I would like to begin today's meeting.

For any of you who might not be aware, this is the Assembly Policy and Rules Committee. I am joined today by: Assembly Speaker Chuck Haytaian, who will be presenting testimony in a few moments; Assemblyman George Geist, who is a cosponsor of one of the pieces of legislation on our agenda today; Assemblyman Alex DeCroce; and Assemblyman Kip Bateman. Assemblyman Bagger called and said he would be 30 to 45 minutes late. We also have: Assemblyman Jackie Mattison, Assemblyman Lou Romano, and Assemblyman Tony Inpreveduto, who are filling in for our usual members. They tell me that we have the varsity team here today, so no one should feel slighted.

You may notice two other empty chairs. I am very proud to say that two members of the Assembly have been brought into Governor Whitman's Cabinet as Commissioners. Both were members of this Committee. They are: Commissioner Robert Shinn, who is now the Commissioner of the DEPE, and Commissioner Harriet Derman, who is now the Commissioner of the Department of Community Affairs.

We have had two new members appointed by the Speaker, Assemblyman Lee Solomon and Assemblywoman Maureen Ogden. I know Maureen was going to try to change her schedule, but I don't think she is going to be able to be with us, nor is Lee Solomon.

That having been said, I think you all know the purpose of today's meeting. Governor Whitman made it eminently clear, during her campaign, that she intended to cut back on the income tax in the State of New Jersey, 30 percent over three years. She indicated in her Inaugural Address, to the surprise of some members seated on this stage, that she fully intended to have a 5 percent retroactive rollback in the income tax to January 1, 1994. We have three pieces of legislation --

which we will consider today -- to implement promises made during the campaign and pledges made during the Inaugural Address.

Before we begin testimony and before we begin to hear the bills, I would like to thank NJIT once again -- this Committee has been here on several occasions -- for its cooperation in holding hearings and giving the New Jersey State Legislature, most especially the Assembly -- for lending technical expertise. For a welcome, I would like to bring up Dr. Saul Fenster, a good friend to the Legislature and certainly one of New Jersey's finest in the way of institutions of higher learning. Dr. Fenster?

S A U L K. F E N S T E R, Ph.D.: Thank you very much, Mr. Chairman. Let me just say that we are proud to have your Assembly Committee convening here at NJIT. Our facilities are always open to you. Our house is your house. I am very pleased--

I just spent an hour and a half on the New Jersey Turnpike, just, I think, about five minutes ahead of the Speaker. The Speaker just kicked off a very important Assembly Task Force on Retention of Trade. That is not the exact title, but that is the burden of the Task Force, a very important Task Force in which NJIT has a keen interest, because we feel that our mission is higher education coupled very intimately with economic development. Job creation, as you know, Mr. Chairman, because you have visited our facilities-- This is a very important endeavor that we share.

We are delighted to have you at the State's technological university, and we look forward to all of the opportunities we will have in the future to work very closely together.

I just want to pay special tribute to the Speaker because of his active role in putting forward the Facilities -- the Higher Education Facilities Trust. While this building is

not a product of that fund -- we have other projects, Mr. Chairman -- I do want to talk about the spirit of that because this building until a year ago was our library. For, I think, a very reasonable expenditure, it was converted into a first-rate classroom building of 25 classrooms, which we sorely needed here. I think that is the kind of thing the Speaker envisioned. We appreciate that, and we appreciate the future projects which will emanate from that very progressive initiative.

With that, I thank you all very much for being here, Mr. Chairman, members of the Committee, Mr. Speaker. I turn the microphone back to you, Paul. Thank you.

ASSEMBLYMAN DiGAETANO: Thank you, Dr. Fenster.

Ladies and gentlemen, we will hear testimony today on a package of three bills, A-1, A-2, and A-3:

A-1 is sponsored by Speaker Haytaian and Assemblyman George Geist, and implements a 5 percent retroactive rollback of the State income tax, retroactive to January 1, 1994.

A-2, sponsored by Assemblyman LoBiondo and Assemblyman Wolfe, removes those making under \$7500 annually from the tax rolls for the State of New Jersey.

A-3, sponsored by Assemblyman Warsh and Assemblyman Corodemus, eliminates the corporation business tax surtax.

Our first witness -- I don't know if I should refer to him as a witness, but he is certainly a well-known and well-respected leader in the New Jersey Legislature, most especially in the General Assembly, our Speaker, everyone's favorite, Speaker Chuck Haytaian. (applause) The Chairman gets those liberties. The Minority members asked me to say that, Chuck.

S P E A K E R G A R A B E D "C H U C K" H A Y T A I A N:
You notice who applauded. (laughter)

Mr. Chairman, thank you very, very much. Members of the Committee, thank you for being here. Let me also say thank

you to Saul for the use of the facilities. Now that you have mentioned that this used to be the library, we now understand why, after looking at the directions-- I know Paul looked at them also, and he looked at me at the same time. The directions still call this the library, so we weren't sure where we were going at first. But I am glad we are all here, and I thank you for the opportunity to address this Committee.

Also, I am glad that Assemblyman Impreveduto is here. Assemblyman Doria had asked that a number of members sit in, and I was fortunate that the Minority Leader was able to get me in time so that they are appropriate members, and they can vote for these very important bills. I'm sure they will.

ASSEMBLYMAN DiGAETANO: We are not going to vote today.

SPEAKER HAYTAIAN: Oh, is that right?

ASSEMBLYMAN IMPREVEDUTO: Oh, Paul, this is my first chance.

ASSEMBLYMAN DiGAETANO: We're going to give you a couple more chances.

SPEAKER HAYTAIAN: Mr. Chairman and members of the Committee, I thank you for the opportunity to testify on behalf of A-1, A-2, and A-3. If it is okay, I would like to just combine all three.

ASSEMBLYMAN DiGAETANO: Please do.

SPEAKER HAYTAIAN: As all of us know too well, New Jersey's economy took a beating over the past four years. We lost thousands of businesses and hundreds of thousands of jobs. Our unemployment rate nearly doubled. Thousands of people were driven to bankruptcy and despair. Thousands more were barely able to make ends meet. Lives and livelihoods were shattered. It was a bleak time, but our spirit was not broken. We fought back the best we could.

We took steps to create tens of thousands of jobs in the public and private sectors. By the way, that was a bipartisan project on our behalf, because we did work together

with the Minority in creating those jobs. We cut the State sales tax to help rebuild consumer confidence, and we started on the path of regulatory reform to make New Jersey a more business-friendly State. To that, I want to give credit to the Minority Leader, Joe Doria. When he was Speaker, he started on the regulatory reform movement, and we continued it when I became Speaker.

As a result, New Jersey's economy is on the mend. But if we are to regain the economic strength and vitality we once enjoyed, we cannot sit still and wait for good things to happen. We must take control of our own destiny and make them happen. We must create even more jobs. The best way to do that, the proven way to do it, is to cut taxes. The three bills before you today do much more than just give our economy a shot in the arm. They will send a message that will be heard in boardrooms across the country. Businesses will know that the welcome mat is out. They will know that we are serious about keeping existing jobs and creating new ones.

By lowering taxes, we will stimulate economic expansion. We will attract new businesses from other states. We will encourage those businesses that already have roots here to expand and grow. There will be more jobs and more tax dollars flowing into the Treasury, because when tax rates go down, tax revenue goes up. That has been the experience of every other state that has done what we are attempting. When Governor Pete DuPont cut taxes in Delaware, tax revenue doubled and employment increased by 36 percent. When Governor Bill Weld cut taxes in Massachusetts, tax revenue grew by \$600 million and unemployment dropped from 9.1 percent to 6.3 percent.

We can make it happen here as well. We can cut taxes and create jobs without jeopardizing essential State services or returning to the days of double digit increases in local property taxes. We proved we could do it when we cut the sales

tax. We can do it again. Of course, the old line "tax and spenders" and fans of big government are trying to convince the public that our three-year plan to cut income taxes by 30 percent will not make much of a difference. They claim the money people will save will not buy two dinners at Burger King. I think they're wrong, and I think they know it.

By the time we are finished, couples earning between \$20,000 and \$50,000 will save \$345 a year; couples earning between \$50,000 and \$70,000 will save \$555 a year; and couples earning between \$70,000 and \$80,000 a year will save \$705 a year. That is a lot of burgers and a lot of fries.

This plan will also help people who are out of work to find a job, because companies will be more inclined to invest. Just the other day, I saw the President of a detergent manufacturer based in North Brunswick quoted as saying these tax cuts will, in his words, "absolutely help us and make us more confident in investing in New Jersey."

But the benefits won't stop there. This plan will help those people who need our help the most. A-2 is about 350,000 of our poorest citizens, many of them elderly people on fixed incomes. They will pay absolutely no State income tax if this program is approved. So the critics are wrong. This plan is very fair. It is essential to New Jersey's future, and it will work. I urge you to give it very favorable consideration.

Mr. Chairman, I want to thank you. I think it is quite appropriate, you being an engineer as I am, to be at NJIT to cut taxes. I never could understand when they said Jimmy Carter and Herbert Hoover didn't know too much about politics. Maybe they didn't, but you do, and I congratulate you for being here on these bills.

Thank you very much.

ASSEMBLYMAN DiGAETANO: Thank you, Mr. Speaker.

We have another co-prime-sponsor of one of these pieces of legislation here. Assemblyman Geist, do you have any opening remarks?

ASSEMBLYMAN GEIST: Yes, Mr. Chairman. It is always a pleasure to follow the Speaker in a beautiful common cause.

Good afternoon, Mr. Chairman. Thank you for giving me the opportunity to testify on this important legislation.

ASSEMBLYMAN DiGAETANO: Could you take the black mike, please, Assemblyman? That one is for amplification, and the silver mike, or gray mike, is for recording purposes.

ASSEMBLYMAN GEIST: Mr. Chairman, I want to emphasize to you that I would drive a long way to support this tax cut any day of the week. Thank you for giving me the opportunity to express my enthusiasm.

Today, we are taking another step towards fulfilling our pledge to reduce the heavy burden that was placed on New Jersey taxpayers by the Florio administration. Two years ago, we delivered the largest tax cut in State history when we rolled back the State sales tax from 7 percent to 6 percent.

The proponents of big government claimed then that it was just a penny and really did not amount to all that much. They did not have the foresight to appreciate that when you start to add a penny here and a dollar there, and a few more dollars here and there, it amounted to a \$609 million tax cut. When the proponents of big government started to lose their argument about the value of that tax cut, they began predicting doom and gloom about the impact it would have on State government's ability to deliver vital services to its citizens.

Now, almost 18 months since that historic tax cut was enacted, State government is still delivering essential services to New Jersey residents, and taxpayers are paying a lower sales tax than under the plan of the previous Governor. What is really amazing, however, is that the same critics and naysayers who tried to kill the sales tax cut then, are now apparently trying to torpedo this income tax cut proposal. They will again sound the same old, tired alarm about the amount of pain it will inflict on New Jersey residents.

Well, Mr. Chairman, let's talk taxes and pain for a moment. We all remember the now infamous \$2.8 billion tax hike. Unfortunately, we know all too well the fiscal and economic mess it left in its wake. If we really want to talk about pain, let's talk about the record number of business failures throughout the State then. Let's talk about the record number of bank foreclosures that forced New Jersey families to give up their homes then. Let's talk about the thousands and thousands of men and women who lost their jobs when companies left New Jersey in search of better tax climates in other states. And let's talk about New Jersey's hard-working men and women who thought that government would lend a helping hand when they needed government during those tough economic fiscal times.

Well, they found out quickly what government was really up to, and that was that government's hand was only reaching into their pockets for more money.

When we proposed our plan to cut taxes and reduce government spending two years ago, we had to fight every step of the way against a Governor who had absolutely no desire to work with us. Mr. Chairman, his absence from Trenton today speaks for itself. But with a new partner for progress, Christie Whiteman, sitting in the Governor's Office, we have the unique opportunity to bring about real change in the way State government conducts its business.

Mr. Chairman, this 5 percent across-the-board income tax cut, initiated by Speaker Haytaian, is not simply a token gesture to New Jersey's taxpayers. It is another important goal in our fiscal and economic plan to bring businesses back to New Jersey; to create more job opportunities for our citizens who are desperately looking for work; and to make New Jersey an economic power once again. Cutting taxes and reducing government spending is not always an easy or desirable

task, but in this case it is something we need to do in order to turn the State around.

We have the chance to chart a bold, exciting, new economic course for New Jersey as we move ever closer to the dawning of a new century which will undoubtedly bring new challenges with it. I say, let's get on with it. We cannot afford to let this great opportunity pass us by, because our State's economic future is on the line. Let's work together and do what is right for New Jersey. Mr. Chairman, this legislation is right for New Jersey.

I thank you for the opportunity to demonstrate my enthusiasm for the cause.

ASSEMBLYMAN DiGAETANO: Thank you, Assemblyman Geist. Thank you again for making that long drive from Gloucester up here. You in the audience should be aware that Assemblyman Geist, who is an attorney, had pressing legal matters scheduled today, but he rearranged his agenda to be here, and he came a long way.

Mr. Speaker, I am told by staff that you have four minutes to get to a phone. You have to be at the phone by 4:40 for an interview.

SPEAKER HAYTAIAN: That is correct.

ASSEMBLYMAN DiGAETANO: Well, I would like to continue while you do that, if it is okay?

SPEAKER HAYTAIAN: Yes, sir.

ASSEMBLYMAN DiGAETANO: For members of the public who may not be aware of procedure, this is a public hearing, and that is what the public is here for. However, it is customary to hear opening remarks from Committee members first.

Mr. Speaker, if you would like to get to the phone, I will recognize Assemblyman Mattison.

ASSEMBLYMAN MATTISON: Good afternoon, and thank you, Mr. Chairman. Also, on behalf of Mayor Sharpe James, I would

like to welcome this Committee to the City of Newark, my home. We are glad to have you here.

Let me start off by saying that the members on this side of the aisle are not against tax cuts. We are for tax cuts. I think when we all look at our paychecks on payday we would like to see a little extra in there. I think all the citizens of the State would like to see the same thing. But we would like to proceed with caution, because one look at one side of the ledger, and with the Governor not having presented her budget at this time-- We would really like to proceed with caution, because we are concerned as to whether or not these savings will be shifted to the property tax.

As we all know, the property tax in the State of New Jersey is one of the most progressive taxes we have. So, with all due diligence, we would like to hear from the public -- continue the hearings -- but also, as Mr. Geist stated in his comments, the overall, across-the-board cut-- I think the human cry over the past years has been to do something for the middle class. This bill is across-the-board, which includes everyone. I think, once again, the vast majority of people in the State that need a tax cut the most -- the middle class -- are still being left out.

We are here to listen and to hear from the public. We are willing to work with you. We just want to make sure that we are not taking money from one pocket and then increasing it out of another pocket.

