FEBRUARY 23, 1972

STATEMENT OF SENATOR J. EDWARD CRABIEL

on

GOVERNOR'S TAX POLICY COMMITTEE'S REPORT

I have given careful consideration to the overall recommendations of the Governor's Tax Policy Committee. May I say first that during the months that I have worked on this Committee I have developed a respect for the sincerity and integrity of my fellow Committee members and I recognize the considerable efforts made by the Committee in drafting these recommendations.

Many of these recommendations I agree with and support. But, there are very serious faults with the report that make it impossible for me to support some of the Committee's major proposals. In summary, these include, as far as I am concerned, the proposed statewide property tax plan, the reduced tax burden on business which result in an unjustified tax windfall, increased tax penalities on our people in the form of higher excise taxes and sales taxes, lack of real relief for rent-paying taxpayers and particularly those with modest incomes, and the fact that the Committee carried on its work virtually in secret.

I do approve the proposals to shift to state government the responsibility for welfare and court services. Similarly, I agree that the cost of senior citizens' exemptions should be paid for by the State. The basic concept of substantial tax relief for real property owners, with the resulting shift of financial responsibility to state resources, is a sound idea. I also support completely the recommendations of Task Force F, on which I served, and which appear in Part IV of the Committee's report. Moreover, there are numerous lesser proposals for reform which would produce

greater tax equality and which should be adopted by the Legislature.

I further recognize that reforms of this magnitude require the enactment of new tax measures on the State level. Assuming that continuing real property relief is unequivocally guaranteed, I would be prepared to support a state income tax. This tax, as proposed, at the very least, should be revised and should provide a deduction for college tuition to assist our citizens who are faced with the problem of financing college costs.

Since I am in agreement with many portions of the Committee's recommendations, it is disappointing to me that the Committee's proposal contains, in my opinion, such serious drawbacks that I cannot endorse it in its entirety.

The following comments are based upon my understanding of the Committee's final recommendations. Unfortunately, a final draft of the Committee's full report was not available to the members of the Committee even as late as the middle of February. In the absence of final text, the Committee's position on certain details remains unclear. Based upon the drafts which were circulated among the Committee's members, there are portions of the Committee's program which I feel are contrary to the best interest of the state and its residents and inconsistent with the Committee's stated objective of tax reform and tax relief. These are the portions of the Committee's report that I reject.

1. I am opposed to the proposed statewide property tax as presented. Such a tax will have the effect of cancelling out all or most of the benefits of the real property tax relief that we promised to homeowners in many communities throughout the State. In these communities, homeowners will end up paying a new personal income tax, a new statewide property tax and a sales tax on clothing and services without receiving any meaningful real property tax relief.

In addition, such a major new tax source will provide the Legislature with too easy a means for raising substantial sums of money in the future on a real property tax basis. This, I believe, is the wrong kind of taxing power to create at this time.

2. I am also opposed to the overall effect of the Committee's entire tax package which will raise additional hundreds of millions of dollars from individual taxpayers while the overall tax burden on business will be decreased. Although the total tax yield in the State will be increased by hundreds of millions of dollars, I estimate that the business community will have its overall tax burden decreased by $100 to $200 million.

I previously indicated to the Committee that my objections to the business windfall and to the statewide property tax could be eliminated if real property could be classified according to use. This would permit us to channel real property tax relief only to home owners thereby avoiding unintended relief to landlords or the general business community. Under such circumstances, I could also be prepared to consider a proposal for a statewide property tax which would not be applicable to owner occupied residential property.

Classifications of property would also permit the proposed income tax to be at a much lower rate than that proposed by the Committee.

In addition, I am not satisfied that the Committee has studied fully whether business in New Jersey pays its proportionate share of the total tax burden in the State. Certainly, business' proportionate share of the tax burden should not be reduced, as the Committee's report recommends, in the absence of a clear justification for such action.

3. I do not approve the specific recommendations for increases in the various excise taxes that have been proposed by the Committee. I am strongly opposed to the recommendations that clothing be taxed under the sales tax because it penalizes those least able to afford the increase. If the Committee has found it impossible to repeal or decrease the sales tax at the same time that they have proposed an income tax, at the very least, they should have avoided recommendations which would make this tax even more oppressive.

