

PUBLIC HEARING

before

Assembly Taxation Committee

on

Assembly Concurrent Resolution No. 191
(Third Official Copy Reprint)
(Dedication of State Income Tax)

Held:
April 7, 1975
Assembly Chamber
State House
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Steven P. Perskie (Chairman)
Assemblyman Willie B. Brown
Assemblyman Francis J. Gorman
Assemblyman Gordon A. MacInnes
Assemblyman John A. Sweeney
Assemblyman Walter E. Foran

ASSEMBLY CONCURRENT RESOLUTION No. 191

STATE OF NEW JERSEY

INTRODUCED JULY 22, 1974

By Assemblymen LITTELL, FORAN, WEIDEL, SNEDEKER,
KEAN, Assemblywoman BURGIO, Assemblymen ORECHIO,
RYS, CHINNICI, EWING, HURLEY, SPIZZIRI, SALKIND,
and VAN WAGNER

Referred to Committee on Taxation

A CONCURRENT RESOLUTION proposing to amend Article VIII,
Section I, of the Constitution of the State of New Jersey.

1 BE IT RESOLVED *by the General Assembly of the State of New*
2 *Jersey (the Senate concurring):*

1 1. The following proposed amendment to the Constitution of the
2 State of New Jersey is hereby agreed to:

PROPOSED AMENDMENT

3 Amend Article VIII, Section I by adding a new paragraph 5
4 as follows:

5 5. No tax shall be levied on the personal incomes of ****[citizens**
6 **and residents]**** ***individuals, estates and trusts*** of this State
7 unless ****not less than 80% of**** all annual net receipts there-
8 from shall be received into the treasury, placed in a perpetual fund
9 and be annually appropriated, pursuant to formulas established
10 from time to time by the Legislature, to the several counties,
11 municipalities and school districts of this State for the purpose
12 of reducing ****or offsetting**** ***[local]*** property taxes; and it
13 shall not be competent for the Legislature to borrow, appropriate
14 or use the said perpetual fund or any part thereof for any other
15 purpose***[, under any pretense whatsoever]***.

1 2. When this proposed amendment to the Constitution is finally
2 agreed to, pursuant to Article IX, paragraph 1 of the Constitution,
3 it shall be submitted to the people at the next general election
4 occurring more than 3 months after such final agreement and shall
5 be published at least once in at least one newspaper of each county
6 designated by the President of the Senate and the Speaker of the

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

7 General Assembly and the Secretary of State, not less than 3
8 months prior to said general election.

1 3. This proposed amendment to the Constitution shall be sub-
2 mitted to the people at said election in the following manner and
3 form:

4 There shall be printed on each official ballot to be used at such
5 general election, the following:

6 1. In every municipality in which voting machines are not used,
7 a legend which shall immediately precede the question, as follows:

8 If you favor the proposition printed below make a cross (X),
9 plus (+) or check (✓) in the square opposite the word "Yes."

10 If you are opposed thereto make a cross (X), plus (+) or check
11 (✓) in the square opposite the word "No."

12 2. In every municipality the following question:

	Yes.	<p>Shall the amendment agreed to by the Legislature, to amend Article VIII, Section I of the Constitution of the State of New Jersey by adding a new paragraph to provide that <i>***not less than 80% of***</i> all annual receipts of any State tax levied on personal incomes of **[citizens and residents]** <i>***individuals, estates and trusts***</i> of this State shall be annually appropriated to the several counties, municipalities and school districts of this State for the purpose of reducing <i>***or offsetting***</i> *[local]* property taxes, be adopted?</p>
	No.	

I N D E X

	<u>Page</u>
Laurine Moffett	1
State Fiscal Policy Committee	
League of Women Voters of New Jersey	

Statements submitted:

Judith Cambria	1 X
Citizens Coalition for Tax Reform	
Arthur R. Sypek	3 X
Mercer County Board of Freeholders	
Frank W. Haines	4 X
New Jersey Taxpayers Association, Inc.	