Thank you, Mr. Chairman.

ASSEMBLYMAN DiGAETANO: Assemblyman, as the ranking member of the Minority on the Appropriations Committee, we welcome you here as well.

Are there any comments from Assemblyman Romano or Assemblyman Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: No, not right now.

ASSEMBLYMAN ROMANO: Just a brief comment from me. I am sorry that the Speaker had to leave. In any event, I think the public should be aware that some of the numbers that have been set forth here are based upon the full 30 percent cut. We are not talking about the cut of now and for the next budget. You know, someone listening to the numbers might say, "Oh my God, how wonderful." That's 30 percent, though; it is not the 10 percent.

Regarding the comments made by Assemblyman Mattison, he is right on target. We go back -- you know, deja vu-- Haven't we been here before? Yes, we revisited something like this when we had the so-called "small penny" on the sales tax, and, at that time, our concerns were well-founded. People were hurt. Homestead rebates-- They did increase the pad, etc., etc. So you have to appreciate that we should go cautiously.

But, I will tell you this: I will try to maintain a Pollyanna attitude -- if I may use that noun as an adjective -- where I am hoping for the best, because, as has been indicated on other occasions, you did not have the full knowledge of what the Department of Treasury had in the sack, or whatever the case might be, where now you are in full knowledge. I am going to take for granted that we are all people of good will, so that you know you are not going to hurt people in the budget; that this is not being done on the blind side, but that you have a plan in mind.

With all the fiber of my body, I am going to go along with your plan, if it makes sense.

Thank you very much, Mr. Chairman.

ASSEMBLYMAN DiGAETANO: Thank you, Assemblyman Romano, also a member of the Assembly Appropriations Committee.

Assemblyman Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: Thank you, Mr. Chairman. It is certainly a pleasure to be here, unexpected as it was. I just received a call at about 2:00 this afternoon asking me if

I could sit in for Assemblyman Smith, who had been taken to the hospital. He's fine. He slipped and fell, and could not be with us today. Certainly, I am here in his stead.

I, too, and I think anyone-- I don't think there is a member in the Assembly or in the Senate who is not for tax cuts. I don't think there is any member in the Legislature who does not want to see the people of New Jersey save money. I think those are the key words, "save money." Each of us, all of us, want to see tax cuts. We do not want to see tax-burdened transfers. I think that is the important point.

Yes, we can cut State income tax, and we can cut some more from the sales tax. If you want to cut it to 3 percent, I'll vote for it. And if you want to cut the income tax down to no percent, I am for that, too. The important thing is, let's not transfer the tax burden onto the backs of the mayors of every municipality in the State of New Jersey, who need to fund their own towns. If we are just going to move the burden from the State to our local property taxpayers, well then, we have not succeeded in doing very much of anything.

If we are going to reduce State taxes, and at the same time not increase local property taxes, I am for it 100 percent. You've got my vote, and that is a promise right here today.

ASSEMBLYMAN DiGAETANO: Assemblyman, let me just say as a local official in New Jersey's 14th or 15th largest municipality, I certainly share those concerns. We have all seen the determination of this Governor right through the campaign, and then since the campaign up to her inauguration day. I find some comfort in that determination. I can tell you that I, for one, fully expect Governor Whitman to live up to her promises that were made both during the campaign and post-election. I know the press has tried to trip her up from time to time, but I think she has said repeatedly that she will see that her actions do not cause local property taxes to

rise. I, as a local official as well, would see the downside of that firsthand. I know you know that, Assemblyman. So I also share those concerns.

To begin with our witness list--

ASSEMBLYMAN DeCROCE: Mr. Chairman, if I may--

ASSEMBLYMAN DiGAETANO: I'm sorry. Assemblyman DeCroce?

ASSEMBLYMAN DeCROCE: I wasn't going to say anything, but with regard to what Assemblyman Impreveduto said, if the Legislature is going to be the leader in making cuts, I do think those leaders on the municipal level, and certainly in the area of education -- at the educational level locally -- are also going to have to look very hard and long. I think municipal leaders, frankly, have made very hard cuts in their local budgets, but I think we have to be looking to those leaders in the educational area on local school boards to look hard and deep into their budgetary measures, in order to come up with some additional cuts, because frankly, we know, we feel, at least we believe, that there could be more help coming from those areas of local government. That will ease the burden on local property taxes, by the way.

ASSEMBLYMAN DiGAETANO: We will hear first from-- Is this going to be a panel, a team? (addressing unidentified person; no response) Well, let's start with Bill Faherty. I don't know, Bill, do you want to bring up Bill Healey?

W I L L I A M F. F A H E R T Y, J R.: (speaking from audience) And Charlie.

ASSEMBLYMAN DiGAETANO: And Charlie as well. Okay.

W I L L I A M R. H E A L E Y: We're a tag team.

ASSEMBLYMAN DiGAETANO: This is the New Jersey State Chamber of Commerce team. Bill Healey has reached the table first; Charlie Costenbader to my left; and Bill Faherty, who is the President, in the middle.

Gentlemen, in whatever order you would like to begin, we would be very happy to hear your comments.

MR. HEALEY: I am going to merely serve today, Mr. Chairman, to introduce these two gentlemen, who will be making the bulk of our presentation.

I am Bill Healey. I am Assistant Vice President of the State Chamber. I want to say at the outset that our organization is here to strongly support Assembly Bill Nos. 1, 2, and 3.

We would also like to provide, with the acceptance of the Chair, some of our thoughts on how we feel State government can reduce its expenses and how county and local governments can reduce their expenses. We focus, always, on the residential taxpayer, but certainly the business community pays a large chunk of the property taxes in this State.

It is a pleasure to introduce my boss, our President, Bill Faherty, and Mr. Charles Costenbader, who is the Chairman of our Cost of Government Committee. From their experiences, Mr. Costenbader, is a tax attorney; Bill Faherty, as you know, was one of the leaders in the banking community before he became my boss about two and a half years ago. These men know their numbers. Bill also served as the Deputy Mayor of the City of Trenton, a member of Governor Hughes' Cabinet. Mr. Costenbader is the former Chairman of the Taxation Section of the State Bar Association. He has served as a tax adviser to Governor Whitman, and was also a member of the State and Local Expenditures and Revenue Commission -- SLERP, as it is better known.

First, it is my pleasure to introduce my boss, Bill Faherty, State Chamber President.

MR. FAHERTY: Thank you, Bill Healey, and thank you, Mr. Chairman, members of the Committee, both sides of the aisle. We thank you very much for giving the State Chamber the

opportunity to make this presentation today. We are excited, we are very excited about the revival of New Jersey's economy.

Just three weeks ago, the State Chamber introduced its annual Legislative Agenda, and many of you were there. There were a number of avenues we suggested for contracting the role of State government and putting more dollars into the hands of the private sector.

Our organization represents, as many of you know, a network of chambers throughout the State, 110 local chambers in 21 counties, representing some 45,000 businesses, with over 3.5 million members.

We, frankly, are excited, as I said before, about the prospect of tax cuts and we support the three bills that are under consideration today by your Committee. A-1 and A-2 are certainly attractive to all of us when we put on our hats as residents. I know the State's entire business community most certainly welcomes the end of the corporate tax surcharge. Both sectors, however, will benefit from each of these tax cuts.

A decrease in the individual income tax rate, as proposed in A-1, is an important business attraction, a general economic barometer for companies looking to relocate to our State. I look forward to working very closely with the new Commissioner of Commerce, Gil Medina, a bright young man from the southern part of our State. Not only is he a lawyer, he is a CPA.

Our income tax structure for individuals should be made more competitive, not just in comparison to our immediate neighboring states, but in comparison to those states in the South and West that have been the beneficiaries of jobs once held here in New Jersey.

From a fiscal and management standpoint, it also makes a great deal of sense to raise the threshold of minimum taxable income. It costs a fixed amount to process each taxpayer

return, and the funds realized to the State by taxpayers now currently making between \$3000 and \$7500 annually is minute compared with the costs of collecting those funds.

However, I would like to make particular mention of our support for the removal of the corporate income tax surcharge, for we believe it speaks volumes about the potential of reforming both our State's tax structure and what I call our "crazy quilt" regulatory system.

This surcharge was enacted in 1986, as you know, to help fund hazardous waste cleanups. I might add, its passage was done with the tacit support of the State Chamber, our members acting as good corporate citizens. Almost immediately, a covenant made with the State's business community was broken, and for the most part, these funds were never used for their original purpose.

The moneys are not the only example of business-financed fees and taxes that are diverted to other purposes. Just a year and a half ago, fees from the NJPDES program were siphoned off to help fund the parks side of the Department of Environmental Protection and Energy. Nothing wrong with the parks side. I was, at one time, Director of Parks and Recreation for the City of Trenton, but the fees were diverted.

As two important adjuncts to this first step of tax decreases, there must be a commitment to returning all fees, fines, and penalties to the General Treasury, eliminating the need for "fund-raising" -- what we call fund-raising -- by various divisions of the 19 Cabinet departments, be it the NJDEPE, NJDCA, or others.

Secondly, each Cabinet department, the DEPE in particular because it is 83 percent funded by such "off-budget" income, must assess its mission and begin to jettison those responsibilities that provide no real regulatory framework, but merely perpetuate the bureaucracy. In defense of NJDEPE, many

of those responsibilities were heaped upon the Department by the Legislature with no direct appropriations. Perhaps the most recent example, as you know, is the Clean Water Enforcement Act.

That is the little bit that I had to say. Now it gives me a great deal of pleasure to introduce our expert witness, Mr. Charles Costenbader.

C H A R L E S C O S T E N B A D E R, ESQ.: Thank you, Bill.

Mr. Chairman, members of the Committee, I would like to address some additional points which we think are related and are crucial, really, to the Legislature's consideration of this tax-cut legislation.

The executive and legislative branches must immediately ease burdens they have imposed on local government, the counties and municipalities of the State, through the State-pay mandates without funding. The State Chamber has long been a supporter of the concept of State mandate/State pay. Many local governments are burdened by State requirements, yet they are not funded, or provided with the financial wherewithal to carry out those burdens that are required by the State. What is their alternative? Well, to increase the taxes of residential property owners and businesses.

Also, on the other hand you might say, we in New Jersey pay an awful lot of money to embrace this concept of home rule. The Bergen Record did a series on the way in which many of our municipal governments started, even referring back to a point in time at the early part of the century when we didn't have as many local governments as we do today. Frankly, if this were business -- a well-run business -- it would never operate the way in which we operate local government.

You have parallel, decentralized structures under local government which overlap. They are inefficient, and the natural result is that they are costly. Without combining municipalities, the Legislature can do things. In fact, they

have set up structures where you can provide for sharing services between municipalities. The acceptance of that, or implementation of it, has been pretty checkered. So what can you do? Well, there is the old method of the carrot and the stick. Let's provide some financial incentives or, who knows, perhaps a financial penalty for not operating efficiently on the local government level.

Bill Faherty mentioned before our "crazy quilt" regulatory system. Well, this system really operates on the local government level, if you wish to focus on it in the area of education.

The Somerset Alliance for the Future, along with the Somerset County Chamber of Commerce, released a study that showed very tangible financial gains to be made in the greater intermunicipal sharing of services. All of us, private and public officials, should read that study.

To get into a little further detail, we have seen a great deal of overadministration in the delivery of educational services. We have 611 school districts, far more than any of our neighboring states; in fact, I think more than the State of New York. In fact, I think that if you combined some of our neighboring states, they would not have as many local governments as we do.

What does each one of those districts do? Well, they negotiate contracts. They have their own superstructure, their administrative structure. Again, you would never see a business operated like this, at least not a business that would survive too long. It is time to have the State provide, perhaps, some financial incentives to regionalize our school districts. Other states develop quality education, and it doesn't cost anywhere near the amount we are spending, which is almost \$10,000 per student.

If we do not make those economies at the State -- or at the county and local levels, the consequences of businesses

and residents will be that they will have to shoulder this additional property tax burden.

To move off the expense area and go to an area that the Chamber has embraced and is urging in the tax cut arena, the Chamber is wholly -- again, this is not reflected in the bills before this Committee -- in support of repeal or elimination of the tax on telecommunications. Last year, Bill Healey and I spoke before this Committee making the same pitch. We are still committed to removing this tax. This tax is a substantial cost of doing business which primarily affects the area which is the -- if you want to call it -- one growth area of the State's business; namely, the service sector. We all know how much trouble the manufacturing sector is in. We believe that you should not ignore that, but let's not provide stumbling blocks to the one area that is growing -- services -- and in particular financial services.

That sort of gets back to, you know, when this tax was imposed back in 1990, we were sort of euchred into this by Governor Cuomo, who initially proposed a broad-based telecommunications tax on interstate and foreign telephone calls. Once we enacted ours, he pulled back. New York taxes local telephone calls, but not interstate or foreign. We tax them all. Before the 1990 tax, New Jersey was probably the third or fourth most favorable state as far as taxing telecommunications. Well, in one swoop, we went from the highest to the worst.

What the State Chamber wants is to repeal this tax. If revenue considerations prevent an immediate and total repeal of the tax in the first year, let us give some -- perhaps some suggestions for phase-in. Governor Whitman's initial proposal was to phase this out in 2 percent installments over a three-year period. We don't have before the Committee a bill specifically repealing any part of the tax, but let's look at the areas where New Jersey is not competitive on this tax.

One is the tax on "Yellow Pages" advertising. No state in the Northeast taxes advertising, particularly in the Yellow Pages. Secondly, if you want to sort of break out this tax, or break it down into its competitive features, New York and Pennsylvania -- well, primarily New York -- do not tax international or interstate telephone calls. It is obvious. They want to keep their financial business, but, you know, we want to get a piece of that. This tax on interstate and international calls is a major stumbling block to attracting financial business in New Jersey.

To sort of sum up, we hope, over the three-year period at least, this tax can be entirely removed in all of its aspects.

Subject to any questions the Committee might have, I would like to turn it back over to Bill Healey.

MR. HEALEY: Just a couple of closing remarks. I think by now each member of the Legislature has had an opportunity to review the State Chamber's Legislative Agenda. There is one phrase that we use in there that we hope will become a principle that is applied to the deliberations over this year's State budget. Sound business principles must be applied to the management of government.

Perhaps to close up maybe I can provide some additional ideas for cost cutting. I am going to try to use an example that hits close to home. I am now a resident of Hunterdon County, although I grew up in Morris, Assemblyman DeCroke's home county. Think about a business. When a business faces a production shortage in one facility and overcapacity in another, a logical step would be to shift some operations to the underutilized facility.