4. I am greatly concerned because the Committee's proposal fails to provide any meaningful assistance to rent-paying taxpayers, particularly those with modest incomes. Most of these families reside in the older cities where the major tax relief to be provided under the Committee's package will be on real property. Few low income families own their own homes. This relief, therefore, will flow to their landlords without any likelihood that much, if any, of this relief will benefit the tenants.

At a time when the housing shortage is creating substantial pressure for rent control or other forms of tenant relief, it seems inconceivable to me that we could proceed with

a tax reform program which overlooks the very group which requires assistance the most. The proposal I made for classification of property would eliminate the tax windfall to landlords and businesses, thereby lessening the amounts of money necessary to implement a reform program. This would provide the Committee with greater fiscal flexibility and permit it to reconsider ways in which it could assist this needy group.

Moreover, it should be noted that a major justification for the Committee's program of tax reform is the disproportionate tax burden on the lower income groups. Yet, a review of the taxes paid by persons earning under $7,500. indicates that 60 to 75% of their total taxes are attributable to real property taxes. Most of these taxpayers, however, do not own their own homes and, as I have pointed out, they can expect little or no real relief from this program.

5. It is my understanding that the final draft of the Committee's report recommends elimination of veterans' exemptions and the tax exemptions enjoyed by many other groups on the local level. While I fully concur with the concept of minimizing the exemptions that should be grantedfrom real property taxes and favor their repeal insofar as governmental bodies are concerned, I do not concur with extending such repeal to groups such as veterans. The people of this state have repeatedly reaffirmed and supported such an exemption and I would recommend its continuance.

6. Finally, I take exception to the results of the continued insistance of the Committee that its determinations be carried out behind closed doors. By excluding the public, the Committee has denied to itself the resources available throughout the entire State that would have assisted with a problem as complex

as tax reform. The Committee has also denied to the public the opportunity of following and comprehending the reasoning of the Committee in reaching the conclusions that it has on this package. As a result, the general public and the Legislature will be handed a package of tax reforms near revolutionary in character without any of the interested persons and groups having had an opportunity to understand the basis for the proposals and to recommend or suggest legitimate modifications.

By so doing, the Committee has insulated itself from the heat these proposals are certain to generate, but they have in no way dissipated this pressure. The Committee has merely insured that this pressure will focus full force upon the Legislature, a body that neither created these proposals nor fully comprehends the reasons for them. Such a procedure can only work to the detriment of the beneficial parts of the program itself.

I firmly believe that this program would have been a stronger one and more realistic in terms of its reform proposals if the Committee membership had availed itself of the public responses that now will be heard only after the Committee has completed its task and in an atmosphere of controversy.

For the above reasons, I cannot endorse the Committee's report. But this should not be construed by anyone to mean that I am opposed to tax reform. I have been on record repeatedly as urging a program of honest tax reform to help as many of our people as possible. I continue to stand ready to support any plan that meets the goal of real reform without favoritism.

2/23/72

FROM THE OFFICE OF THE GOVERNOR

FOR RELEASE:
IMMEDIATE

FEBRUARY 23, 1972

I have been informed that the Tax Policy Committee has submitted its findings and recommendations today.

First, I want to commend former Senator Harry Sears for his work as chairman, Mrs. Verdell Roundtree, who was vice chairman, the Task Force chairmen and the Committee members who worked tirelessly for two years. The people of New Jersey owe these men and women a debt of gratitude for their sacrifice of time and effort and their great contribution to our State.

Although I have not yet seen a copy of the report, I have been given a briefing by Senator Sears and the Task Force chairmen.

At this time, I want to repeat a statement which I made earlier. I intend to devote myself in the next two weeks to a full study of the report; and I hope the members of the Legislature, the press and other interested groups will do the same. In short, I am asking for a moratorium to permit everyone to familiarize themselves with the recommendations of the Committee.

Following that, I would hope that we can have a full public dialogue during which all segments of the public can present their views. Thereafter, I would expect the Legislature, at a convenient time this year, to address itself to the Committee's recommendations.

We must achieve meaningful tax reform in New Jersey which will bring the soaring property taxes under control, will provide for a quality education for our youth and a full measure of services for all our citizens at a price they can afford to pay. This report should serve as a foundation for that necessary effort.