ASSEMBLYMAN STEVEN P. PERSKIE (Chairman): This is the Assembly Taxation Committee public hearing on the amended version of Assembly Concurrent Resolution No. 191. The Committee will recall that we held a public hearing on the original version of ACR No. 191. As a result of that hearing certain amendments were suggested, the bill has in fact been amended and is before us today in its amended version.

Is there anybody who cares to be heard with respect to the amended version of Assembly Concurrent Resolution No. 191?

Do you have a prepared statement? All right, we have a prepared statement by Laurine Moffett a member of the State Fiscal Policy Committee. Mrs. Moffett.
L A U R I N E M O F F E T T: Mr. Perskie and members of the Assembly Taxation Committee, I am Laurine Moffett, a member of the State Fiscal Policy Committee of the League of Women Voters. We appreciate this opportunity to express our views on ACR 191.

The League of Women Voters has long opposed dedication of any state revenues, mainly because it places shackles on the Legislature should the situation change - and situations do change. Dedication ties a fluctuating source of revenue to a fluctuating need and while they may be equal at the time such legislation is passed, the chances are very remote that they would change in the same proportion over the years.

This would be a particularly unfortunate time to tie revenues from an income tax to property tax relief as there is a good chance that future trends of these two taxes will be quite different. To be specific, the economy is expected to recover resulting in rising revenues from a State income tax. On the other hand, school expenditures, which make up approximately 60 % of local expenditures, are reaching a plateau.

It is an old economic law that expenditures tend to rise to meet income. The yield of an income tax would be expected to grow faster than the economy and thus needs. If a set proportion were given to local governments for property tax relief, they would find ways to use it whether the services were needed or not. This would be particularly true since a vote on local budgets is not required. For example, we have witnessed some peculiar uses of federal revenue sharing funds.

Dedication would tie the hands of the legislators, it would make the inflexibility in the revenue system so legislators would have difficulty in matching revenues to priorities. Every state, including New Jersey, which has ever had dedication has run into trouble with it -- too much money for one thing and not enough for the rest of the needs of the state. An income tax would easily provide one-third of state income in a few years, the legislators must be free to exercise control over these funds.

ACR 191 says that all annual receipts of any state income tax be appropriated to counties, municipalities and school districts to reduce property taxes.

ASSEMBLYMAN PERSKIE: May I just at that point apologize for interrupting and indicate that in the amended version it's not more than 80%.

MRS. MOFFETT: I know it's 80%. I guess I should have said 80. I know it's 80%, though.

Won't the public be misled? It does not guarantee property tax relief as those who would vote for the Constitutional change would think. For example, if an income tax yielding \$800 million were enacted as is now being proposed, \$300 million could go for schools to supposedly meet the court decision on a "thorough and efficient" education, and the other \$500 million could also go for schools to replace that much of state money now going to schools. In that way, all revenue would be used to replace

property taxes. However, the \$500 million is already being paid by state monies so that part won't make any difference in local property taxes. If it were really used for property tax relief, there would be no money for the deficit; it can't do both. If the \$300 million is all used for property tax reduction, education won't be improved, and the court decision won't be satisfied. Probably in some districts at least some of the money can be used for property tax relief, but surely not all. So the total amount of property tax relief that would be noticeable to citizens would be something less than \$300 million. For most people, there would be no property tax relief.

The same result, allocation of income tax funds for local property tax relief, could be obtained without a Constitutional change by introduction and passage of a package of bills for revenue raising and increased state aid to reduce the local property tax at the same time as in 1966 when the sales tax became law and a new school aid formula was enacted. We know that some claim that the sales tax never reduced the property tax as expected and thus would think that a Constitutional change would assure it this time. However, the situation was quite different in 1966. Local school taxes did stabilize for one year, but the sales tax, a more stable source of revenue than an income tax, was not able to keep up with rising school costs due to increasing enrollments and higher teachers' salaries. As you know, a Constitutional change is a slow, costly process which usually comes long after the need is recognized, so it would not be so easy to remove such a provision once it has been added.

A more positive way to assure property tax relief along with the passage of a state income tax would be the inclusion of a circuit breaker feature which would limit the amount of property taxes paid by income level. This would give property tax relief to most low and middle

income families, and could easily be adjusted to changing circumstances.