So why is it that in my home County of Hunterdon one high school facing a growth of students in the coming decade fails, and fails miserably, to explore the shifting of some of its students to neighboring high schools that are severely

under capacity. The high school I am talking about is Hunterdon Central High School in Flemington. They are facing an ingrowth of about 500 students in the coming decade. There are only four other high schools in the county. Each is severely under capacity, probably by at least that amount, and 50 percent again. They could cover this high school's under capacity through the year 2010, and it would make perfect sense to regionalize our one county and the five high schools into one district. So what is the one high school that is facing a shortage right now -- facing a shortage of facilities-- They are proposing a \$17 million addition,~and they are justifying it by the fact that, "Well, five years ago we were proposing a \$40 million addition, so you ought to be thankful." Again, business would not operate that way. I wanted to use that at-home, close to the vest example.

Talking just a little bit about State government, I think we can encourage, and should encourage, State government, since they are forcing businesses to look at the benefits of managed health care, to apply the same principle to themselves, both to the State employees' health benefits program and to the State's Medicaid program. As is the case in the private sector -- and again I will use myself as an example -- I pay 50 percent of the costs of my health benefits for my wife and my three children. We ought to ask State employees to begin, even a minimal contribution to their own health insurance premiums.

Just some closing thoughts: We are very happy that the Committee has allowed us to make this presentation. As Mr. Faherty and Mr. Costenbader have stated, we are excited about the prospect of tax cuts, and we pledge to work with this Committee, and the entire Legislature -- both Republicans and Democrats -- to make the State budget a fair one, and a document that helps to revitalize our economy.

To the best of our ability, we will now try to answer questions from the Committee.

ASSEMBLYMAN DeCROCE: Thank you very much. I have been asked by the Chairman to assume his duties until he gets back from his phone call.

Do any members of the Committee have any questions for members of the Chamber?

ASSEMBLYMAN ROMANO: Mr. Chairman, just a brief comment: Mr. Costenbader, I have some good news for you. Assembly Bill No. 1146, which was introduced on January 27, sponsored by Assemblymen Mattison, Roberts, myself, Doria, and Bryant, called for exactly what you are looking for: reduction of the telecommunications tax 2 percent a year until it is phased out completely.

Now, if you have sort of, how shall I put it -- behavior modification abilities, or those -- I don't like to use the word "pressures" -- feel free to support our bill. Ask perhaps the Chairman, who just arrived--

ASSEMBLYMAN DiGAETANO: Just came back.

ASSEMBLYMAN ROMANO: We would need emergency permission to do this. I doubt very much-- But for the next hearing, this might be added as the fourth bill to the tax reduction package.

I was just remarking, Mr. Chairman, that Assembly Bill No. 1146, which is -- I know I used the term, "our bill" -- to reduce the telecommunications tax over three years-- You might decide, in your wisdom, to make it part of this other package.

MR. FAHERTY: Mr. Chairman, I would just like--

ASSEMBLYMAN ROMANO: That is just a suggestion.

MR. FAHERTY: --to add-- My apologies for interrupting. While you were out, Mr. Costenbader -- Charlie--

ASSEMBLYMAN DiGAETANO: I know the content of the testimony, Bill.

MR. FAHERTY: Oh, okay.

ASSEMBLYMAN DiGAETANO: I read it before I left.

MR. FAHERTY: Okay, I'm sorry.

ASSEMBLYMAN DiGAETANO: Let me say this: I, for one, have been very supportive of removing the telecommunications tax. I was a cosponsor of it in the past legislative session. The bill is in this Committee.

I am confident, again, that the Governor fully intends to deliver on her promise. What we are doing here is really an accelerated package. The Governor promised during her campaign that her first budget would include a tax reduction. I have not had a chance to speak with the Governor directly over the past couple of days, but I did read some comments that were made by her and her Cabinet in different articles. Her Cabinet indicated that we will see an additional proposal in the upcoming budget; that is, Fiscal Year '95, when we get it proposed.

I would certainly hope at that time that our actions now -- our accelerated actions -- spur the economy, as we believe they will. Our revenue projections will then reflect that growth in the economy, and our Governor's and this Legislature's Fiscal Year '95 budget will then become much easier to accomplish and accommodate additional tax cuts. But I think that if you look at the comments of members of the Cabinet just in the last two days, they are committed to additional cuts in the Fiscal '95 budget, so we will certainly be revisiting them. We will revisit the telecommunications tax, because, again, speaking for the Chair here, as only I can do, I am committed to eliminating the telecommunications tax totally.

There have been several plans that have been put before me very recently. Some have talked about a phaseout of the tax. Some have talked about a progressive component elimination. So the Committee and the Governor, I am certain, remain committed to it, and we intend to take it up. Package A-1, A-2, and A-3 is really an accelerated tax cut proposal.

Yes, Assemblyman Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: Thank you, Mr. Chairman.

I, too, number one, would like to thank both Bills and Charlie Costenbader for certainly their kind remarks on my bill, which is the removal of the Yellow Pages tax, which has been, as the Chairman well knows, around for at least two years now. Certainly, I am sure that our Chairman will see to it, at some point, that that bill is heard.

I thank you for being a cheerleader for my legislation, along with Assemblyman Zecker.

To Bill Faherty and Bill Healey, you both talked briefly about the corporate business surtax. Are you aware that 50 percent to 60 percent of businesses today no longer pay that tax? In fact, as this year progresses-- As of December 31, nearly 60 percent of the businesses no longer pay the corporate business surtax. As this year progresses, each month, as their fiscal year comes to, more businesses will no longer pay that tax until it is sunset in expiration, which is in June of 1994.

So that corporate business surtax is virtually gone now, and will be totally gone, in fact, without anything that this Legislature needs to do, by June 30, 1994. I am not saying that we shouldn't do it; I am saying that it has already been done. It's good to say that we are looking to cut taxes, but let's not play charades. The charade is that this thing is dying anyway. Half of it is over, and by June all of it is going to be over.

MR. HEALEY: We are aware of that, Assemblyman. This accelerates the process. I think the net loss of revenue is perhaps -- using the Senate's figures from what they were talking about the other day -- about \$2 million. We were aware of that, but I think a larger principle is involved. We talked about an example, about how this money has been diverted and was never really used for its intended purpose.

When a proposal was made to this organization in 1986, and other business organizations, other trade organizations -- it was before my tenure here, and Mr. Faherty's -- we supported it. We realized that there was a problem to be addressed, and we were a good corporate citizen. Yet, that covenant was broken, and we see that time and time again. So the elimination of the surcharge--

ASSEMBLYMAN IMPREVEDUTO: Absolutely.

MR. HEALEY: --or the acceleration of the elimination of the surcharge, I think, is going to point to what the Legislature and the Governor now want to do with all the other various programs that are tremendous business disincentives.

ASSEMBLYMAN IMPREVEDUTO: No, I do not disagree. Oftentimes -- it is certainly nothing that this Committee can do -- but oftentimes the Legislature will do certain things like this, and it is our intention that the money be dedicated to certain things. Unfortunately, because of the bureaucratic process, that never happens. I applaud and understand your concern on that, but I think it is important that the public knows that some of the things we are doing today, especially this one piece, are, in fact, not very significant dollarwise. It does send a good message, certainly, that we are looking to do these things, although 60 percent of it is already done. As each month goes by, it will phase down to zero by June 30. But today is the second of February, and I am sure there is more than 60 percent already no longer paying that tax.

MR. HEALEY: Well, it still means that between 30 percent and 40 percent still are. That is still too many for us.

ASSEMBLYMAN IMPREVEDUTO: What was the dollar amount again, \$2 million?

MR. HEALEY: I saw a figure quoted at about \$2 million.

ASSEMBLYMAN DiGAETANO: Bill?

MR. FAHERTY: No, I have nothing.

ASSEMBLYMAN DiGAETANO: I thought you were going to embellish that.

Assemblyman Geist?

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

I want to thank Mr. Costenbader for espousing his enthusiasm of another Haytaian/Geist bill, that being the State mandate/State pay proposal. I would love to see your recommendations of specific, currently existing mandates that are burdensome on business and burdensome on municipalities for consideration by this Committee for elimination. It is one thing to do a prohibition on future mandates and future burdens, but it would be, I think, beneficial to the communities to eliminate currently existing mandates and currently existing financial responsibilities.

The Minority party emphasizes about property tax concerns. I think there are two ways of addressing property tax concerns: one is to send a check, and the other is to relieve the burden. Perhaps we can work together to eliminate burdens, and thus provide tax relief through the elimination of unnecessary mandates currently existing.

I would welcome their return to any future proceeding, since they have enthusiasm for the cause. Thank you, Mr. Costenbader.

ASSEMBLYMAN DiGAETANO: Assemblyman Romano?

ASSEMBLYMAN ROMANO: Through you, Mr. Chairman, to my colleague, George Geist: George, be assured of our continuing cooperation in this area of mutual concern, especially when you mentioned the words "property tax." Fine, reduce it somehow, whether you pay the bill or you reduce the obligations. Okay? We are with you 100 percent on that principle, George.

Let me say, parenthetically, you are on a bill again with the Speaker? What is going on here, gentlemen? I would like to know about this.

ASSEMBLYMAN DiGAETANO: We think you already know, Assemblyman.

Assemblyman Mattison?

ASSEMBLYMAN ROMANO: He has hooked his wagon to a star.

ASSEMBLYMAN MATTISON: Through you, Mr. Chairman, I was also glad to hear Mr. Costenbader's remarks in terms of local government having some type of financial incentives for decreasing government.

We here in the City of Newark-- The Mayor has espoused that. He will be giving his State of the City Address tomorrow night. He will inform the public that we will not have a tax increase. That is because we have been working on a bare-bones budget ever since he has been in office. We made tough decisions when we had to about four years ago. We downsized government. We reorganized; we cut out the waste. That is one of the reasons I am constantly saying we have to proceed with caution with these tax cuts, because if we are to maintain no increase in our local property taxes, if this thing is shifted, that will cause us to go back and have to really raise property taxes. As I stated before, we have yet to see the Governor's proposed budget, the actual budget.

I am very glad to see that the Chamber is recognizing that fact. We have always said that in some cases, some municipalities will come to the State House and threaten to lay off cops, lay off firemen. It is like a game. It seems as though they are rewarded for having inefficient government. We have tried to provide for an efficient government for our citizens. Also, we have been penalized to some extent, so we are glad to hear that.

ASSEMBLYMAN DiGAETANO: Bill?

MR. HEALEY: Assemblyman Mattison -- through you, Mr. Chairman -- one of the remarks we made-- When we released our Legislative Agenda three weeks ago and the remarks were given to our audience, we publicly complimented Mayor James, because

I believe the City of Newark has turned over a substantial matter -- has turned the complete amount of street cleaning operations over to the private sector. That is a creative way in which privatization can take place to help ease the burden and reduce the costs of municipal services.

If I may make a suggestion, Mr. Chairman, perhaps at the next hearing you have, it is to invite the League of Municipalities and the Association of Counties to participate. Correct me if I am wrong, but I believe that every member of the Legislature who is sitting on this Committee today either was or has been involved in the administration, or was an office holder of local or county government. There is a tremendous amount of brain power there, and I think we should all be working cooperatively.

The comments I made about my local school district-- It is a great high school. We are just saying that it could be done a lot more efficiently. That was not to denigrate the administration of my local high school. But I think everybody, certainly in the business community, and I think probably in the residential community-- I don't think anyone is going to say that we are undertaxed. That is the point we are trying to make today.

ASSEMBLYMAN DiGAETANO: I would like to also make an observation for those of you who may not be aware, Assemblyman Mattison speaks very knowledgeably about the City of Newark. He is, and has been, an integral part of that administration. Although there is a tremendous amount of accolades being thrown at the Mayor lately -- and I was with him this morning -- Assemblyman Mattison should share in some of those accolades. So we applaud you as well, Jack.

Bill?

MR. FAHERTY: Through you, Mr. Chairman, I just want to ask Assemblyman Mattison to give my best regards to my great friend, and a great friend of my former boss, the late Arthur

J. Holland, Mayor of Trenton, who was also President of the--
What's that national organization?

ASSEMBLYMAN MATTISON: National League of Cities or
the U.S. Conference of Mayors.

MR. FAHERTY: The United States Conference of Mayors,
my apologies. Of course, your Mayor is President of the
National--

ASSEMBLYMAN MATTISON: League of Cities.

MR. FAHERTY: --League of Cities. We were both very
active in that organization.

Also, I look forward to those who are coming on our
expedition to Washington tomorrow. It is a complete sellout,
but everything is arranged. We look forward to meeting with
our 13 Congressmen, the two United States Senators, and
Governor Christie Whitman.

ASSEMBLYMAN DiGAETANO: Bill, I look forward to the
trip, and to the dinner especially. I anticipate at least one
interesting speech from an elected official tomorrow evening.

Thank you.

MR. FAHERTY: Okay. Thank you very much.

MR. HEALEY: Thank you.

ASSEMBLYMAN DiGAETANO: Our next witness will be John
Walsh. If anyone is looking at the witness list, he is not
here on a matter of national security. You can see the
initials "CIA" under his name. He is from the Commerce and
Industry Association.

J O H N K. W A L S H, JR.: Thank you very much, Mr.
Chairman. It is nice to see you again. Members of the
Committee, it is nice to be here. I may not be here on a
mission of national security, but I think it is at least a
mission of local urgency and statewide urgency. It is a
pleasure to be here before you today.

On behalf of the Commerce and Industry Association of
New Jersey, I want to say that it is certainly a great pleasure

to be here and to be able to offer to you the thoughts and comments that the Association has with regard to this pending legislation.

As you know, the Commerce and Industry Association of New Jersey represents 1200 -- over 1200 employers, which represents over 100,000 jobs in the State of New Jersey. The legislation we are considering has a significant impact not only on the employers, but on these employees as well.

I also want to take the opportunity to thank Speaker Haytaian for allowing us to be here and, at the same time, for moving rather rapidly to get these pieces of legislation filed and before the Committee, and these Committee hearings started. We have worked very closely with the Speaker in the past, and I expect we will continue to do so. We certainly welcome the opportunity to continue to participate in these proceedings.

I think it is also important to note that the Commerce and Industry Association, on November 23, 1993, voted unanimously, through its Board of Directors, to support Governor Whitman's tax proposal of 30 percent across-the-board income tax reduction. We, in fact, were the first business organization to support that effort by the Governor. So it is indeed a pleasure that we see that the Assembly has moved as rapidly as it has to join in the effort to move these pieces of legislation along.

We think the bills that are before us are important for several reasons: The first reason is that the business community is looking for some type of official recognition from the Legislature in New Jersey that New Jersey wants business to stay. As the Speaker mentioned in his opening remarks -- and I will repeat it -- New Jersey business has been beat up pretty badly the past few years. The combination of the high tax rates, the combination of the excessive regulation that business has been faced with, have really done a number on business.