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NEW JERSEY SENATE

JAMES P. DUGAN
SENATOR HUDSON COUNTY
TWELFTH DISTRICT
601 BROADWAY
BAYONNE, NEW JERSEY 07002
201 436 1478

SUPPLEMENTARY STATEMENT

TO

NEW JERSEY TAX POLICY COMMITTEE

I have affixed my signature to the Committee's recommendations because I feel that considered in toto these recommendations will substantially diminish this state's reliance on the real property tax. This in itself is desirable and necessary.

I have appended this statement to the Committee's Report because I believe the Report falls short of one of the goals we should have reached - that is to make real property taxation itself, as well as our entire tax system, less regressive.

The committee acknowledges that real property taxation is per se "harshly regressive". An option available to the committee to make property taxation less regressive was available but rejected. Therein I believe the Committee erred.

I feel strongly that the Committee should have recommended the classification of property for purposes of levying the recommended state-wide 1% property tax. This classification would require constitutional amendment as did the farm land classification amendment adopted in 1963.

A fair system of classification could be developed with 4 or 5 categories ranging from an owner occupied residence with less than 4 dwelling units to a category containing industrial property. The residential property would be assessed at a lower percentage of its true value and the industrial property at a higher percentage.

If adopted, such a system would neutralize the shift of tax burden from industrial and commercial properties to residential properties which has taken place since 1956 consequent to the several decisions in the Switz v. Middletown cases. I believe that the consequences of the Switz cases were socially and economically undesirable and that that shift from commercial and industrial taxpayers to residential property taxpayers should be reversed.

Additionally, classification of properties will insure that parity of benefit between residential and business and industrial taxpayers is maintained after the Committee's proposed substantial reduction in real property taxes. Absent classification, I am unsure that that parity has been maintained in the Committee's recommendations. I feel that the commercial and industrial taxpayer may have achieved some advantage by the

Committee's recommendation. Further, I believe that even if the commercial and industrial taxpayer's position is unchanged by the Committee's recommendations, business and industry still can and should pay a larger share of the state-wide tax burden than they are called upon to bear in the Committee's report.

The Committee's report and our study does not make a convincing case against classification. The cited admonition of an obscure Minnesota tax official not to try classification is hardly persuasive. I do not doubt that the Minnesota experience in classification may be controversal. It is so because of the multiplicity of categories and the legislative ease in expanding the number of categories. We in this State could obviate both objections by constitutional fiat limiting the number of categories in our classification scheme.

The opponents of classification make the additional arguments that classification will shrink the real property tax base. It will not if we adjust the percentage of assessed value of the different categories to produce the desired $553 Million called for in the Committee's report.

I am also convinced that unless we have classification of property we will not have achieved and or may not be able to maintain in the future an acceptable level of taxes to be paid by the low and moderate income residential taxpayer. This in view of the recommended increased and new non-property taxes he will be called upon to pay.

As a companion recommendation to the proposed real property tax reduction I would recommend relief to the residential rent payer by an appropriate rent-leveling plan. To effect that relief, I hesitate to accept an income tax credit in itself as the answer. Without some system of rent-leveling, we cannot determine if the rent payer is paying a reasonable or an exhorbitant rent. If the rent is reasonable, tax credit might not be necessary, if it is exhorbitant a tax credit might be insufficient relief.

There is another area where I voice disagreement with the Committee report. I do so hoping to suggest improvement on the Committee's recommendations during the coming legislative treatment of these proposals.

In this respect I speak of the removal of sales tax exemption from clothing and foot wear. I have little objection to a sales tax on silk shirts, but taxing clothing sales may have attendant administrative problems which would make it difficult or impossible to effect rebates to low income families. The rebate system proposed by the Committee, even if it were to work, does not in my judgment make this tax acceptably progressive.

Finally, I view the Committee's individual and collective recommendations as a committment to the reduction of the property tax and my support of all individual recommendations is conditioned on legislative implementation of that committment. My support is further qualified by the views I have expressed herein, particularly those concerning classification of real property.