In summary, the League opposed ACR 191 because we believe dedication of particular revenues to a specific purpose could have disastrous results in later years by tying up funds that could be used more advantageously somewhere else, that local governments would find ways to use any excess funds which would not be commensurate with sound fiscal management, and that the Legislature would lose control over a substantial part of state revenues. We feel that passage of this bill, with its implication of substantial property tax relief, could produce a backlash for legislators when voters find such relief does not materialize.

ASSEMBLYMAN PERSKIE: All right. Thank you very much, Mrs. Moffett.

Keeping in mind the Committee's obligation this morning, does any member of the Committee have any questions on this particular testimony? (No questions)

Thank you very much. We appreciate it.

Is there anybody else present this morning who wishes to be heard with reference to the Third Official Copy Reprint of Assembly Concurrent Resolution No. 191?

I am advised that Mrs. Cambria, on behalf of the Citizens Coalition for Tax Reform, desires to make a statement for the record.

We will adjourn this hearing at this time in view of the fact that she is not here and there is no one else present at this time that wishes to testify. However, we will hold the record open to receive whatever statement Mrs. Cambria has and that will, when it is presented to the staff, be made a part of the official record of this morning's proceeding.

That being the end of the hearing, we will adjourn to Room 318 and convene there at ten minutes of ten and do the regular business of the Committee. Thank you very much.

(Hearing concluded)

CITIZENS COALITION FOR TAX REFORM

31 Braemore Road Upper Montclair, New Jersey 07043

201-744-3005

Joanth Cambria, Executive Director

TO: Assembly Taxation Committee
RE: ACR 191

The major problem with the Constitutional amendment is that the public will expect 80% in new property tax relief. However, it will be impossible for the Legislature to provide this amount of new relief while meeting already existing state aid commitments and requirements for state programs.

Although the amendment is worded in a manner which clearly would allow the Legislature to use income tax revenues to fund state aid programs already in existence, the public would consider such action at best a misrepresentation, at worst a fraud.

The dedication of such a large percentage of income tax revenues to property tax relief promises both immediate and future problems. Immediately, the Legislature would be faced with balancing the state budget which now reflects a deficit of \$487 million, and the need to increase school funding. Meeting these priority needs would require, even if the budget deficit were reduced by further program cuts, as much as \$700 million. The increased school aid probably would be perceived by the public as property tax relief and would cause no problem. However, funding the budget deficit, even if the deficit were considered state aid programs only, would not be considered property tax relief by the general public. That would be seen as a shell game. Legislators can anticipate a back-lash if they take this course of action.

If the Legislature has available only 20% of income tax revenue to devote to the budget deficit, an income tax of \$2 to \$2.5 billion to produce the needed revenue would be required. Since this level of income tax is politically and economically unrealistic the Legislature would be forced either to reduce the budget substantially or to play the game of saying that income tax revenues are going to state aid programs already in existence. Either course would have serious consequences. Cutting the budget either would reduce or eliminate state services, or require cutbacks in state aid programs, both of which have already been cut back in the proposed budget. Cutting state aid programs while adding new ones would be attacked immediately. Cutting state services only, in the amount that would be necessary, would destroy years of progress towards beginning to meet legitimate needs in colleges, mental health, environmental protection etc.

In the future, the problems would be even more severe. Even if the Legislature were able to use 80% of the original revenues to provide property tax relief, as revenues grew in the future the Legislators would find themselves searching for ways to provide more relief when that may not be the most desirable or necessary use of funds. One of the major problems with New Jersey's past structure has been the limited amount of revenue available to the state to provide services which cannot be delivered at the local or county level. The Legislature could find themselves in the position of trying to shift to county or local government services which can be provided most equitably, economically and efficiently at the state level just because this amendment dedicates the money to that level. However, it has become clear in the last decade that many of the problems we face cannot be solved at the local level, but must be attacked on a regional or statewide level.

The Citizens Coalition for Tax Reform believes that ACR 191 would make it impossible for the Legislature to act in a responsible manner either now or in the future.