I think we have to send a message to the business community, whether it is through the elimination of the corporate surtax, that only being 60 percent, as Assemblyman Impreveduto has mentioned-- That sends a message. It tells the business community that we are still anxious to have the business stay in New Jersey. Once we have told business that we want them to stay in New Jersey, then we can worry about attracting new business to New Jersey.

I think it is important that we recognize that if we don't take this type of an approach, we are going to be sending a message to the business community -- sending a wrong message to the business community. We will also be at a competitive disadvantage.

I want to highlight a couple of points in my remarks -- my written remarks -- which I have already presented. I won't read them to you, but I think this is important. In the past, New York City has been sending its businesses -- many years ago -- out here to New Jersey. When New Jersey became preceptively an antibusiness environment, those businesses went to other areas -- South Carolina, Florida, to places south.

Just today on the way in, I heard that Mayor Guiliani has just offered some pieces of legislation when he proposed his budget today. Among those pieces of legislation are the elimination of the personal -- the New York City personal income tax surcharge; the hotel occupancy tax; and a reduction of the corporate tax rates. So now you see that New York is moving to reduce its tax burden, because it would like to keep some of the businesses it has.

So I think we really have to move in that same direction, because our competitors, the other states, are going to be doing the same thing. If New York City is going to do it, we better not be on the last train, because we are going to be at a very, very big economic disadvantage. That is a big concern to my employers and to the over 100,000 employees who

would like to keep their jobs here. The climate in the South may be nice, but this is where their livelihoods are, and this is where they want to stay.

I think the second reason it is important that we pass this legislation is because of consumer confidence. The amount of dollars that may stay in the consumer's pocket as a result of the tax savings I think will be important, but not only just in the pocket, but that consumer will tend to, maybe not spend all of it, but spend some of it. The more the consumer spends, the more the consumer will put back into the economy, and you are building consumer confidence. So we have the business confidence and we have the consumer confidence.

I also want to make as part of my remarks today a discussion about the economic reasons why this makes sense. I wanted to go back to some of the historical data. All I did was go back to the 1980s. Although there are some people who believe that the 1980s were a terrible decade, I think if you are intellectually honest about what took place during the 1980s, you have to come to some conclusions.

First, we had the most significant, the largest economic expansion after World War II during the 1980s. At the same time, American businesses created over 18 million new jobs. These are facts you cannot argue with; they are there. One of the largest single contributing factors to this growth was the reduction of tax rates that came into place in 1981. At the same time -- or subsequent to that time -- we also saw what happens to revenue collections. What we saw was-- After the rates were reduced and the economy started to go, we saw that revenue collections actually increased. It continued that way until 1986, when all of a sudden we destroyed the national economy by imposing the Tax Reform Act of 1986. We see that the capital gains rate was changed and increased, and then all of a sudden that, combined with other factors dealing with real estate, caused the collections to continually step down.

The point is, whether you go back to the 1950s, the 1960s, the 1970s, or the 1980s, when you reduce the tax rates, your collections invariably are going to increase.

I also think it important that when you look at the 1980s and what took place, you look at what happened to the quality of life, because there was always some concern that the quality of life was reduced for certain groups of incomes. Well, the Federal Reserve -- which, as you know, is not a partisan organization -- has published statistics that demonstrate that during the 1980s, all levels of income prospered. The group that prospered the least was the wealthy group, because they only increased by 6.6 percent. The lowest income level increased by 19.1 percent.

So we see that by lowering the tax rates, you have not only confidence that is instilled, but you see that the quality of life is going to increase, and at the same time more than likely you are going to see that the revenues are going to increase.

I think the lesson we should take from this is that if we want the economy to grow -- and I think that is what everybody wants; I don't care, Republican, Democrat, Independent, or otherwise -- then we have to give it a shot in the arm. This is going to give it consumer confidence; there is going to be business confidence; there is going to be, more than likely, an increase in the revenues. But don't stop there. I think these are good first starts. The speakers before me mentioned the telecommunications tax. I think it sounds like everybody is in agreement, so I suppose the next question would be, "When do we testify on that?" Or, is testimony even necessary?

I also think that when we get into the budget we have to look at cutting, too, because the problems that were described by Assemblyman Romano and Assemblyman Mattison with regard to the property tax are all valid points. We have to

reduce that burden, as Assemblyman Geist just mentioned. So we can attack that, but we must also combine the decrease in expenditures -- actual expenditures, not just the budget, but actual expenditures. When we combine those together, I think we will have not only an economy that is booming, but will make the 100,000 employees that I represent people who are going to continue to contribute, not only financially, but in other ways, to the economy.

We have submitted the Commerce and Industry Association's Legislative Agenda. Those remarks I do not have to get into, but we have incorporated a lot of those positions. I also submit those to you for your consideration.

Again, I want to thank the Committee, and you, Mr. Chairman, for allowing us to participate in today's session.

ASSEMBLYMAN DiGAETANO: Thank you, John. Are there any questions of John from the Committee? (no response) Thank you very much. We appreciate your being here. Whether or not the testimony is necessary when we deal with telecommunications tax reduction, we welcome you here then as well.

MR. WALSH: Thank you very much.

ASSEMBLYMAN DiGAETANO: Okay. We will now hear from Dr. Horace DePodwin, of Economic Studies. Good afternoon, Doctor.

H O R A C E D e P O D W I N, Ph.D.: Thank you. Good afternoon, sir.

ASSEMBLYMAN DiGAETANO: It is good to see you again.

DR. DePODWIN: Thank you. Mr. Chairman, Committee members, ladies and gentlemen: I am Horace DePodwin, for many years Dean of the Graduate School of Management at Rutgers University, and now Professor Emeritus. I head a firm called Economic Studies, which is a consulting firm.

I certainly commend the originators, the sponsors, and the supporters of the three bills, Assembly Bill Nos. 1, 2, and 3. There have only been a few times in history when a governor

and a legislature moved to cut taxes when they started their new terms. That certainly is commendable.

Beyond that, these tax reductions come at a very opportune time in the business cycle. According to New Jersey economic indicators, the State's economy is moving quite well. Construction is improving; home building in the State is outpacing the nation by a good margin; and employment increases are concentrated in the services and home-building sectors. Factory jobs, however, are simply steady. If you cut through the statistical fog, you will find that the State economy is strengthening and, by and large, it is mirroring what is happening at the national level.

I say that the three bills represent a positive step forward for individuals and businesses, particularly businesses that are reevaluating their presence in the State. Equally important, I believe the bills, if passed, would encourage fiscal responsibility on the part of State municipal governments. What they may indicate is that Parkinson's Law, as it applies to government expenditures, may not hold true for the State; that is, expenditures may not rise to consume the funds available, because A-1 and A-3 will reduce the funds available.

Now, I would like to put in the back of your minds the important need to increase tax rates on the very higher income brackets beyond the reductions in the legislation. I say that because I believe those taxes are basically counterproductive when you compare the competition, or take into account the competition with other states. I know of any number of citizens in the higher income groups, 60 and older, who work very diligently not to have their primary residence in New Jersey while they still work here. They are on a plane on Thursday afternoon, or Friday afternoon, going down to Florida, which has no personal income tax. What they do is maintain

their residence in other states. Heavier taxes really can prove very counterproductive.

I spoke of fiscal discipline, particularly at the State and local levels. As you know, there has been a good deal of tax relief that has been provided through the personal income tax to fund education and provide property tax relief. But as the income in the State has grown, municipal expenditures have outpaced many other series. In fact, if you look at salaries in local government and educational services, you will find that over the last three years they have increased 21 percent, 60 percent faster than the increase for production workers in factories. If you recall, the contract signed in about 1990 in any number of communities -- Maplewood, Princeton, and the like -- called for 9 percent compounded wage increases over the next three years. Call any one of the local school boards and you will see that their wages are going up 7.5 percent, even 8 percent, over the next few years. I think what we need is a candid appraisal of cost increases in local government.

The issue is complex, and I know that what we need to do fundamentally is to increase and eliminate some marginally productive functions at the local government level, including putting the kinds of pressure for the consolidation of school districts, which we heard about before. What we are having is State and local government -- excuse me, State local government move along as if, in many respects, costs are not important.

Now, what these bills will do in the short run is generate fewer dollars for property tax increases. That should put pressure on communities to do the kinds of things that you have heard about before -- regionalized services at the municipal level; perhaps an absolute reduction in the number of school districts. That, in particular, generates a very substantial potential for reducing costs.

Another thing I would do is ask the Legislature, that is, to request the Governor to report annually on productivity improvements in the administration, and then to use that as a standard to ensure that local units of government increase their productivity as well. By and large, that should provide some incentive for local communities to move along more briskly on productivity improvement. There are all sorts of things that can be done at the local level. My gosh, in any number of communities they operate the tax collection efforts, the tax recording efforts, and a good deal of their work as if they were in a quill pen era. That can be done on a consolidated basis with a great deal of economy.

Another thing I would look at in terms of trying to save money at the State and local levels, is the criminal justice system. Now, I have been head of the Supreme Court's Probation Advisory Board for about a dozen years. I find that there are more effective techniques than simply incarcerating people. They are less costly, and ultimately they are more productive. Intense supervision is far less expensive than the \$35,000 or more a year we pay to keep someone incarcerated. If you look at what is being paid in some of the county jails, you will find it is as high as \$100 a day per prisoner to keep a person in. Many of these people cannot afford bail.

Now, I read The Star-Ledger story a few days ago, and indeed it did point out that people who had been put on bail commit crimes, and the results are obviously horrendous, and they are discouraging. But at the same time, where bail bond efforts are intelligently done and there is sufficient screening done, I think you will find that there can be very important cost decreases that can take effect.

I think what the Legislature should do is look at trying to stop the vast multitude of problems that come before it, and try to limit its focus to fundamental things, such as

tax structure, entitlement programs, and gaining greater efficiency at all levels of government, including public education.

Then finally, what I think this Legislature must do is take a long-term look at the investment in the enhancement of the State's human resources. There are too many people who may be attending school, but not really getting an education. They are destined to be a burden on society. We will be paying for them in the years ahead through entitlement programs.

So while what I have said here represents an important step forward for which you should all be commended for sponsoring, at the same time there is a great deal that has to be done if we are going to operate government more effectively. In addition to what I have said, I would again focus your attention -- as I did last summer when I spoke on the tax reduction bills that were temporary then -- on the telecommunications tax. Citicorp does its telecommunications work in Nebraska; Bank of New York in Delaware; and you can go right around the country, all very important, very useful jobs that could be employing people in New Jersey. Instead, we impose a silly 6 percent tax. We make New Jersey a nontelecommunications State, at the same time the Federal government is trying to fiber-optic the nation.

The last thing I would say is, continue to take a look at the crazy quilt of taxation in New Jersey. Look at the tax on natural gas. Thirteen percent on a unit of consumption; no tax on fuel oil. Look at the taxes that are -- at the tax relief given to people who cogenerate, while noting the burdens of taxation put on people who buy their electricity through the utility system.

We indeed have a kind of crazy quilt of taxes, not necessarily major taxes like the income or the property taxes, but any number of other taxes that, in and of themselves, impair economic development in the State.

To summarize, I think the bills are sound. They are right on target. They do what is necessary. They do a very good job. But again, from my point of view as a student of taxation for many, many years, I think New Jersey has to clean up its act, or it will be putting Band-Aids on its economy in the years ahead.

Thank you.

ASSEMBLYMAN DiGAETANO: Thank you, Doctor.

Are there any questions or comments from the Committee members? Assemblyman Geist?

ASSEMBLYMAN GEIST: Thank you, Mr. Chairman.

I would like to focus on your comments about the word "discipline." Is it your espousal of a position by government of a discipline by establishing a methodology through which we implement the tax cut, and then respond accordingly with that imposition of self-discipline during the budgetary process? Is that your-- Some subscribe to the contrary theory that you should set forth the budget, simultaneously setting forth the cuts at the time of the proposal of the revenue loss. You seem to espouse a theory that we should proceed today with the imposition of self-discipline, thus necessitating in the future, during the budgetary process, the cuts.

DR. DePODWIN: No. I think I am fundamentally in agreement with you. You do them simultaneously, but what you do with this kind of bill is to essentially tell municipalities, "Hey, we are going to have less revenue to dedicate to you, and you have to take a hard look at your budget. You have to do the kinds of things we are talking about. Regionalize where appropriate. Make your systems more effective. Get together with other towns," all sorts of things.

Right now, municipal government is kind of like a crazy quilt. You have some very efficient operations, and you have some extremely inefficient operations, which could be made much more efficient. They need incentive to do that. I think

the State Legislature is in a position to provide some of the incentive, to provide the guidance, split the pressures, etc.

It is not an easy job. You and I will be doing this for another 20 years. If we make just a little progress, I think we will have succeeded. But, you know, these are tough times. There are a lot of people losing jobs; a lot of people losing jobs. When I call up a local school board and say, "Well, what were your wage increases last year -- for the last three years?"-- One told me, "Seven and a half percent, 8 percent, 7.5 percent." I said, "My God, what about the poor people who have just lost their jobs, the factory workers who look at the economic indicators, who have not had increases these last few years?"

ASSEMBLYMAN DiGAETANO: Assemblyman Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: Just so I understand, let me maybe rephrase Assemblyman Geist's question. I think what Mr. Geist was saying was, should we cut now-- Should we cut the revenue now in the State, and then sometime six months from now, three months from now, worry about how we are going to get that revenue reduction in spending, or should we be doing it simultaneously?

DR. DePODWIN: Do it simultaneously.

ASSEMBLYMAN IMPREVEDUTO: So we should be doing this thing simultaneously.

DR. DePODWIN: Yes.

ASSEMBLYMAN IMPREVEDUTO: We should be doing revenue cutting and budget cutting simultaneously.

DR. DePODWIN: Absolutely.

ASSEMBLYMAN IMPREVEDUTO: Not one before the other?

DR. DePODWIN: Absolutely. Do them simultaneously and say, "Hey, look, there is no more free lunch. We are putting pressure on you. This is what has to be done."

ASSEMBLYMAN IMPREVEDUTO: Thank you.

DR. DePODWIN: I cannot believe that anyone who is going into any number of municipal services can't get some efficiencies. We have been through them and you see tax checks pile up for a month without being cashed.

ASSEMBLYMAN IMPREVEDUTO: So listening to the expert, maybe we should take his advice.

ASSEMBLYMAN DiGAETANO: We welcome your input, Assemblyman.

I would like to welcome and thank him for changing his schedule to be here-- I would like to introduce to the public and to the members of the Committee for the first time our new Vice-Chairman. He was a member of this Committee, but now is Vice-Chairman, and he was also elected Conference Leader -- Assemblyman Rich Bagger.

ASSEMBLYMAN BAGGER: Well, thank you, Mr. Chairman. I had a question for the Professor, but--

DR. DePODWIN: I'm sorry. I thought you interrupted me to introduce someone else. Excuse me.