Respectfully submitted,

James P. Dugan

NEW JERSEY TAX POLICY COMMITTEE

TASK FORCE A - Direction and Coordination

Chairman of the Committee	Former Senate Majority Leader Harry L. Sears of Mountain Lakes.
Vice Chairman of the Committee	Mrs. Verdell Roundtree of Westfield, State Director, United Negro College Fund, Inc.
Chairman Task Force B (Fiscal Needs & Forecasts)	Former Governor Alfred E. Driscoll of Haddonfield.
Vice Chairman, Task Force B (Fiscal Needs & Forecasts)	John P. Lewis of Princeton, Dean of Woodrow Wilson School of Public and International Affairs.
Chairman, Task Force C (The Property Tax)	Leonard C. Johnson of Princeton, President of New Jersey Manufacturers' Association.
Vice Chairman, Task Force C (The Property Tax)	Assemblywoman Ann Klein of Morristown, Former President of New Jersey League of Women Voters.
Chairman, Task Force D (Revenue Resources & Tax Inequities)	Assembly Republican Leader Richard W. DeKorte of Franklin Lakes.
Vice Chairman, Task Force D (Revenue Resources & Tax Inequities)	Henry C. Lang of Wyckoff, Senior Tax Advisor, Standard Oil Company of New Jersey, Former President of New Jersey Taxpayers' Association.
Chairman, Task Force E (Service Levels, Costs & Allocations)	Former Assemblyman Robert N. Wilentz of Perth Amboy.
Chairman, Task Force F (Public Credit)	John J. Magovern, Jr. of Summit, President of Mutual Benefit Life Insurance Company.
Vice Chairman, Task Force F (Public Credit)	Former Assemblyman Hugo M. Pfaltz, Jr. of Summit.

Note: Lawrence Kramer, former Mayor of Paterson, was Vice Chairman of Task Force E, but resigned from the Commission when he was appointed Commissioner of the State Department of Community Affairs.

NEW JERSEY TAX POLICY COMMITTEE

TASK FORCE B - Fiscal Needs and Forecasts

Chairman	Former Governor Alfred E. Driscoll of Haddonfield.
Vice Chairman	John P. Lewis of Princeton, Dean of Woodrow Wilson School of Public and International Affairs.
	George Baldanzi of Hawthorne, International President of United Textile Workers of America, AFL-CIO.
	Donald G. Borg of Hackensack, Editor and Publisher of The Record and The Sunday Record.
	Mayor Robert E. Brumund of Woodbury.

4/22/70

EXECUTIVE DEPARTMENT

EXECUTIVE ORDER NO. 5

WHEREAS, in order to meet the immediate fiscal crisis existing in New Jersey at the time of my inauguration, the Legislature enacted and I signed into law several bills to raise needed revenues; and

WHEREAS, although they resolved the immediate crisis, these measures cannot solve the long range problems of meeting the future fiscal needs of the State and local governments and of providing for the equitable distribution of the cost of government; and

WHEREAS, the present tax structure, which has developed piecemeal over the years without due regard for its overall effect on the economy, results in the raising of essential revenues in a manner which is inequitable to many persons in the State particularly the inordinate burden borne by local property owners; and

WHEREAS, it is generally agreed that tax reform in New Jersey is long overdue; and

WHEREAS, it is essential to any such reform that an immediate and thorough examination be undertaken of the existing State and local tax structure, the present and future revenue requirements for providing governmental services at all levels of government, and the roles of the various levels of government in raising such revenues and providing such services; and

WHEREAS, only after such examination can meaningful recommendations for tax reform be developed to meet future revenue requirements and to provide an equitable distribution of the cost of government; and

WHEREAS, such examination and recommendations can best be undertaken and made by a study committee of citizens and residents of this State which will have the full support of the State government and the ability to conduct public hearings and utilize the services of experts and consultants in various fields, including but not limited to, those of taxation, finance, education and welfare costs, to the end that the committee shall make such recommendations which will provide the most equitable, economically and effective means of financing the legitimate and proper needs of our citizens.