The Coalition does believe that in order to pass an income tax citizens must be assured of some guaranteed property tax relief. We recommend that a smaller percentage of income tax revenues, in the range of 15-20% be dedicated by Constitutional amendment to funding a specific property tax relief program - an excess property tax rebate program. The amount of excess property tax rebate would be based on the citizen's income. This type of program, which is commonly called the circuit breaker, insures that relief is received when a property tax overburden occurs.

Members of the Citizens Coalition for Tax Reform, over 35 organizations representing all types of citizens, agreed to work for the Excess Property Tax Rebate program as the only way to guarantee permanent tax relief which cannot be eaten away by future property tax increases. In fact, if property tax rates increase more people become eligible and the amount of relief increases. They also agreed it was the most equitable form of property tax relief since it treats every citizen the same regardless of where he lives in New Jersey. It directs relief to those most in need, thus assuring sufficient aid to significantly reduce their present property tax overburden.

Dedicating the smaller percentage recommended by the Coalition to the Excess Property Tax Rebate program will still leave the Legislature with flexibility to allocate the remaining revenues for necessary programs of state aid and state services.

The Citizens Coalition for Tax Reform recommends the Assembly Taxation Committee reject ACR 191 and replace it with the Coalition's program for guaranteed property tax relief.

STATEMENT

by Arthur R. Sypek, Director
MERCER COUNTY BOARD OF FREEHOLDERS

(Before the Committee on Taxation of the LEGISLATURE OF NEW JERSEY,
Monday, April 7, 1975, Assembly Chamber)

I am Arthur R. Sypek, the Director of the Mercer County Board of Freeholders and a past President of the State Freeholder Association.

Let me say at the outset that I could support in principle the proposed constitutional amendment calling for an income tax program tied to a reduction in real estate property taxes.

However, and with all due respect for all of the members of the Legislature, I think the people have a right to something more than a concept. In other words, they must be shown in black and white how much property taxes will be reduced through an income tax program. Equally important, they must have evidence that such reductions will be lasting ones.

I am sure that some of you will recall the great expectations immediately following the enactment of our sales tax. Many had that certain feeling, and with good reason, that the sales tax program would reduce significantly and permanently their real estate property taxes. You know what happened. And so do the people of this state. And that is why you will never pass any effective tax reform program without the ironclad guarantees the people demand, and rightly so, for substantial and permanent property tax reductions.

The homeowners, the hard-working citizens who carry the real burden of public financing of practically everything, need relief and they need it fast. They will not tolerate---and I wouldn't blame them---any income tax program which does not provide that relief.

Thank you.

NJTA

NEW JERSEY TAXPAYERS ASSOCIATION INC. • 104 NORTH BROAD STREET • TRENTON, N.J. 08608 • TELEPHONE: AREA CODE 609-394-3116

STATEMENT OF
NEW JERSEY TAXPAYERS ASSOCIATION, INC.
RE
ASSEMBLY CONCURRENT RESOLUTION NO. 191 3d OCR
BEFORE
ASSEMBLY COMMITTEE ON TAXATION
STATE HOUSE, TRENTON
APRIL 7, 1975

Mr. Chairman, Members of the Assembly Committee on Taxation:

My name is Frank W. Haines. I am Executive Director of the New Jersey Taxpayers Association, a non-profit, non-partisan governmental research organization incorporated in 1930.

Since the February 13 public hearing on ACR 191 2d OCR, there have been two significant changes in this proposed constitutional amendment which would prohibit levy of any tax on personal incomes of individuals, estates and trusts, unless a stated portion of the net receipts from such tax were placed in a perpetual fund dedicated for annual appropriations to be used for local units of government for tax relief purposes.

The first change is to limit the dedication of the tax to "not less than 80 percent of all annual net receipts".

The second change adds to the earlier purpose of the dedication which was "reducing property taxes", the words "or offsetting" so that the purpose now becomes "reducing or offsetting property taxes".

ACR No. 191 3d OCR as presently worded contains provisions which represent two conflicting policy principles of the New Jersey Taxpayers Association.