ASSEMBLYMAN BAGGER: Well, that kind introduction--

Professor, you testified about the effect that the doubling of personal income tax rates for high income people in New Jersey in 1990 had upon the residency of high income people in New Jersey for tax purposes, which is certainly something that some of the members of this Committee, and other committees in the Legislature, at least noticed anecdotally. What would you say is the impact of reducing marginal tax rates upon corporate location decisions, bearing in mind that a lot of the people making those corporate location decisions are high income people? In other words, do you think lowering personal income tax rates would help to make New Jersey a more attractive place to locate?

DR. DePODWIN: Yes, very much so; very much so. In fact, if you talk to any number of people who are considering moving their plants, one of the reasons they give is that,

"Well, such and such a state does not have a personal income tax," or, "The rates are lower," or what have you. They look at the whole package. There is no free lunch. You have to pay a person more. There is a consequence to get the same kind of talent, because the individual thinks in terms of his or her net income, not gross income. So it is going to be productive; it is going to be useful. I think it is a very important move, no question about it.

ASSEMBLYMAN BAGGER: Well, thank you. I appreciate your testimony.

DR. DePODWIN: Thank you.

ASSEMBLYMAN DiGAETANO: Anything further? Yes?

ASSEMBLYMAN ROMANO: Just a comment parenthetically, if I might. You can understand, Professor, why Assemblyman Bagger has become the Vice-Chairman, because he knew how to euchre out of you an answer that he was looking for (laughter) because my colleague, Assemblyman Geist, was not successful.

Having established that, let me compliment you on your testimony here today. But I want everybody to understand, we know how it operates, Mr. Vice-Chairman.

ASSEMBLYMAN DiGAETANO: Let no one on this Committee, certainly no member of the bar in New Jersey, ever be accused of leading a witness. (laughter)

Thank you, Doctor.

Our next witness is someone whom I am sure needs no introduction. We have seen his face pictured in the newspapers in an early morning meeting in District 36 with our former Governor -- Sam Perelli. Sam, if you invite the Governor up to the Park Diner in Nutley, I would like you to let Assemblyman Kelly and I know, because we would like to show up and pick up the tab.

ASSEMBLYMAN IMPREVEDUTO: Can I come too, then?

ASSEMBLYMAN DiGAETANO: Sure.

SAMUEL PERELLI: I thank you for the opportunity, Mr. Chairman, members of the Committee. My name is Sam Perelli. I am the State Chairman of the United Taxpayers of New Jersey, sometimes characterized as an antitax group. I can assure you we are not an antitax group. Basically what we have become over the years are opponents of the "sky is falling" routine that we hear every year. So before I continue I would like to come forward, and I would like to put a penny in front of each one of you (witness walks to Committee table), so that you can remember the symbolism of this little penny, and how it will interface with the sky is falling routine each year. Okay?

I would also like to urge you--

ASSEMBLYMAN DiGAETANO: Sam, do you think we have to report this?

MR. PERELLI: I would, if I were you. I would also urge you to be very careful about who is going to be crunching the numbers. I certainly hope it is not the one who crunched the numbers when we were told that the takeover of the county court system by the State would only cost \$150 million. From what I understand from a fairly reliable source, that is now \$400 million, and anyone in this room who runs a business who would have created a mistake like that, I believe-- I believe they would have been fired.

ASSEMBLYMAN IMPREVEDUTO: He was. (laughter)

MR. PERELLI: So I urge you, watch out for who is crunching the numbers.

To the Doctor, whose testimony-- I will use that word, although I do not like to use the word "testimony," because to me testimony is when you swear on a Bible, and then if you tell a lie you go to jail. So offering our comments today-- Everybody here is offering comments. They are not testifying under oath. Let me just make sure that the record shows that.

To the Doctor, I would like to add my support to your comments. But, Doctor, another 20 years? I have been at this for 20 years, trying to get the government to watch the pennies. Each year our local government -- our local government -- says, "But it is only a few pennies a day." Then our school board comes in and says, "How could you say no to this tax increase. It is only pennies a day." And our friends at the county level say, "It is only pennies a day." Then our friends at the State level say, "It is only pennies a day." Then our friends in Washington say--

ASSEMBLYMAN DiGAETANO: It's dollars. (laughter)

MR. PERELLI: I mean, come on, come on. Yes, the sky is falling in New Jersey. You better believe that the sky is falling in New Jersey. That penny-- I wanted to symbolize, from our organization, that there should not be one cent more, not one more cent, in public employee pay raises than the cost of living. If you were just able to accomplish that, you wouldn't have to be here. Crunch those numbers. We have public employees who are getting two and three times -- two and three times higher salary increases than the cost of living. How in the name of God can you justify that?

My school board tells me, "Well, you know, we have to avoid a strike." Damn anyone who threatens -- any public employee who threatens to close my State down, my school down, my local municipality down. Damn them, and we run like a bunch of scared rats. We run like rats when a group of people in this State -- and I don't give a damn who they are -- threaten us, "If you don't pay us--" The police say, "You are going to get raped, robbed, and mugged." The paid fire departments come in and they say, "Your buildings are going to burn." The teachers say, "The kids are going to be out in the street." And like a bunch of jerks, we sit here and we take it.

I say, "Enough already." Think about that penny. Think how many millions and millions of dollars-- I would

venture to say that very few people in this room realize that the amount of money we spend in the education industry alone in this State is the same size as the State budget. I'll bet you most people don't realize that. It is damned near \$14 billion -- 14 thousand million dollars. That's pretty damned serious money. It is the second largest in-state industry. It's an industry.

ASSEMBLYMAN DiGAETANO: Sam, I share your concerns on that, as do the members of this Committee, but we are here on A-1, A-2, and A-3.

MR. PERELLI: No question about it, but you can't put the horse before the cart. You can't even think about these three bills until you start thinking about those pennies. These gentlemen are absolutely correct. You must interface your actions.

ASSEMBLYMAN ROMANO: Here, here.

MR. PERELLI: Interface your actions with the appropriate -- with the appropriate legislation. I say, full speed ahead. I say, full speed ahead, but for God's sake, do not -- do not forget the fact that the overwhelming majority of taxpayers in this State are lucky they have a job.

I have already sent the message out. I am not like Mr. Healey of the State Chamber of Commerce. I wish he was here. I don't like to talk about someone when they are not here.

ASSEMBLYMAN DiGAETANO: Well, then let's--

MR. PERELLI: But I would probably bet my last dollar that Mr. Healey wouldn't dare go before his local board of education and say the same damn things he said right here, because it is not nice to be booed. It is always nice to be applauded.

You will not be applauded doing this, believe it or not, unless you listen carefully, and you listen out there in all the communities to all the people who are frightened to death that they are going to lose their jobs. They are the ones who are going to applaud you on A-1, A-2, and A-3.

I say to you, full speed ahead, and anyone who gets in your way -- anyone who gets in your way -- just let our good friend, the Governor, get the message out. Get the message out that somebody is in your way. President Reagan was a great communicator. He was a great communicator, and he used to come to the people saying, "Guess what they are trying to do down here? I'm trying, but they are not listening to me." And by golly, they began to listen, little by little. Pay attention to the little people out there who have had it. Let the local governments come to the public and say, "But it is only a penny more." We'll take care of it out here, you take care of it at the State level, and get that recall bill going quickly, please. If you would have passed Initiative and Referendum, we would have been out collecting signatures and had this tax package all done, all tied up, probably two or three years ago.

Thank you.

ASSEMBLYMAN DiGAETANO: Thanks, Sam.

Any questions of Mr. Perelli?

ASSEMBLYMAN ROMANO: Just a comment: I agree with him. It is not witnesses, because the hand is not up.

Just let me say, I appreciated and enjoyed your homily, or treatise, as one might call it. It was very nice. Thank you.

MR. PERELLI: Thank you. Now I am going to run right to my dictionary. (laughter)

ASSEMBLYMAN DiGAETANO: Sam, I thought when you brought the pennies-- I thought you were going to bring some of the campaign literature that was used by members of the Minority party against us in the past election. That is what I thought you were going to do. It was only a penny.

MR. PERELLI: Did they use a penny? Did they steal my idea?

Oh, and by the way, watch the tax people coming from Canada.

ASSEMBLYMAN ROMANO: Excuse me?

MR. PERELLI: Watch the tax revolt coming out of Canada. You might be interested in it. As we are speaking, it is happening.

ASSEMBLYMAN DiGAETANO: Very good. Thanks, Sam.

MR. PERELLI: Thank you.

ASSEMBLYMAN DiGAETANO: Mike Lefanto, from the Society of Certified Public Accountants.

M I C H A E L C. L E F A N T O: Good evening. Technically, though, I am not speaking for the Society of CPAs, although I do Chair the State Taxation Committee. The reason for that is that we have not had time with these three bills to get our Executive Committee together and officially have comments and positions, etc. However, I am a CPA. I am a tax practitioner, and I have been for 25 years or so. I would like to thank the Chairman and the honorable members of this Committee for allowing me to come before you today.

In general, I am in favor of all of these tax bills today. However, I believe that this is only the tip of the tax reform iceberg that has long been waiting to thaw in New Jersey. A couple of my colleagues have indicated today that it is a Band-Aid approach. The State of New Jersey has, for years, applied a Band-Aid to the bleeding area of the tax structure of this State. In my opinion, the gross income tax, as it stands in this State, is exactly that -- gross. It is loaded with inequities. The rate is far too excessive. We happen to rank the third State in the Union as far as the highest tax rates go, and I think that is completely unacceptable.

I think it was the Professor who indicated that businesses make a decision as to where they are going to move, not necessarily because of the business tax structure, although that is important, or the property tax structure, although that is important-- It is the prime movers of the corporation, the

shareholders, the owners, the operators. Whether a business has a bottom line or not, in many cases, is not important. It is what the prime movers of that business take home. If they take home more because the tax structure is better in one particular area than in another, that is a primary reason why businesses move from one location to another.

I come from Bergen County, originally from Jersey City, by the way. I have been in Bergen County for 25 years. For many, many years, Bergen County was a magnet drawing businesses from New York. In 1990, that ceased to be desirable, because the counties of Orange, Rockland, and Westchester in New York State now have a lower tax structure for personal income taxes than does the State of New Jersey.

Likewise with our senior citizens. For many years, the senior citizens from North Jersey moved to Ocean and Monmouth Counties -- to the senior citizen areas down there. From North Jersey it is just as easy for these seniors to go to Bucks County, Pennsylvania, where the gross income tax is at the 2.8 percent rate for 1993, and Pennsylvania does not tax pensions at all. Their automobile insurance is less, and there are no Garden State Parkway tolls to pay to visit the grandchildren, and timewise they are about the same distance away.

Equity -- I mentioned equity to you. We need a more equitable method of taxing personal income in New Jersey. One method, although I am not advocating it-- One method is what we refer to as a piggyback tax. A state like Rhode Island does this. They put a percentage-- You pay a percentage of your Federal income tax to the State of New Jersey. The Federal government does all of the compliance work for you. The State is limited to collecting revenues for those taxpayers who do not voluntarily pay their taxes. When an adjustment is made on a Federal return, the adjustment is automatic on the Federal return, whether it be a refund or an underassessment.

In A-2-- If you read my testimony, it says creates a higher tax cliff. As a tax preparer, I see many seniors and many students who come -- the children of clients -- to have their tax returns prepared. They make a little over \$3000, whether it be from interest dividends or some part-time jobs they had. And do you know what? They pay taxes on \$2000 -- on anything over \$1000 of that. Many of them are unwary of this, and they don't have withholding taxes taken out of their pay.

If we allow this \$7500 threshold -- and you can read this in my testimony -- it will mean \$124 to anyone who makes \$7501 under the proposed tax reduction. To many taxpayers that is a lot of money.

My recommendation would be to phase this \$7500 threshold in, and then out. Phase it in at the lower levels; phase it out at the higher levels. So someone who makes \$7500, and someone who makes \$7600, for example, does not pay tax on \$6600, but pays tax on something less because it is phased in and phased out.

ASSEMBLYMAN DiGAETANO: That's a \$7500 exemption that you are advocating.

MR. LEFANTO: An exemption that eventually is phased out as the income increases. It does create a tremendous burden.

I am very much in favor of A-3. I never really understood why the surtax was placed on corporations. Now I think today, in the testimony, it sort of came out. But instead of a flat corporate rate, why don't we consider graduating the corporate tax rate, similar to what other states do, and similar to what the Federal government does? Start with a very low rate for corporations that do not make a lot of money.

By the way, with the tax bills that were passed in July, the corporate minimum taxes will increase to \$200 for

domestic corporations, and \$250 for foreign corporations, in the next three years.

Many corporations, from the information that we received from the Division of Taxation when we were going through our "S" corporation analysis-- Many corporations only pay that minimum tax. So at the lower level -- the 2 percent, 3 percent, or whatever -- the greater amount may be the minimum tax that the corporation will pay. Again, it is not necessarily what the bottom line of the corporation is that determines where many small businesses locate. It is what the prime movers bring home.

Myself, and the almost 14,000 members of the New Jersey Society of Certified Public Accountants, are ready, willing, and able to assist this Committee, to assist the Legislature, to assist the administration in any tax planning, any tax projections, any tax legislation that you deem fit to present before us.

Again, I appreciate the opportunity to speak before this Committee. Thank you very much.

ASSEMBLYMAN DiGAETANO: Mr. Lefanto, I heard testimony from accountants in the last session about this piggyback system. However, no one has been able to nail down the effect to New Jersey of piggybacking on the Federal return. In general, is the Federal return more stringent, or less stringent in New Jersey?

MR. LEFANTO: As it stands now, the gross income tax-- First of all, it is very inequitable, as I indicated to you. For example, in loss situations -- partnership loss, business loss, whatever -- you are not allowed to offset that loss against your income from any other areas. That does come back to haunt some New Jersey taxpayers. For example, upon sale of a partnership interest, if they have had losses on the Federal level that they have been able to deduct, when they sell that partnership interest, or that partnership property,

although they have had some tax advantage on the Federal level, they have had none on the Jersey level -- on the New Jersey level -- and they must pay tax on the same gain they are reporting on their Federal return.

We attempted to eliminate this particular inequity in the "S" legislation. We were not successful in doing that.

The piggyback tax eliminates a whole set of rules. For example, the New Jersey gross income tax statute would virtually be eliminated. Any time you simplify a system, you instill compliance in that system.

ASSEMBLYMAN DiGAETANO: From what I hear you saying, however, it would seem to me that in order for New Jersey to gain the same revenue, we would have to increase the rate as applied to the taxable Federal income.