NOW, THEREFORE, I, William T. Cahill, Governor of the State of New Jersey, by virtue of the authority vested in me by the Constitution and by the Statutes of this State, do hereby ORDER and DIRECT:

1. There is hereby created the New Jersey Tax Policy Committee (hereinafter referred to as the "Committee") composed of 40 members, all of whom shall be citizens and residents of the State and shall be appointed by, and serve at the pleasure of, the Governor. Two members of the Committee shall be appointed from among the membership of the State Senate with the recommendation of the President of the Senate, and four members of the Committee shall be appointed from among the membership of the State Assembly with the recommendation of the Speaker of the Assembly, provided that there shall be equal political representation of membership from each of the two legislative houses. The remaining members of the Committee shall be appointed by the Governor so as to provide a broad spectrum of viewpoints with respect to tax reform, and shall include representatives of State and local government, business and labor, taxpayers, professions and other persons knowledgeable in major areas of governmental services and methods of raising revenue by government. The members shall serve without compensation, but shall be reimbursed for necessary expenses incurred in the performance of their duties, subject to the availability of funds therefor.

2. The Governor shall designate a chairman and a vice-chairman of the Committee. The chairman shall preside over the meetings and affairs of the Committee and shall create such sub-committees as he deems appropriate to carry out the functions of the Committee. The chairman shall direct any such sub-committees to render such interim reports to the Committee as he determines appropriate. The chairman shall have such further powers and duties as may be conferred upon him by the Governor. In the absence of the chairman, the vice-chairman shall have all the powers and duties of the chairman.

3. The Committee shall conduct a thorough study and investigation of the following:

(a) The constitutional and statutory provisions relating to taxes imposed by the State and its political subdivisions.

(b) The existing and future demand for governmental services at all levels within the State of New Jersey.

(c) The ability of the various levels of government to raise the revenues necessary to provide present and future governmental services.

(d) The proper and efficient allocation of costs among the various levels of government of such present and future governmental services.

(e) Methods of providing revenues to finance governmental services in a manner to provide for the equitable distribution of the cost of government among all the taxpayers in the State.

4. The Committee shall render to the Governor such interim reports as it may deem appropriate, or as the Governor may request, and upon completion of its work, the Committee shall render to the Governor a full report of its findings and recommendations for tax reform. The Committee shall proceed promptly with its study and investigation so as to make its final recommendations in as short a time as is consistent with the nature of the study to be undertaken.

5. Within the limits of funds available therefor, the Committee shall have the power to incur such expenses as may be necessary in order to exercise the powers conferred and to perform the duties imposed by this Order. The Committee may retain such professional personnel and clerical and technical assistants as it may require and may provide for the printing, advertising and publication of its proceedings and all interim and final reports promulgated by the Committee. All expenses incurred shall be approved by the chairman of the Committee and shall be submitted to the Treasurer of the State upon vouchers and warrants.

6. In order to carry out its functions, the Committee is authorized to conduct such public hearings and to solicit such information from the public and any other source as it deems appropriate. Notice of such public hearings shall be given in such manner as the chairman may direct so as to provide an opportunity for interested members of the public to be heard.

7. (a) The Committee is authorized to call upon any department, office, division or agency of the State to supply such statistical data, program reports, and other information or personnel and materials as it deems necessary to discharge its responsibilities under this Order.

(b) Each department, office, division or agency of the State is authorized and directed, to the extent not inconsistent with law, to cooperate with the Committee and to furnish it such information and assistance as it may find necessary in the discharge of its responsibilities under this Order.

8. This Order shall take effect immediately.

GIVEN, under my hand and seal this 22nd day of April, in the year of Our Lord, One Thousand Nine Hundred and Seventy, and of the Independence of the United States, the one hundred and ninety-fourth.

William Cahill
Governor

ATTEST:

Jean E. Mulford
Secretary to the Governor

Chairman of the Committee	Hon. Harry L. Sears 714 Main Street Boonton, New Jersey 07005 Bus: (201) 334-1900
Vice Chairman of the Committee	Mrs. Verdell Roundtree, State Director United Negro College Fund, Inc. 24 Commerce Street Newark, New Jersey 07102 Bus: (201) 642-1955
Chairman, Task Force B (Fiscal Needs & Forecasts)	Hon. Alfred E. Driscoll, Chairman New Jersey Turnpike Authority Administration Building New Brunswick, New Jersey 08903 Bus: (201) 247-1211
Chairman, Task Force C (The Property Tax)	Leonard C. Johnson, President New Jersey Manufacturers' Association P. O. Box 2708 Sullivan Way Trenton, New Jersey 08607 Bus: (609) 883-1300
Chairman, Task Force D (Revenue Resources & Tax Inequities)	Assembly Republican Leader Richard W. DeKorte 18 Clark Street Paterson, New Jersey 07505 Bus: (201) 525-7700
Chairman, Task Force E (Service Levels, Costs & Allocations)	Robert N. Wilentz, Esq. 252 Madison Avenue Perth Amboy, New Jersey 08861 Bus: (201) 826-0700
Chairman, Task Force F (Public Credit)	John J. Magovern, Jr. Former President Mutual Benefit Life Insurance Company President, N. J. State Chamber of Commerce P. O. Box 520 Newark, New Jersey 07101 Bus: (201) 624-6600
	William Miller, Staff Director One Palmer Square Princeton, New Jersey Bus: (609) 921-6077
	<u>TAX POLICY COMMITTEE OFFICE</u>
	Martin T. Dyke, Office Manager 134 West State Street Trenton, New Jersey Bus: (609) 292-5100
	Lewis B. Thurston Administrative Asst. to the Chairman State House, Trenton, New Jersey Bus: (609) 292-5199

NEW JERSEY TAX POLICY COMMITTEE

TASK FORCE C - The Property Tax

Chairman	Leonard C. Johnson of Princeton, President of New Jersey Manufacturers' Association.
Vice Chairman	Assemblywoman Ann Klein of Moris County, Former President of New Jersey League of Women Voters.
	John W. Duckett of Woodbury, Business Manager of Local 222, Laborers' Union, AFL-CIO.
	Senator James P. Dugan of Bayonne.
	Frederick H. Guntsch of Pompton Plains, Tax Manager and Assistant Secretary of Grand Union Company.
	Marriott Haines of Vineland, Tax Assessor.
	Robert W. Kleinert of Franklin Lakes, President of New Jersey Bell Telephone Company.
	Robert C. von Sothen of North Plainfield, General Tax Administrator, New Jersey Bell Telephone Company (Alternate for Robert W. Kleinert).
	Philip H. Mowery of Lambertville, Former Vice President of New Jersey Farm Bureau

NEW JERSEY TAX POLICY COMMITTEE

TASK FORCE D - Revenue Resources and Tax Inequities

Chairman	Assembly Republican Leader Richard W. DeKorte of Franklin Lakes.
Vice Chairman	Henry C. Lang of Wyckoff, Senior Tax Advisor, Standard Oil Company of New Jersey, Former President of New Jersey Taxpayers' Association.
	A. S. Alexander, Jr. of Princeton, Attorney; Lowenstein, Sandler, Brochin, Kohl and Fisher in Newark.
	Former Governor Richard J. Hughes of Princeton.
	Lawrence L. Lasser of South Orange, Partner in law firm of Lasser, Lasser, Sarokin and Hochman in Newark.
	Assemblyman Ronald Owens of Newark.
	VanDyke J. Pollitt of Fanwood, Member of Borough Council.
	Frank P. Reiche of Princeton, Attorney; Smith Stratton, Wise & Heher.

NEW JERSEY TAX POLICY COMMITTEE

TASK FORCE E - Service Levels Costs and Allocations

Chairman	Former Assemblyman Robert N. Wilentz of Perth Amboy.
	Dr. Robert Goheen of Princeton, President of Princeton University.
	Howard C. Harder of Englewood Cliffs, Chairman and Chief Executive Officer of CPC International.
	Victor H. Frank, Jr. of Englewood, Assistant to the President, CPC International, Inc. (Alternate for Howard D. Harder).
	Mrs. Verdell Roundtree of Westfield, State Director, United Negro College Fund, Inc.
	Richard B. Scudder of Navesink, Publisher of Newark Evening News.
	Mayor Patricia Q. Sheehan of New Brunswick.

NEW JERSEY TAX POLICY COMMITTEE

TASK FORCE F - Public Credit

Chairman	John J. Magovern, Jr. of Summit, President of Mutual Benefit Life Insurance Company.
Vice Chairman	Former Assemblyman Hugo M. Pfaltz, Jr. of Summit.
	Senate Minority Leader J. Edward Crabiel of Milltown.
	J. Richardson Dilworth of Princeton, Chairman of the Board, Rockefeller Center, Inc.
	Edward A. Jesser, Jr. of Ridgewood, President and Chief Executive Officer of Peoples Trust of New Jersey.