First, on the positive side, NJTA since 1971 has had a policy position that the personal income tax should be utilized primarily as a catalyst for tax reform. Our definition of tax reform is primary use of a broad base

non-property tax on personal income to reduce the proportion which the property tax represents in the total State-local tax system. This was fundamentally what the Tax Policy Committee was striving to attain in 1972 through its recommendations, and similarly was the concept of Governor Byrne's proposal last year. The objective of property tax reduction or offset through the technique of increased State aid financed by statewide non-property taxation has the support of the Taxpayers Association.

On the other hand, as stated on February 13, the Association has had a long-standing policy against Constitutional dedication of revenue. It is our fundamental fiscal policy that the Legislature and the Chief Executive be given the broadest possible discretion in spending decisions. While limiting the dedication of the personal income tax to 80 percent leaves 20 percent of the income for non-State aid purposes, it still appears that a four-fifths dedication of the second or third largest revenue source in the overall tax system may be an unsound fiscal decision. The answer lies in the interpretation of the amendment and the method by which the amendment would be implemented. We still have some serious reservations about the practical administrative feasibility of the State being able to carry out the concept of property tax reduction or offset for each of the nearly 1200 local governmental units. While we recognize that there is a legislative package of bills designed to carry out the avowed purpose of this constitutional amendment, we have not seen any evidence of interest in these bills by standing committees. Accordingly the Legislature must realize that this amendment will establish a requirement with which subsequently enacted aid programs must comply. To effect such compliance may involve levels of funding

or aid techniques which will be neither equitable nor feasible politically or financially.

Study of the proposed amendment has not yet convinced us that the objective of the constitutional amendment -- property tax reduction or offset for every municipality, school district and county is achievable within the aid funding levels now under legislative consideration. Certainly the Governor's proposal for \$300 million State school aid is not a program for tax relief of the municipal or county portion of the property tax.

The new Joint Committee on the Public Schools is again deliberating school aid formulas which will have the least adverse tax impact on the numerous school districts of the State. Use of minimum aid and the save harmless device which are of doubtful legality are two techniques for trying to prevent some school districts from having higher property taxes. It appears that not every district can be a gainer at a \$300 million funding level. Even the complex 1972 Tax Policy Committee package with various aids for municipal and county units as well as school districts would have denied several of the municipalities tax relief.

The Governor's Budget contains the following statement (page 3a):

"I recommend that an income tax, which would yield at least \$487 million, be listed against the existing State aid to education in the budget."

If all or part of present school aid, in addition to increased school aid is assumed to be financed from a future personal income tax, such as some might imply from the Governor's statement, such interpretation is bound to

create confusion in the minds of taxpayers and contribute to credibility problems such as you have never seen.

NJTA would like to be convinced that the goal of property tax reduction or offset can be achieved by this amendment.

As a basis for evaluation, we have set forth several questions for which we think answers are necessary before a reasoned position can be reached on this constitutional amendment in its present form. We urge that the Committee consider these questions before releasing the measure from Committee. The questions involve interpretation and practical implementation of the amendment which are essential for understanding the ramifications of the proposed amendment.

Thank you for the opportunity to again discuss this bill with you.

SUGGESTED QUESTIONS TO BE ANSWERED RE
ASSEMBLY CONCURRENT RESOLUTION NO. 191 3d OCR

1. Is this amendment intended to apply to a specific package of State aid bills, or to any or all aid bills?

2. Does the phrase "to the several counties, municipalities and school districts" mean each of those governmental units, thus every one, or to only some?

3. How will reducing or offsetting of property taxes be defined and measured?
 - a. By tax levy, appropriation, expenditure, or tax rate?
 - b. By each type of governmental unit such as school district, county, municipality, or by a combination thereof?
 - c. From what year in relation to year of adoption of the amendment or an aid program?
 - d. Has an all inclusive property tax limitation bill been drafted to implement the proposed amendment?

4. What aid programs will be included in measuring use of the 80 percent dedication?
 - a. Programs in effect prior to approval of ACR No. 191?
 - b. Only new programs enacted after approval of ACR No. 191?
 - c. Both existing and new programs?

5. What methods and procedures would be used by the State to --
 - a. - identify the use of dedicated funds?
 - b. - measure and insure compliance with legislative intent for local tax reduction or offset?

N J T A
4/7/75

AUG 13 1985