MR. LEFANTO: I believe the Rhode Island tax rate now is about 27.5 percent of the Federal tax. Okay? For example, if somebody paid \$10,000 in Federal tax, they would pay \$2750 in Rhode Island tax. Rhode Island, by the way, did lower their rates to adjust for the Federal increase in rates in the 1993 Tax Act.

What the revenue in tax would be-- We would have to work with Treasury on that.

ASSEMBLYMAN DiGAETANO: Sure. Are there any questions or comments for Mr. Lefanto?

ASSEMBLYMAN IMPREVEDUTO: I just have one question.

ASSEMBLYMAN DiGAETANO: Sure, Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: I agree. I like the idea of the piggyback; I honestly do. I think that makes a whole lot of sense.

MR. LEFANTO: It also reduces administration costs, which is something that would compensate.

ASSEMBLYMAN IMPREVEDUTO: You're right, because everything is done on your Federal return and you get the bottom line and that is what your taxable dollars are. Once

you pay those taxable dollars, it is a percentage of that, which is rather simple, and makes a lot of sense to me.

You are the second presenter, however, who has mentioned that business may not move here, not so much because of the property tax, and not so much for any other reason than that the president, or the CEO, or the CFO is going to look at the bottom line and say, "What am I going to take home? If New Jersey is a high tax State" -- as we have kind of agreed that it is -- "we should not go there, because I don't want to pay those high taxes."

Do we have any idea how much business has grown in the State of Delaware over the last couple of years?

MR. LEFANTO: I don't personally.

ASSEMBLYMAN IMPREVEDUTO: It hasn't grown too much. My question is, why not, because there is no tax there. If your assumption is true, then it would seem to me that the State of Delaware should be looking at a tremendous influx of business, because there is no income tax, nor is there a sales tax.

MR. LEFANTO: That is very possible, Assemblyman, but Delaware doesn't have the proximity to the New York metropolitan area that New Jersey does.

ASSEMBLYMAN IMPREVEDUTO: Again, that is why I came back to this. There are other reasons. What you are giving me is an argument as to why business should move here, whether or not they are paying an income tax.

MR. LEFANTO: For many years, New Jersey was a magnet to New York businesses coming into New Jersey. We do not have that particular advantage anymore.

ASSEMBLYMAN IMPREVEDUTO: My argument then becomes: Are there other reasons for that besides -- besides the income tax? If the income tax were the reason, then why in the '80s was there such an influx of business from New York to New Jersey? And why now--

MR. LEFANTO: We had a 3.5 percent gross income tax. When you doubled that gross income tax, that took a lot of money out of the economy. That is exactly what we did. I don't think we needed that. We may have needed the tax increase in 1990, but we didn't need \$2.8 billion.

ASSEMBLYMAN IMPREVEDUTO: My question then becomes why-- Let's just take the folks who moved to South Jersey, or the folks who moved to Bucks County, as you proposed. Why not Delaware? It is not that much further. If you're going to Bucks County, it is not a hell of a lot more distance.

MR. LEFANTO: Oh, sure it is. For North Jersey people to go to Delaware, compared to Bucks County, just on the other side of Route 80, on the other side of the Delaware?

ASSEMBLYMAN IMPREVEDUTO: Yes, but there is also another part of our State. It is called South Jersey.

MR. LEFANTO: But those people are already in South Jersey. I'm referring to the people here that I-- I live in Bergen County.

ASSEMBLYMAN IMPREVEDUTO: Right, but your assumption is that people are moving there to save tax dollars. Correct?

MR. LEFANTO: I think that is one of the reasons, yes.

ASSEMBLYMAN IMPREVEDUTO: People from North Jersey, it is understandable. They might move to Bucks County to save tax dollars. But why aren't the people from South Jersey moving to Delaware to save tax dollars?

MR. LEFANTO: I can't answer that question. I don't know.

ASSEMBLYMAN IMPREVEDUTO: See, you know, it is a one-sided assumption.

MR. LEFANTO: But I will also tell you what else we see. With the Pennsylvania/New Jersey agreement, you have many young people who are moving to Pennsylvania and commuting to their jobs in New Jersey, and paying a Pennsylvania tax.

ASSEMBLYMAN IMPREVEDUTO: You're right, but is it also because you can buy an acre of property in Pennsylvania, in Bucks County, for next to nothing, as opposed to--

MR. LEFANTO: Absolutely; absolutely.

ASSEMBLYMAN IMPREVEDUTO: --an acre of property in Bergen County?

MR. LEFANTO: Absolutely.

ASSEMBLYMAN IMPREVEDUTO: So living and purchasing a home -- purchasing land and living is quite-- The cost of living is a hell of a lot lower.

MR. LEFANTO: That is all part of it, but--

ASSEMBLYMAN IMPREVEDUTO: We need to consider all of those factors.

MR. LEFANTO: Why? Because my comrades today have brought--

ASSEMBLYMAN IMPREVEDUTO: Mike, I think you have given the answer.

MR. LEFANTO: --other factors to the table -- the school taxes, the municipal -- the inefficiency of the municipal governments in this State.

ASSEMBLYMAN IMPREVEDUTO: Or just the cost of land, and the cost of housing. I mean, I don't know where you live in Bergen County, but I am sure--

MR. LEFANTO: Paramus.

ASSEMBLYMAN IMPREVEDUTO: In Paramus. I'm sure a house in Paramus, an average Cape Cod, is probably selling for \$175,000 to \$200,000. But in Bucks County, a house probably one and a half times that size, on a much larger piece of property, is probably selling for \$100,000.

MR. LEFANTO: You're absolutely correct.

ASSEMBLYMAN IMPREVEDUTO: So there are many, many factors involved. One just can't look, you know, myopically through a telescope at one factor and say, "This is the answer." It's not. There are many factors involved.

ASSEMBLYMAN DiGAETANO: I didn't hear anyone say that there is only one factor.

ASSEMBLYMAN IMPREVEDUTO: Well, no, but-- You're correct, but the testimony--

ASSEMBLYMAN DiGAETANO: I spent six hours today listening to a couple of hundred business and professional representatives telling me, and other members of the Legislature, that a large portion of the decision making is attributable to regulatory bureaucracy--

ASSEMBLYMAN IMPREVEDUTO: Oh, and I have no--

ASSEMBLYMAN DiGAETANO: --whether or not they move to New Jersey. I know we share those concerns. This Committee has addressed them, and we will continue to address them in a bipartisan fashion.

ASSEMBLYMAN IMPREVEDUTO: Absolutely.

ASSEMBLYMAN DiGAETANO: But I don't think anyone said today -- at least I didn't hear it; maybe they said it when I was out of the room -- that the only factor is the gross income tax.

ASSEMBLYMAN IMPREVEDUTO: With all due respect, Mr. Chairman, the only testimony I have heard is that people are moving, or choose not to locate here, because of the gross income tax, and gross is right. Again, one needs to consider the multitude of factors involved.

MR. LEFANTO: However, it is a primary consideration, I think. For example, rather than go to Bucks County, people could go to Hunterdon County; they could go to Morris County. They could buy for less than in Bergen County.

ASSEMBLYMAN DiGAETANO: Warren County.

MR. LEFANTO: Warren County, okay.

ASSEMBLYMAN DiGAETANO: Sussex.

MR. LEFANTO: I think--

ASSEMBLYMAN IMPREVEDUTO: Well, I don't know. Looking up that way-- Lately I have been over at Andover looking at some property, and it is--

MR. LEFANTO: I think the best deal in the State is Monmouth County right now. That is my personal opinion.

ASSEMBLYMAN IMPREVEDUTO: Well, they have lower--

MR. LEFANTO: But I think you get a lot for your money. Why wouldn't someone move from Bergen County to Monmouth County, because commuting-wise to Bucks County it is probably about the same?

ASSEMBLYMAN IMPREVEDUTO: But again, that is one-half of the State. The other half of the State is concerned about where they live and what they are paying.

MR. LEFANTO: But taxes are--

ASSEMBLYMAN IMPREVEDUTO: You will find no one, at least in my short tenure in government-- You will find no one who thinks they are paying too little in taxes, no matter what that number is.

MR. LEFANTO: You're absolutely correct.

ASSEMBLYMAN DiGAETANO: Thank you, Mr. Lefanto. We appreciate your testimony. If you have any further information on that piggyback system and the effect, I would be very interested in that.

MR. LEFANTO: I do have a subcommittee of my State Tax Committee working on some research on that. However, it is filing season right now. Within the next couple of weeks we hope to have a meeting. We will pass along any of our findings to you.

Thank you.

ASSEMBLYMAN DiGAETANO: Thank you.

Dana, I want to say that the Committee certainly appreciates your patience in spending a couple of hours here waiting to testify. The fact that you are the last witness today is -- should be of no concern to you. However, I think it is very appropriate that this Committee finish testimony today hearing from Citizens for a Sound Economy, because that is exactly what we are looking for. Dana Joel, Citizens for a Sound Economy.

D A N A J O E L: Well put, Mr. Chairman. Thank you.

Members of the Committee, my name is Dana Joel, and I am Director of New Jersey Citizens for a Sound Economy. We are a citizens' advocacy group here in the State with 10,000 members throughout the State. Basically, our position is that we promote limited government and free-market solutions to public policy problems.

I am delighted to be here today to testify on these three bills which we believe, if passed, will reduce the State's oppressively high income tax rates, and reverse tax and budget policies of the past that we have seen cripple the economy.

The bills under consideration today -- A-1 to reduce the personal income tax rate by 5 percent, effective January 1, 1994; A-2 to eliminate the income tax on individuals earning \$7500 or less, effective January 1, 1994; and A-3 to eliminate the corporate business surtax, effective January 1, 1994, all share the common theme to provide long-overdue tax relief to the citizens of New Jersey and to ensure a strong economic recovery.

It wasn't long ago that New Jersey was one of the most economically vibrant and prosperous states in the nation, ranking fourth in annual business starts, seventh in retail sales per household, and tenth in annual income growth. That was before the enactment of the \$2.8 billion tax increase, one of the most devastating economic policies in the State's history.

The personal income growth rate, which exceeded most other states throughout the 1980s, trailed the rest of the nation in the early 1990s. But the most damaging aspect of the higher tax burden was clearly its impact on the jobs market. Between 1990 and 1992, New Jersey lost as many as 180,000 jobs, a 5 percent decline. To be sure, the national economic recession was partly responsible for the job loss. It might

also explain why, if you are looking at the change in job growth in Delaware -- the recession could explain that. But the fact of the matter is, if you compare New Jersey with the rest of the states -- and it is sort of highlighted here in my written statement, some of the facts that are based on Census Bureau numbers and other numbers -- New Jersey ranked way at the bottom in terms -- or way at the top in terms of job loss. The creation of technically trained and highly skilled jobs, many of which were lost over the last few years following the tax hike of 1990, is particularly vital to New Jersey's recovery.

To finance the needed tax reductions, the Whitman administration is proposing to reduce spending by 5 percent, or one nickel on the dollar, over an 18-month period. Given the size of the current fiscal budget -- \$15.9 billion -- and the rapid growth in the size of the budget over the last few years, \$1.2 billion in cuts is by no means insurmountable. Nor would New Jersey be the first state to significantly reduce spending in recent years. If you look at some of the things that Mississippi is doing under Governor Kirk Fordice, when he took office in 1992 he reduced spending by 5 percent during the first two years of his administration. I heard him speak just yesterday in Washington. He has a \$250 million surplus he is talking about.

Privatizing various government services is one means of achieving significant cost savings while improving the provision of service, as many other states -- and localities, as we heard also in testimony today -- are discovering. The Weld administration in Massachusetts, for example, calculates they have saved taxpayers as much as \$273 million since 1991 by allowing private firms to operate state-owned skating rinks, contracting out to the private sector the maintenance of highways, privatizing state mental hospitals, and other

government services. Also, you know, Newark has been a leader, not only in New Jersey, but in the nation, in privatizing municipal services.

Governor Christine Tood Whitman has stated publicly that she supports the privatization of some services, including the possible sale of State-owned assets. And Assemblyman Corodemus is leading an effort to privatize various functions within the Department of Community Affairs which could eliminate as many as 161 positions.

Another potential target for privatization should include the management of State-owned educational institutions, such as the Marie H. Katzenback School for the Deaf. The privatization of public school operations is a new trend taking off in such cities as Baltimore and Minneapolis, and it is now being very seriously talked about in Washington, D.C. Experience shows that privately-run public schools are able to tend to school repairs and maintenance problems, as well as purchase school supplies, much faster and cheaper than traditional government-operated schools. These are just a few examples I picked out, but we are putting together a policy study to be released which details many other options in privatization and other areas for reducing spending.

The size of New Jersey State government has been expanding at a faster rate than almost any other state. Spending in New Jersey has soared over the last decade, with the biggest annual increase occurring in 1992. According to data released last fall by the Census Bureau, spending in New Jersey rose a staggering 26 percent for 1992, which by far surpasses any of the notorious high-spending states that we know of.

The reduction of taxes is crucial to the State's economic future. On behalf of New Jersey CSE's members throughout the State, I commend the sponsors of these bills for their strong leadership and commitment to stimulating jobs and

economic growth. On behalf of our members, I urge the members of this Committee to vote in support of this crucial legislation.

ASSEMBLYMAN DiGAETANO: Thank you, Dana.

Do any of the Committee members have any questions or comments for Ms. Joel? (no response) Again, we thank you for your patience.

I would like to thank each and every one who came today both to give testimony and to hear testimony. This Committee will meet again on February 10 to deal with the same three bills. That meeting will be in Trenton.

I thank the staff as well, some of whom traveled quite a distance to be here today.

ASSEMBLYMAN ROMANO: Mr. Chairman, I didn't realize these were the closing comments. I want to say on behalf of, especially-- Jack, you are not on this Committee -- please. (addressed to Assemblyman Mattison)

ASSEMBLYMAN DiGAETANO: None of you are, officially.

ASSEMBLYMAN ROMANO: We are all, you might say, substitutes, very good substitutes that is, and we enjoyed the hospitality extended here today. I am sure in your heart you are saying, "I wish they would allow them to be on a second Committee, all three of them, on Policy and Rules with me."

ASSEMBLYMAN DiGAETANO: Well, I was going--

ASSEMBLYMAN ROMANO: I know Bagger was chomping at the bit.

ASSEMBLYMAN DiGAETANO: --to suggest, Assemblyman, that you pray upon the Minority Leader that on February 10 when we deal with these bills again, that the same three members are present at that hearing on the Minority's behalf as are here today. We would certainly welcome you.

ASSEMBLYMAN ROMANO: It is a pleasure to be here with you, starting with Assemblyman Geist, who is an old colleague of mine.

ASSEMBLYMAN DiGAETANO: He's not too old.
Thank you. Thank you very much, ladies and
gentlemen. February 10 at the State House.

(MEETING CONCLUDED)

APPENDIX



NEW JERSEY STATE
CHAMBER OF COMMERCE
ONE STATE STREET SQUARE
50 WEST STATE STREET - SUITE 1110
TRENTON, NEW JERSEY 08608

TESTIMONY

OF THE

NEW JERSEY CHAMBER OF COMMERCE

ASSEMBLY POLICY AND RULES COMMITTEE

NEWARK, NEW JERSEY

FEBRUARY 2, 1994

TAX REDUCTION LEGISLATION

ASSEMBLY BILLS A-1, A-2 AND A-3

SPEAKER HAYTAIAN, CHAIRMAN DIGAETANO AND MEMBERS OF THE ASSEMBLY POLICY AND RULES COMMITTEE, THANK YOU FOR PROVIDING THE STATE CHAMBER WITH AN OPPORTUNITY TO OFFER TESTIMONY ON LEGISLATION WHICH OFFERS TAX CUTS TO BOTH RESIDENTS OF THIS STATE AND TO THE BUSINESS COMMUNITY.

I AM WILLIAM R. HEALEY, ASSISTANT VICE PRESIDENT FOR GOVERNMENTAL RELATIONS AT THE STATE CHAMBER. OUR ORGANIZATION IS HERE TO SUPPORT ASSEMBLY BILLS A-1, A-2 AND A-3, AND ALSO TO PROVIDE SOME OF OUR THOUGHTS ON HOW WE FEEL STATE GOVERNMENT CAN AT THE SAME TIME REDUCE ITS EXPENSES TO MAKE UP FOR THESE LOST REVENUES.

IT IS MY PLEASURE TO INTRODUCE BOTH OUR PRESIDENT, BILL FAHERTY, ALONG WITH THE CHAIRMAN OF OUR COST OF

GOVERNMENT COMMITTEE, CHARLES COSTENBADER. BOTH OF THESE MEN KNOW THEIR NUMBERS.

BILL FAHERTY SERVED AS A DEPUTY MAYOR OF TRENTON, A MEMBER OF GOVERNOR HUGHES' CABINET AND AS A PROMINENT MEMBER OF THE STATE'S BANKING COMMUNITY PRIOR TO JOINING THE CHAMBER NEARLY THREE YEARS AGO.

CHARLES COSTENBADER IS A SENIOR PARTNER OF STRYKER, TAMS & DILL HERE IN NEWARK AND A FORMER CHAIRMAN OF THE TAXATION SECTION OF THE STATE BAR ASSOCIATION. HE SERVED AS A TAX ADVISOR TO GOVERNOR WHITMAN DURING HER CAMPAIGN AND WAS A MEMBER OF THE STATE AND LOCAL EXPENDITURES AND REVENUE PROGRAM -- SLERP -- COMMISSION.

IT IS NOW MY PLEASURE TO INTRODUCE BILL FAHERTY.

THANK YOU VERY MUCH FOR GIVING THE CHAMBER THE OPPORTUNITY TO MAKE THIS PRESENTATION. WE ARE EXCITED ABOUT THE REVIVAL OF NEW JERSEY'S ECONOMY.

JUST THREE WEEKS AGO, THE STATE CHAMBER INTRODUCED ITS ANNUAL LEGISLATIVE AGENDA. THERE WERE A NUMBER OF AVENUES WE SUGGESTED FOR CONTRACTING THE ROLE OF STATE GOVERNMENT AND PUTTING MORE DOLLARS INTO THE HANDS OF THE PRIVATE SECTOR.

OUR ORGANIZATION REPRESENTS A NETWORK OF CHAMBERS OF COMMERCE AROUND OUR STATE, 110 IN TOTAL. THAT "CHAMBER OF COMMERCE" MOVEMENT SPEAKS FOR 45,000 BUSINESS AROUND OUR STATE.

WE FRANKLY ARE EXCITED ABOUT THE PROSPECT OF TAX CUTS AND WE SUPPORT THE THREE BILLS THAT ARE UNDER

JK

CONSIDERATION TODAY BY THE COMMITTEE. A-1 AND A-2 ARE CERTAINLY ATTRACTIVE TO ALL OF US WHEN WE PUT ON OUR HAT AS RESIDENTS. I KNOW THE STATE'S ENTIRE BUSINESS COMMUNITY MOST CERTAINLY WELCOMES THE END OF THE CORPORATE TAX SURCHARGE. BOTH SECTORS, HOWEVER, WILL BENEFIT FROM EACH OF THESE TAX CUTS.

A DECREASE IN THE INDIVIDUAL INCOME TAX RATE, AS PROPOSED IN A-1, IS AN IMPORTANT BUSINESS ATTRACTION AN GENERAL ECONOMIC BAROMETER FOR COMPANIES LOOKING TO RELOCATE TO OUR STATE. OUR INCOME TAX STRUCTURE FOR INDIVIDUALS SHOULD BE MADE MORE COMPETITIVE, NOT JUST IN COMPARISON TO OUR IMMEDIATE NEIGHBORING STATES, BUT IN COMPARISON TO THOSE STATE IN THE SOUTH AND WEST THAT HAVE BEEN THE BENEFICIARIES OF JOBS ONCE HELD HERE IN NEW JERSEY.

FROM A FISCAL AND MANAGEMENT STANDPOINT, IT ALSO MAKES A GREAT DEAL OF SENSE TO RAISE THE THRESHOLD OF MINIMUM TAXABLE INCOME. IT COSTS A FIXED AMOUNT TO PROCESS EACH TAXPAYER RETURN, AND THE FUNDS REALIZED TO THE STATE BY TAXPAYERS NOW CURRENTLY MAKING BETWEEN \$3000 AND \$7500 ANNUALLY IS MINUTE COMPARED WITH THE COSTS OF COLLECTING THOSE FUNDS.

HOWEVER, I WOULD LIKE TO MAKE PARTICULAR MENTION OF OUR SUPPORT FOR THE REMOVAL OF THE CORPORATE INCOME TAX SURCHARGE, FOR WE BELIEVE IT SPEAKS VOLUMES ABOUT THE POTENTIAL OF REFORMING BOTH OUR STATE'S TAX STRUCTURE AND OUR "CRAZY QUILT" REGULATORY SYSTEM.

THIS SURCHARGE WAS ENACTED IN 1986 TO HELP FUND HAZARDOUS WASTE CLEANUPS. I MIGHT ADD, ITS PASSAGE

WAS DONE WITH THE TACIT SUPPORT OF OUR ORGANIZATION, OUR MEMBERS ACTING AS "GOOD CORPORATE CITIZENS". ALMOST IMMEDIATELY, A COVENANT MADE WITH THE STATE'S BUSINESS COMMUNITY WAS BROKEN, AND FOR THE MOST PART, THESE FUNDS WERE NEVER USED FOR THEIR ORIGINAL PURPOSE.

THE MONIES ARE NOT THE ONLY EXAMPLE OF BUSINESS FINANCED FEES AND TAXES THAT ARE DIVERTED TO OTHER PURPOSES. JUST A YEAR AND A HALF AGO, FEES FROM THE NJPDES PROGRAM WERE SIPHONED OFF TO HELP FUND THE "PARKS" SIDE OF THE DEPARTMENT OF ENVIRONMENTAL PROTECTION AND ENERGY.

AS TWO IMPORTANT ADJUNCTS TO THIS FIRST STEP OF TAX DECREASES, THERE MUST BE A COMMITMENT TO RETURNING ALL FEES, FINES AND PENALTIES TO THE GENERAL TREASURY,

ELIMINATING THE NEED FOR "FUNDRAISING" BY VARIOUS DIVISIONS OF THE 19 CABINET DEPARTMENTS, BE IT NJ DEPE, NJ DCA OR OTHERS.

SECONDLY, EACH CABINET DEPARTMENT, THE DEPE IN PARTICULAR BECAUSE IT IS 83% FUNDED BY SUCH " OFF-BUDGET" INCOME MUST ASSESS ITS MISSION AND BEGIN TO JETTISON THOSE RESPONSIBILITIES THAT PROVIDE NO REAL REGULATORY FRAMEWORK, BUT MERELY PERPETUATE THE BUREAUCRACY. IN DEFENSE OF NJDEPE, MANY OF THOSE RESPONSIBILITIES WERE HEAPED UPON THE DEPARTMENT BY THE LEGISLATURE WITH NO DIRECT APPROPRIATIONS. PERHAPS THE MOST RECENT EXAMPLE IS THE CLEAN WATER ENFORCEMENT ACT.

I WOULD NOW LIKE TO CALL ON MR. COSTENBADER.

THANK YOU MR, CHAIRMAN. I WOULD LIKE TO ADDRESS SOME ADDITIONAL POINTS OF TESTIMONY THAT WE BELIEVE ARE CRUCIALLY RELATED TO THIS TAX CUT LEGISLATION BEFORE THE COMMITTEE TODAY.

THE EXECUTIVE BRANCH AND THE LEGISLATIVE BRANCH MUST IMMEDIATELY EASE BURDENS THEY'VE IMPOSED ON THE COUNTIES AND MUNICIPALITIES OF THIS STATE. THIS ORGANIZATION HAS LONG BEEN A SUPPORTER OF THE CONCEPT OF STATE MANDATE/STATE PAY. MANY GOVERNMENTS ARE BURDENED BY STATE REQUIREMENTS, YET ARE NEVER PROVIDED WITH THE FINANCIAL WHEREWITHAL TO CARRY THOSE BURDENS OUT. THEIR ONLY ALTERNATIVE IS USUALLY THE OVERBURDENED BUSINESS AND RESIDENTIAL PROPERTY TAX PAYER.

HOWEVER, WE ARE PAYING DEARLY FOR OUR ADHERENCE TO THE CONCEPT OF HOME RULE. I NOTED WITH INTEREST A SERIES DONE BY THE RECORD OF HACKENSACK ON THE CREATION OF OUR MANY MUNICIPAL GOVERNMENTS. THERE WAS A TIME AT THE BEGINNING OF THIS CENTURY THAT WE HAD FAR FEWER LOCAL GOVERNMENTS.

THE BUSINESS COMMUNITY WOULD NEVER ORGANIZE ITSELF IN THE DECENTRALIZED STRUCTURE COMMON TO LOCAL GOVERNMENT TODAY. IT'S INEFFICIENT, DUPLICATIVE, AND MOST OF ALL COSTLY. ASIDE FROM ACTUALLY COMBINING MUNICIPALITIES, THERE CAN AND SHOULD BE A MUCH GREATER EMPHASIS ON SHARING SERVICES. THE REAL MECHANISMS TO FACILITATE SUCH SHARING HAVE BEEN IN PLACE FOR OVER 20 YEARS, YET THERE HAS NEVER BEEN ANY SORT OF FINANCIAL INCENTIVE TO DO SO, NOR A FINANCIAL PENALTY FOR PERPETUATING INEFFICIENT LOCAL GOVERNMENT.

EARLIER, MR. FAHERTY, MENTIONED OUR "CRAZY QUILT" REGULATORY SYSTEM. SUCH A SYSTEM ALSO EXISTS IN LOCAL GOVERNMENT SERVICES, MOST ESPECIALLY IN EDUCATION.

THE SOMERSET ALLIANCE FOR THE FUTURE, IN CONJUNCTION WITH THE SOMERSET COUNTY CHAMBER OF COMMERCE, RECENTLY RELEASED A STUDY THAT SHOWED VERY TANGIBLE FINANCIAL GAINS TO BE MADE IN THE GREATER INTER-MUNICIPAL SHARING OF SERVICES. IT OUGHT TO BE REQUIRED READING FOR PRIVATE AND PUBLIC SECTOR OFFICIALS ALIKE.

WE SEE A GREAT DEAL OF "OVER-ADMINISTRATION" IN THE DELIVERY OF EDUCATIONAL SERVICES. WE HAVE 611 SCHOOL DISTRICTS, FAR MORE THAN ANY OF OUR NEIGHBORS. EACH OF THESE DISTRICTS NEGOTIATES CONTRACTS SEPARATELY.

EACH HAS ITS OWN ADMINISTRATIVE STRUCTURE. AGAIN, THE BUSINESS COMMUNITY WOULD NEVER OPERATE IN SUCH A DECENTRALIZED MANNER. IT IS ALSO TIME TO HAVE THE STATE PROVIDE FINANCIAL INCENTIVES TO REGIONALIZE MORE OF OUR SCHOOL DISTRICTS. OTHER STATES ARE DELIVERING QUALITY EDUCATION TO THEIR STUDENTS AT FAR LESS COST THAN OUR ALMOST \$10,000 PER STUDENT.

IF WE FAIL TO MAKE SUCH ECONOMIES AT THE COUNTY AND LOCAL LEVELS, BOTH BUSINESSES AND RESIDENTS WILL HAVE TO SHOULDER AN ADDITIONAL LOCAL TAX BURDEN, SOMETHING NO ONE WANTS TO DO.

JUST FOR A MOMENT, LET ME ADDRESS OUR CONTINUING ADVOCACY OF THE REMOVAL OF THE TELECOMMUNICATIONS TAX. ALTHOUGH IT IS NOT AMONG THE BILLS BEING DISCUSSED TODAY, IT WAS BEFORE THIS SAME COMMITTEE

THAT LAST JULY BILL HEALEY AND I SPOKE IN SUPPORT OF ITS REMOVAL.

THE STATE CHAMBER IS STILL FIRMLY COMMITTED TO THE REMOVAL OF THIS TAX, TOTALLY AND COMPLETELY, THE TELECOMMUNICATIONS TAX IS A SUBSTANTIAL TAX ADDED TO AN ALREADY SUBSTANTIAL COST OF DOING BUSINESS, ESPECIALLY IN A STATE LIKE OUR GEARED INCREASINGLY TO THE SERVICE SECTOR.

IN LIEU OF A TOTAL, IMMEDIATE REMOVAL, WE WOULD ADVOCATE THAT A REVISION OF THE TELECOMMUNICATIONS TAX STRUCTURE BE MADE TO MAKE IT MORE COMPETITIVE WITH OUR SURROUNDING STATES. CURRENTLY, NEW JERSEY IS THE ONLY STATE THAT TAXES ALL COMPONENTS OF TELECOMMUNICATIONS SERVICES.

AS AN IMPORTANT "FIRST STEP" MAY WE SUGGEST THE REMOVAL OF THE "YELLOW PAGES" TAX. NEITHER NEW YORK OR PENNSYLVANIA TAX THIS SERVICE AND ITS ELIMINATION WOULD MEAN THAT ONCE AGAIN AN IMPORTANT ADVERTISING VEHICLE FOR OUR BUSINESSES IS PRICED MORE COMPETITIVELY WITH THAT OF OUR NEIGHBORS.

IF MORE CAN BE CUT, IT SHOULD THEN BE DONE BY REMOVING THE LEVY FROM INTERNATIONAL AND INTERSTATE CALLS.

ADDITIONAL TELECOMMUNICATIONS TAX CUTS MUST COME IN THE NEAR FUTURE AND WE HOPE THAT THE ORIGINAL PLAN FIRST OFFERED BY THE GOVERNOR IN HER CAMPAIGN CAN COME TO FULL FRUITION WITHIN ITS THREE YEAR TIMELINE

I WOULD LIKE TO TURN THE REMAINDER OF THIS TESTIMONY BACK TO MR. HEALEY

THANK YOU AGAIN FOR THIS OPPORTUNITY TO TESTIFY. LET ME OFFER A PHRASE FROM OUR 1994 LEGISLATIVE AGENDA FOR BUSINESS THAT SHOULD BECOME AN IMPORTANT PRINCIPLE OF THE FY'95 BUDGET PROCESS AND THE RECONFIGURATION OF GOVERNMENT AT THE STATE, COUNTY AND LOCAL LEVELS : "SOUND BUSINESS PRINCIPLES MUST BE APPLIED TO THE MANAGEMENT OF GOVERNMENT"

SOME ADDITIONAL EXAMPLES OF COST CUTTING:

WHEN A BUSINESS FACES A PRODUCTION SHORTAGE IN ONE FACILITY AND OVERCAPACITY IN ANOTHER, A LOGICAL STEP WOULD BE TO SHIFT SOME OPERATIONS TO THE UNDERUTILIZED FACILITY. SO WHY IS IT THAT IN MY HOME COUNTY OF HUNTERDON, ONE HIGH SCHOOL FACING A GROWTH OF STUDENTS IN THE COMING DECADE FAILS TO EXPLORE THE SHIFTING SOME OF ITS STUDENTS TO

NEIGHBORING HIGH SCHOOLS THAT ARE SEVERELY UNDERCAPACITY.

WHAT IS BEING PROPOSED INSTEAD IS A \$17 MILLION ADDITION THAT WILL HAVE TO BE BORNE BY THE TAXPAYERS OF FIVE MUNICIPALITIES IN THE COUNTY, INCLUDING THE ONE IN WHICH I LIVE. THIS IS A PERSONAL, "CLOSE TO HOME" EXAMPLE OF WHY WE SPEND THE MOST PER STUDENT OF ANY STATE.

IN STATE GOVERNMENT, WE ENCOURAGE THE PRINCIPLES OF MANAGED CARE NETWORKS BE APPLIED TO BOTH STATE GOVERNMENT EMPLOYEE BENEFITS AND SERVICES SUCH AS MEDICAID.

AS IS THE CASE IN THE PRIVATE SECTOR, STATE EMPLOYEES SHOULD BEGIN EVEN A MINIMAL CONTRIBUTION TO THEIR OWN HEALTH INSURANCE PREMIUMS.

THE STATE CHAMBER HOPES THAT OUR BRIEF COMMENTS
HAVE OFFERED INSIGHT ON HOW WE BELIEVE THE GOALS OF
TAX CUTS AND SPENDING REDUCTIONS CAN BE
ACCOMPLISHED.

WE WOULD BE PLEASED TO ANSWER ANY ADDITIONAL
QUESTIONS THAT THE COMMITTEE MAY HAVE. THANK YOU.

CHAZOTTE, LEFANTO & CO., P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
17 FARVIEW TERRACE
PARAMUS, NEW JERSEY 07652**

**KENNETH J. CHAZOTTE, CPA
MICHAEL C. LEFANTO, CPA
THOMAS S. BONO, CPA
ARTHUR DALLE MOLLE, JR., CPA**

**(201) 368-0722
FAX (201) 368-9374**

February 2, 1994

TO: Members of the Assembly Policy and Rules Committee

FROM: Michael C. Lefanto, CPA

**SUBJECT: A-1, Haytaian/Geist -
Decreases gross income tax rates 5% for taxable year 1994
and thereafter.**

**A-2, LoBiondo/Wolfe
Increases minimum income necessary to be subject to the
gross income tax.**

**A-3, Warsh/Corodemus
Discontinues corporation business tax surtax as of
January 1, 1994.**

Honorable Members:

Although I currently chair the State Taxation Committee of the New Jersey Society of Certified Public Accountants, I do not appear before you today in that capacity.

I am also a practicing Certified Public Accountant. My area of practice is taxation. It is in this capacity that I appear before you today.

In general, I am in favor of all of these bills, however, I believe this is only the tip of a tax reform iceberg long waiting to thaw for New Jersey taxpayers.

Although A-1 decreases the New Jersey Personal Gross Income Tax, New Jersey still remains one of the highest personal income tax states in the country.

I believe that lower tax rates and simpler tax rules stimulate economic growth.

For years, New Jersey had been a magnet, drawing businesses away from the extremely high tax rates of New York City. However, due to the very high effective tax rate of the New Jersey Gross Income Tax, Orange, Rockland and Westchester counties are also very appealing, tax wise, to those businesses which want to move out of New York City.

Likewise, our senior citizens from the Northern New Jersey communities, no longer find it economically feasible to move to the retirement communities in Ocean and Monmouth Counties. For the same auto ride, they can move to Bucks County, Pennsylvania, where they experience a very low income tax rate (by-the-way, Pennsylvania does not tax pension income at all), substantially lower real property taxes, and, as a bonus, lower auto insurance rates and no Garden State Parkway tolls!

I believe a more equitable method of taxing personal income in New Jersey would be one of the methods that piggy-back the state tax on the Federal return, say, as a state like Rhode Island does.

The piggy-back method eliminates a whole different set of rules the state tax laws require and, as in the case of the New Jersey Gross Income Tax, many tax inequities.

Also reduced are compliance costs as the Federal government would perform the compliance function for the state as well as itself.

A-2 only creates a higher cliff for the unwary taxpayer. Under current legislation, if a taxpayer has income of \$3,001, they are not only taxed on the one dollar that exceeds the \$3,000 filing threshold, but they are taxed on \$2,001 (\$3,001 Gross Income, minus \$1,000 personal exemption equals taxable income of \$2,001) which creates a Gross Income Tax liability of \$40. That one dollar costs the taxpayer \$39 due to the creation of a tax liability.

If this income threshold is increased to \$7,500, the \$7,501 income would create a tax liability of \$130 under current tax rates and a tax liability of \$124 under the proposed Gross Income tax rates.

To an unwary taxpayer, this could create a tremendous financial burden!

My recommendation here would be to create a phase in/phase out of the \$7,500 filing threshold so as to not create this tax cliff.

Again, I am in favor of A-3, however, again, it does not go far enough!

Instead of a flat corporate tax rate of 9%, a graduated corporate tax rate would be more equitable.

The graduated rate could start out at 2 or 3 percent and go as high as 10 or 12 percent depending on the income of the corporation.

Myself and the almost 14,000 members of the New Jersey Society of Certified Public Accountants stand ready to assist the Legislature, and the Administration in developing and passing sound, equitable tax legislation!

I appreciate the opportunity you have afforded me to appear before you.

New Jersey
Citizens for a
Sound Economy
204 West State Street
Trenton, NJ 08608

PHONE: 609-392-6445
FAX: 609-392-6425



TESTIMONY
of
NEW JERSEY CITIZENS FOR A SOUND ECONOMY

before the
ASSEMBLY POLICY AND RULES COMMITTEE

February 2, 1994

Chairman Digaetano and members of the Committee: My name is Dana Joel, and I am the Director of New Jersey Citizens for a Sound Economy (New Jersey CSE). New Jersey CSE is a citizens advocacy organization that promotes limited government and free-market solutions to public policy problems. We have 10,000 members across the state. I am delighted to be here today to testify in support of these three bills that, if passed, will reduce the state's oppressively high income tax rates and reverse tax and budget policies of the past that have crippled the economy.

The bills under consideration today--A-1 to reduce the personal income tax rate by five percent, effective January 1, 1994; A-2 to eliminate the income tax on individuals earning \$7,500 or less, effective January 1, 1994; and A-3 to eliminate the corporate business surtax, effective January 1, 1994--all share the common theme to provide long-overdue tax relief to the citizens of New Jersey and to ensure a strong economic recovery.

It wasn't long ago that New Jersey was one of the most economically vibrant and prosperous states in the nation, ranking fourth in annual business starts, seventh in retail sales per household, and tenth in annual income growth. That was before the enactment of the \$2.8 billion tax increase, one of the most devastating economic policies in the state's history.

The personal income growth rate, which exceeded most other states throughout the 1980s, trailed the rest of the nation in the early 1990s. But the most damaging aspect of the higher tax burden was clearly its impact on the jobs market. Between 1990 and 1992, New Jersey lost as many as 180,000 jobs--a 5 percent decline. To be sure, the national economic recession was partly responsible for the job loss. But by 1992, when most states were actually creating jobs, New Jersey was one of only thirteen states that continued to lose jobs. In fact, in percentage terms, New Jersey lost more jobs in 1992 than any other state except West Virginia. The creation of technically trained and highly skilled jobs, many of which were lost over the last few years following the tax hike of 1990, is particularly vital to New Jersey's recovery.

To finance the needed tax reductions, the Whitman administration is proposing to reduce spending by five percent, or one nickel on the dollar, over an 18-month period. Given the size of the current fiscal budget--\$15.9 billion--and the rapid growth in the size of the budget over the last few years, \$1.2 billion in cuts is by no means insurmountable. Nor would New Jersey be the first state to significantly reduce spending in recent years. Governor Kirk Fordice of Mississippi, who took office in 1992, reduced spending by five percent during the first two years of his administration, creating a budget surplus of \$250 million.

Privatizing various government services is one means of achieving significant cost savings while improving the provision of service, as many other states--and localities--are discovering. The Weld administration in Massachusetts, for example, calculates they have saved taxpayers as much as \$273 million since 1991 by allowing private firms to operate state-owned skating rinks, contracting out to the private sector the maintenance of highways, privatizing state mental hospitals, and other government services.

Governor Christine Todd Whitman has stated publicly that she supports the privatization of some services, including the possible sale of state-owned assets. And Assemblyman Corodemus is leading an effort to privatize various functions within the Department of Community Affairs which could eliminate as many as 161 positions.

Another potential target for privatization should include the management of state-owned educational institutions, such as the Marie H. Katzenback School for the Deaf. The privatization of public school operations is a new trend taking off in such cities as Baltimore and Minneapolis, and is now under consideration in Washington, D.C. Experience shows that privately-run public schools are able to tend to school repairs and maintenance problems, as well as purchase school supplies, much faster and cheaper than traditional government-operated schools.

In addition to privatization, there are countless government programs--many which were designed to be temporary--that should be scaled down or eliminated altogether. The size of the state government has been expanding at a faster rate than almost any other state. Spending in New Jersey has soared over the last decade, with the biggest annual increase occurring in 1992. According to data released last fall by the Census Bureau, spending in New Jersey rose a staggering 26 percent for 1992, by far the largest increase of any state. (Spending rose by 13 percent in California and 14 percent in New York.)

The reduction of taxes is crucial to the state's economic future. On behalf of New Jersey CSE's members throughout the state, I commend the sponsors of these bills for their strong leadership and commitment to stimulating jobs and economic growth. On behalf of our members, I urge the members of this committee to vote in support of this crucial legislation.

STATEMENT OF JOHN K. WALSH, JR.
COMMERCE AND INDUSTRY ASSOCIATION OF NEW JERSEY
Regarding Assembly Bills A-1, A-2 and A-3

Good Afternoon Mr. Chairman and members of the Committee. It is indeed a privilege to be granted this opportunity to present this statement on behalf of the Commerce and Industry Association of New Jersey, which represents over 1200 member firms in Northern New Jersey.

On behalf of the Association, I wish to state our firm support for Assembly bills A-1, A-2 and A-3, the proposed legislation that would give New Jersey residents some much-needed and long-over-due tax relief.

I also want to take the opportunity to commend the Legislature for not only recognizing the need to provide tax relief in this state, but also for its prompt action in introducing these bills to reduce the tax burden in New Jersey. The business community also wants to express its gratitude to the members of the legislature for its cooperation with the business community.

On November 23, 1993, the Association's Board of Directors unanimously voted in support of Governor Whitman's proposal to cut income taxes 30% over three years. In fact, we were the first business association to announce its support for this plan.

So it is indeed a pleasure to see that the Assembly has expressed its support through the introduction of these three bills.

We believe these bills are important for several reasons. First, the business community is looking for some official recognition that New Jersey is business friendly. Business has been beat up the last few years by bureaucrats run-a-muck, excessive regulations which have no relationship to the legislation, and burdensome tax rates. Time and again, I am confronted by association members who complain about the apparent anti-business atmosphere in New Jersey. While they often cite over-regulation as a major obstacle, they also cite the burden of personal and corporate tax rates that are currently imposed.

We must send a message to the business community that we want them to stay. We can then demonstrate to the surrounding business community that New Jersey wants to attract new business.

Make no mistake, New Jersey will continue to be at a competitive disadvantage without reducing its tax rates. Presently, New Jersey is in competition with other states for business. South Carolina imposes a 5% corporate tax, Florida 5.5% and Arizona 6%

Closer to home, we have New York City. Businesses who were seeking to leave New York City were by-passing New Jersey to go South. Today, Mayor Guliani presented his City Budget. Mayor Guliani has proposed eliminating the City personal income tax surcharge, the hotel occupancy tax, and reducing the corporate tax rates. Ladies and Gentlemen, the competition is getting stiffer, and New Jersey must move to compete.

The second reason the bills are important is because these reductions will help boost consumer confidence. The level of consumer confidence will reveal itself in the willingness of the consumer to spend money and turn that money back into the economy.

Yet there is a great significance beyond the confidence boost to both the business community and the consumer. This significance is rooted in the economics of the tax reductions. And it is here that you must not concede to those who favor high tax rates.

Let's look at some historical data. The 1980's saw the largest post-World War II economic expansion in history. American business created 18 million new jobs, mostly created by small businesses. Although these were several factors contributing to this, the single most significant factor was the 1981 Economic Recovery Act which reduced the marginal tax rates from 70% to a top rate of 28%.

While the lower rates were in effect, actual revenue increased. As soon as the rates were increased, revenues fell and the economy languished.

Moreover, the quality of life improved for all income levels. The Federal Reserve Bulletin reported that the incomes of all Americans at all income levels increased by at least 6.6%, while median net worth rose by 11%.

In 1986, when Congress devastated the national economy with the Tax Reform Act of 1986, which among other things increased the capital gains rate, revenue collections again fell.

The lesson is that decreasing tax creates more collections, encourages capital formation, creates jobs, and grows the economy.

We have an historic opportunity to invest in New Jersey. I ask you remove the barriers to economic recovery, and begin by passing A-1, A-2 and A-3.

These bills can be combined with the repeal of telecommunications tax, and a significant reduction in the budget and actual spending.